



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

FINAL REPORT:

**ADMINISTRATION OF PAYMENTS
RECEIVED UNDER THE HELP
AMERICA VOTE ACT BY THE
RHODE ISLAND AND PROVIDENCE
PLANTATIONS SECRETARY
OF STATE'S ELECTION DIVISION**

MAY 1, 2003 THROUGH JUNE 30, 2008

**Report No.
E-HP-RI-05-07
September 2009**



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

September 30, 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 Rhode Island Secretary of State's Election Division
(Assignment Number E-HP-RI-05-07)

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 Rhode Island Secretary of State (SOS). 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, Clifton Gunderson concluded that, except for the issues discussed below, the SOS 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 (EAC) during the period May 1, 2003 through June 30, 2008. The SOS also complied with section 251 requirements. The exceptions noted in the audit were:

- Financial Status Reports filed with the EAC did not contain all of the required information.
- HAVA receipts and disbursements, prior to June 2006, were co-mingled in the state's accounting system, and were not individually coded to Section 101 and 251, as required by HAVA.
- The SOS did not have adequate documentation to support personnel expenditures of \$189,852.
- Fourteen of the 39 cities and towns election boards (localities) in the State told us they use HAVA funded equipment for non-HAVA related activities.
- The State did not contribute its matching requirement to the Section 251 HAVA fund on a timely basis resulting in lost interest.

In its June 11, 2009 response to the findings and recommendations (Appendix A), the SOS agreed with all of the recommendations, except for the lack of documentation of personnel charges, and provided corrective action.

Please provide us with your written response to the recommendation included in this report by December 1, 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 RHODE ISLAND AND PROVIDENCE
PLANTATIONS

May 1, 2003 Through June 30, 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 Rhode Island and Providence Plantations**

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 State of Rhode Island and Providence Plantations Secretary of State (SOS) for the period May 1, 2003 through June 30, 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 issues discussed below, 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 June 30, 2008. The exceptions needing SOS's management attention are as follows:

- Financial Status Reports, SF 269s, filed with the Election Assistance Commission, to report the sources and uses of HAVA funds, did not include all of the required information.

- HAVA receipts and expenditures were commingled in the state's accounting system through June 2006, and were not individually coded as Section 101 and 251 funds as required by HAVA.
- The SOS did not have adequate documentation to support the expenditure of \$189,852 of HAVA funds for the allocated salaries of three employees.
- Fourteen of the 39 cities and towns election boards (localities) in the State told us they use HAVA funded equipment for non-HAVA related activities.
- The State did not contribute its matching requirement to the Section 251 HAVA fund on a timely basis resulting in lost interest.

We have included in this report the SOS managements' formal response to our findings and recommendations received on June 11, 2009. The SOS officials agreed with all of the recommendations, except the lack of adequate documentation related to personnel charges, 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 Rhode Island 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

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.

SCOPE AND METHODOLOGY

We audited the HAVA funds received and disbursed by the SOS from May 1, 2003 through June 30, 2008.

Funds received and disbursed from May 1, 2003 (program initiation date) to June 30, 2008 (62-month period) are shown below:

TYPE OF PAYMENT	FUNDS RECEIVED				TOTAL AVAILABLE	FUNDS DISBURSED	DATA AS OF
	EAC PAYMENT	PROGRAM INCOME	STATE MATCH (See Note)	INTEREST EARNED			
Section 101	\$ 5,000,000	\$0	\$0	\$ 140,004	\$5,140,004	\$5,119,575	6/30/2008
Section 102	0	0	0	0	0	0	
Section 251	11,596,803	0	0	482,241	12,079,044	11,959,381	6/30/2008
	<u>\$16,596,803</u>	<u>\$0</u>	<u>\$0</u>	<u>\$622,245</u>	<u>\$17,219,048</u>	<u>\$17,078,956</u>	6/30/2008

Note: The total state matching requirement was \$610,358, and state officials determined that this total would be met by in-kind contributions through payments by the state for expenditures qualifying as Title III category payments. The state matching funds were not all expended by the dates that the requirements payments were received from the EAC, and the date on which the required matching total was achieved has not been accurately determined. The allowability of certain expenditures assigned to the state match is also in question, and there will have to be a determination of the amount of interest lost to HAVA by not having the matching funds available on a timely basis. A finding has been proposed under the Audit Results detailed below.

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 issues discussed below, 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:

Finding 1: Financial Reporting

The Financial Status Reports, SF 269, filed with the Election Assistance Commission to report the sources and uses of HAVA funds, did not include all of the required information on line 12 of the form. Interest earned, maintenance of effort, and state matching funds financial data were

not reported on Forms SF 269 for any reporting period through December 2006. Line 12 on the Forms SF 269 filed for Title II, Section 251, and Title I, Section 101, for the periods ended September 30, 2007 and December 31, 2008, respectively, only included interest earned for the current period.

HAVA, Section 254(b)(1), Requirements for Election Fund states that, "For purposes of subsection (a)(5), a fund described in this subsection with respect to a State is a fund which is established in the treasury of the State government, which is used in accordance with paragraph (2), and which consists of the following amounts: (D) Interest earned on deposits of the fund." Since interest is included in the fund balance, it should also be reported with the federal funds authorized on the SF 269, line 10h, and explained in Line 12, Remarks.

Further, beginning with the September and December 2006 SF 269s, information on the state's maintenance of effort and state matching compliance was required to be included as set forth in guidance provided in the fall of 2006 on the EAC's website at <http://www.eac.gov/election/hava-reporting>:

Recommendation:

Ensure that the Financial Status Report, SF 269 contains complete and accurate information prior to filing, as identified on EAC's website.

SOS's Response:

The SOS concurred with the recommendation. Any information not contained on SF 269 forms that have been filed with the EAC during the reporting periods was made available during the audit. Revised forms were subsequently filed.

Auditor Response:

We verified that revised SF 269s were filed by the state in September 2008.

Finding 2: Financial Records

HAVA receipts and expenditures were commingled in the state's accounting system through June 30, 2006, and were not individually coded as Section 101 and 251 funds.

In preparing the Financial Status Report, SF 269, it was necessary for the staff to evaluate the entries in the accounting records for allocation to the appropriate fund, utilizing Excel worksheets to accumulate HAVA data for tracking purposes. Beginning in July 2006, the state implemented a new accounting system that provided coding to classify expenditures in appropriate categories. However, as of June 30, 2008, the accounting data utilized by the election office to account for HAVA financial activity did not reconcile to the election fund balances provided by the Department of Administration from the state's accounting system. Thus, the integrity of the Financial Status Reports, Form 269, filed with the EAC is in question.

HAVA Sec. 902. AUDITS AND REPAYMENT OF FUNDS. (a) Recordkeeping Requirement.-- 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.

Part 41 CFR 105-71.120, Standards for financial management systems, (a) requires that: "Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to-

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

Recommendation:

The SOS should implement procedures to ensure that the HAVA data downloaded from the state's accounting system is reconciled to the election fund balances prior to the preparation of Financial Status Reports, SF 269.

SOS Response:

The SOS concurred with the recommendation. Going forward we will use cost centers, where applicable, to code transactions for allocation to specific programs.

Finding 3: Personnel Charges

HAVA funds are used to pay the full salary for one Rhode Island Secretary of State (SOS) employee and 12 percent of the salary for two other SOS employees. Although the employee funded in full stated that he worked 100% on HAVA technology applications, the SOS's officials stated that there was no one who worked solely on HAVA activities. Since Fiscal Year 2004, through April 2007, a total of \$189,852 in HAVA funds have been used to pay for the salaries of the three employees which we will include as questioned costs, since there was no documented support for time spent on HAVA activities.

The two employees who work less than full time have 12 percent of their salaries paid by HAVA. These two employees are the Director and Deputy Director of Elections and Civics. The 12 percent allocated to HAVA was based on an undocumented estimate. The time spent on HAVA activities was not supported by personnel activity reports or equivalent documentation as required by Federal guidelines. We reviewed activity logs and related documentation for randomly selected pay periods during the time these employees were paid with HAVA funds. Based on this review and discussion with these individuals it appears they work on HAVA activities more than the 12 percent allocated to HAVA.

OMB Circular A-87, Attachment B, Section 8 (h)(4) states that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Subsection 5 requires that 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, and
- d) They must be signed by the employee.

Subsequent to our initial fieldwork, the SOS implemented time sheets that accurately document the time devoted to HAVA activities, and we did not find any discrepancies in our follow-up review.

Recommendation:

The SOS should coordinate resolution of the \$189,852 in questioned costs with the EAC.

SOS Response:

The SOS disputed the question raised in the recommendation, and stated that, although not as transparent as the new time-sheet system, documentation acquired from employee time logs and calendar notations favorably resolved these questioned costs.

Auditor's Response:

The SOS will need to work with the EAC to determine if the notations and other information available are sufficient to justify the charges to HAVA.

Finding 4: Property Usage

The Secretary of State used HAVA funds to purchase computer equipment for each county to be used to access the state's Centralized Voter Registration System (CVRS). The state owns the equipment but has given control of the equipment to the localities. There were no policies or procedures to ensure that the costs are allocated between HAVA approved activities and other usage.

We conducted a survey of the thirty-nine localities in Rhode Island, in which we asked if computer equipment purchased with HAVA funds to operate the state's CVRS was used for non-HAVA purposes. Fourteen of the localities responded that they use the equipment for other than CVRS access

We applied the following criteria to assess localities use of HAVA funded equipment:

OMB Circular A-133, Part 7 – Guidance for Auditing Programs not Included in this Compliance Supplement

B. Allowable Costs/Cost Principles

- 1.b.2 A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal Awards and its conformance with the general policies and principles stated in A-87, Attachment A.

OMB Circular A-87

3. Application

- b. All subawards are subject to those Federal cost principles applicable to the particular organization concerned.

OMB Circular A-87, Attachment A,

3. Allocable costs.

- a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

EAC Guidelines

De Minimis Uses of Equipment

- 2. May HAVA funds be used to support de minimis uses of equipment by the State for non-HAVA related purposes?

No. The State can allocate only that portion of the equipment purchase cost that will go to benefit the state's HAVA program. Alternatively, the expenses may qualify as an indirect cost in which case the state may submit an indirect cost rate proposal in which it identifies and supplies information regarding direct and indirect costs of operation.

Although the SOS did advise localities that the CVRS equipment could only be used for HAVA activities, the localities did not adhere to this policy. As a result, federal funds were used to purchase computer equipment that may not have been used exclusively for HAVA approved activity, resulting in lost funds in the HAVA program.

Recommendation:

We recommend that the SOS coordinate with the EAC to determine the percentage of non-HAVA use of the CVRS equipment and to allocate the cost of equipment purchased with federal funds to HAVA and non-HAVA related activities.

SOS Response:

The SOS concurred with the recommendation and will continue to educate municipalities on the prohibited use of HAVA equipment for non-federal purposes.

Finding 5: Principal and Interest on State Match

Rhode Island established an election fund to hold Help America Vote Act (HAVA) funds in accordance with the requirements of HAVA Section 254. In addition to federal funds received by Rhode Island, HAVA requires that the election fund also hold the five percent State matching funds that enabled Rhode Island to qualify for the federal HAVA Section 251 funds.

Furthermore, interest earned from the investment of the monies must also be deposited into the election fund. The timely deposit of interest earnings produces a compounding effect that adds additional funds to the program.

Rhode Island received HAVA Section 251 funds from the federal government on October 1, 2004, and January 21, 2005, requiring matching funds as of those dates of \$218,421 and \$291,937, respectively, for a total of \$610,358. Rhode Island did not deposit matching funds into the election fund, but applied in-kind payments from its general fund, in excess of the amounts required to meet its Maintenance of Efforts (MOE), to the matching requirement beginning in fiscal year 2005, prior to receipt of Section 251 payments. However, the amounts required to meet the matching requirement were not expended in total by the date of receipt of the Section 251 funds. Also, it is not clear that all of the in-kind payments applied to the matching requirement qualify for that treatment. In addition, the amount of lost interest earnings, which is dependent of the timing of qualifying in-kind payments, has not been deposited to the election fund.

HAVA Section 254 (b) (1) requires that the following monies be deposited into the state's election fund:

- A. Amounts appropriated or otherwise made available by the State for carrying out the activities for which the requirements payment is made to the State under this part (the State matching requirement of five percent of the federal HAVA Section 251 funds).
- B. The requirements payment made to the State (the federal HAVA Section 251 funds).
- C. Such other amounts as may be appropriated under law.
- D. Interest earned on deposits of the fund.

The SOS did not comply with the requirement to make funds available for state matching requirements and was unaware that interest earnings would have to be deposited to the credit of the HAVA program on the matching shortfall.

Although the state made in-kind disbursements to benefit the HAVA program prior to the receipt of the requirements payments, the full \$610,358 matching requirement was not set aside timely, and, as a result, there was lost interest earnings on the shortfall. Also, the expense allocated to state match included, for example, estimated personnel and benefit charges, costs of promotional items related to voter registration, and payments for educational materials and awards for high school students, which may not qualify under HAVA rules.

Recommendation:

We recommend that the SOS:

1. Work with the EAC to determine the in-kind payments that qualify for meeting the state matching requirements.
2. Compute the amount of compounded interest earnings due the election fund on the shortfall of state matching funds up to the date at which time the full matching requirement was met, giving credit for the payments preceding the receipt of Section 251 funds.

3. Compute the amount of additional interest due on the earnings determined in 2. above until the date on which the lost funds are deposited to the election fund.

SOS Response:

The SOS concurred with the recommendations and will work with the EAC to resolve the issue of additional interest due on the state matching funds. They also noted however, that the Secretary of State's Office must operate through the State's accounting system in order to access any funds. The State's Budget Office has chosen not to deposit the State's matching funds to the credit of the HAVA program in spite of notice of the requirement by the Secretary of State's Office. Furthermore, all post-appropriation fund transfers are controlled by the State's Budget Office.

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

CG performed its initial fieldwork between May 15, 2007 and June 1, 2007; however, a question arose regarding the appropriate treatment of HAVA payments for leases of equipment. Guidance was issued by the EAC in early 2008 and follow-up fieldwork was performed between August 18, 2008 and August 28, 2008.

Clifton Henderson LLP

Calverton, Maryland
September 14, 2009

RESPONSES TO THE ELECTIONS ASSISTANCE COMMISSION

DRAFT NOTICE OF FINDINGS & RECOMMENDATIONS (NFR)

NFR #1 – Audit Area: Financial Management System – SF 268 Reporting

Condition Reported: The Financial Status Reports, SF 269, filed with the Election Assistance Commission to report the sources and uses of HAVA funds did not include all of the required information on line 12 of the form. Interest earned, maintenance of effort, and state matching funds financial data were not reported on Forms SF 269 for any reporting period through December 2006. Line 12 on the Forms SF 269 filed for Title II, Section 251, and Title I, Section 101, for the periods ended September 30, 2007 and December 31, 2008, respectively, only included interest earned for the current period.

CORRECTIVE ACTION RECOMMENDED:

Ensure that the Financial Status Report, SF 269 contains complete and accurate information prior to filing, as identified on EAC's website at:

http://www.eac.gov/election/HAVA%20Funds/docs/modelreportingform2.pdf/attachment_download/file

AUDITEE RESPONSE: We concur with the recommendations. Any information not contained on SF269 forms that have been filed with the EAC during the reporting periods was made available during the audit. Revised forms were subsequently filed.

NFR # 2 – Audit Area: Financial Management System – Financial Reports

Condition Reported: HAVA receipts and expenditures were comingled in the state's accounting system through June 30, 2006, and were not individually coded as Section 101 and 251 funds.

In preparing the Financial Status Report, SF 269, it was necessary for the staff to evaluate the entries in the accounting records for allocation to the appropriate fund, utilizing Excel worksheets to accumulate HAVA data for tracking purposes. Beginning in July 2006, the state implemented a new accounting system that provided coding to classify expenditures in appropriate categories.

However, as of June 30, 2008, the accounting data utilized by the election office to account for HAVA financial activity did not reconcile to the election fund balances provided by the Department of Administration from the state's accounting system. Thus, the integrity of the Financial Status Reports, Form 269, filed with the EAC is in question.

CORRECTIVE ACTION RECOMMENDED:

Implement procedures to ensure that the HAVA data downloaded from the state's accounting system is reconciled to the election fund balances prior to the preparation of Financial Status Reports, SF 269.

AUDITEE RESPONSE: We concur. Going forward we will use cost centers where applicable, to code transactions for allocation to specific programs.

3 – Audit Area: Personnel

Condition Reported: HAVA funds are used to pay the full salary for one Rhode Island Secretary of State (SOS) employee and 12 percent of the salary for two other SOS employees. Although the employee funded in full stated that he worked 100% on HAVA technology applications, the SOS's officials stated that there was no one who worked solely on HAVA activities. Since Fiscal Year 2004, through April 2007, a total of \$189,852 in HAVA funds have been used to pay for the salaries of the three employees which we will include as questioned costs, since there was no documented support for time spent on HAVA activities.

The two employees who work less than full time have 12 percent of their salaries paid by HAVA. These two employees are the Director and Deputy Director of Elections and Civics. The 12 percent allocated to HAVA was based on an undocumented estimate. The time spent on HAVA activities was not supported by personnel activity reports or equivalent documentation as required by Federal guidelines. We reviewed activity logs and related documentation for randomly selected pay periods during the time these employees were paid with HAVA funds. Based on this review and discussion with these individuals it appears they work on HAVA activities more than the 12 percent allocated to HAVA

CORRECTIVE ACTION RECOMMENDED:

We recommend the EAC require the state to:

- 1) *Develop time recording procedures compliant with Federal guidelines to assure that employee time charges to HAVA are accurate, and require full time employees to prepare semi-annual certifications that they worked full time on HAVA activities.*
- 2) *Resolve the questioned costs of \$189,852.*

AUDITEE RESPONSE: We concur with recommendation #1 and implemented a time-sheet system for allocating employee time charges to HAVA correctly.

We dispute the question raised in recommendation #2. Although not as transparent as the new time-sheet system, documentation acquired from employee time logs and calendar notations favorably resolved these questioned costs.

NFR # 4 – Audit Area – Property Usage

Condition Reported: The Secretary of State used HAVA funds to purchase computer equipment for each county to be used to access the state’s Centralized Voter Registration System (CVRS). The state owns the equipment but has given control of the equipment to the counties. There were no policies or procedures to ensure that the costs are allocated between HAVA approved activities and other usage.

We conducted a survey of the thirty-nine counties in Rhode Island, in which we asked if computer equipment purchased with HAVA funds to operate the state’s CVRS was used for non-HAVA purposes. Fourteen of the counties responded that they use the equipment for other than CVRS access.

CORRECTIVE ACTION RECOMMENDED:

We recommend that the Secretary of State coordinate with the EAC to determine the percentage of non-HAVA use of the CVRS equipment and to allocate the cost of equipment purchased with Federal Funds to HAVA and non-HAVA related activities.

AUDITEE RESPONSE: We concur with this recommendation and will continue to educate municipalities on the prohibited use of HAVA equipment for non-federal purposes.

NFR #5 – Audit Area – Principle and interest on State Match

Condition Reported: Rhode Island established an election fund to hold Help America Vote Act (HAVA) funds in accordance with the requirements of HAVA Section 254. In addition to federal funds received by Rhode Island, HAVA requires that the election fund also hold the five percent State matching funds that enabled Rhode Island to qualify for the federal HAVA Section 251 funds. Furthermore, interest earned from the investment of the monies must also be deposited into the election fund. The timely deposit of interest earnings produces a compounding effect that adds additional funds to the program.

Rhode Island received HAVA Section 251 funds from the federal government on October 1, 2004, and January 21, 2005, requiring matching funds as of those dates of \$218,421 and \$291,937, respectively, for a total of \$610,358. Rhode Island did not deposit matching funds into the election fund, but applied in-kind payments from its general fund, in excess of the amounts required to meet its Maintenance of Efforts (MOE), to the matching requirement beginning in fiscal year 2005, prior to receipt of Section 251 payments. However, the amounts required to meet the matching requirement were not expended in total by the date of receipt of the Section 251 funds. Also, it is not clear that all of the in-kind payments applied the matching requirement qualify for that treatment. In addition, the amount of lost interest earnings, which is dependent of the timing of qualifying in-kind payments, has not been deposited to the election fund.

CORRECTIVE ACTION RECOMMENDED:

We recommend that the SOS:

- 1. Work with the EAC to determine the in-kind payments that qualify for meeting the state matching requirements.*
- 2. Compute the amount of compounded interest earnings due the election fund on the shortfall of state matching funds up to the date at which the full matching requirement of was met, giving credit for the payments preceding the receipt of Section 251 funds.*
- 3. Compute the amount of additional interest due on the earnings determined in 2 above until the date on which the lost funds are deposited to the election fund.*

AUDITEE RESPONSE: We concur with the recommendations and will work with the EAC to resolve the issue of additional interest due on the state matching funds. We wish to note however, that the Secretary of State's Office must operate through the State's accounting system in order to access any funds. The State's Budget Office has chosen not to deposit the State's matching funds to the credit of the HAVA program in spite of notice of the requirement by the Secretary of State's Office. Furthermore, all post-appropriation fund transfers are controlled by the State's Budget Office.

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 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. Solicited responses from all of the state's cities and towns designated as election boards to assess the procedures for using and safeguarding Centralized Voter Registration System equipment acquired with HAVA funds.

MONETARY IMPACT AS OF JUNE 30, 2008

<i>Description</i>	<i>Questioned Costs</i>	<i>Additional Funds for Program</i>
Personnel Costs	\$189,852	\$0
Totals	<u>\$189,852</u>	<u>\$0</u>

Note: There is an undetermined amount of interest earnings due the election fund on the failure of the state to provide matching funds on a timely basis, which will provide additional funds for the HAVA program.

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