



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

FINAL REPORT:

**2008 Election Data Collection Grant Program
Award Number: 08-EDC-800168
State of Ohio**

MAY 27, 2008 THROUGH JUNE 30, 2010

**Report No.
E-GR-OH-02-12
September 2013**



U.S. ELECTION ASSISTANCE COMMISSION
OFFICE OF INSPECTOR GENERAL
1201 New York Ave. NW - Suite 300
Washington, DC 20005

Memorandum

September 12, 2013

To: Alice Miller
Acting Executive Director

From: Curtis W. Crider
Inspector General

A handwritten signature in blue ink that reads "Curtis W. Crider".

Subject: Final Performance Audit Report – 2008 Election Data Collection Grant
Program Award Number: 08-EDC-800168, State of Ohio
(Assignment Number E-GR-OH-02-12)

We contracted with the independent certified public accounting firm of McBride, Lock & Associates to conduct the subject audit. The objectives of the audit were to identify costs claimed in the Grant's Financial Status Reports that were not allocable, allowable, reasonable, and in conformity with United States Election Assistance Commission's award terms and conditions and applicable Federal grant requirements.

In its audit, McBride, Lock & Associates concluded that the Ohio Secretary of State (SOS) generally accounted for and expended the Election Data Collection grant funds in accordance with applicable requirements for the period from May 27, 2008 through June 30, 2010. However the following exceptions were identified;

- The SOS did not credit interest earnings to the grant fund in a timely manner.
- The SOS paid invoices which did not have adequate detail of hours and hourly rates to support contractor billings as outlined in the agreed-upon contract provisions.

In its August 7, 2013 response to the draft report (Attachment A-1), the SOS agreed with the report's finding and recommendations, and provided corrective actions. McBride, Lock & Associates summarized the SOS's response to the recommendations, as well as their comments on the responses after the recommendations. Also included in the report is the EAC response to the draft report (Appendix A-2), dated August 12, 2013, which indicated that the EAC would work with the SOS to ensure corrective action.

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 finding and recommendation included in this report by November 13, 2013. 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' 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 to ensure compliance with Government Auditing Standards; and
- Coordinated issuance of the audit report.

McBride, Lock & Associates 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 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 (202) 566-3125.

Attachment

cc: Director of Grants and Payments

Performance Audit Report

2008 Election Data Collection Grant Program

Award Number: 08-EDC-800168

State of Ohio

May 27, 2008 through June 30, 2010

United States

Election Assistance Commission

McBRIDE, LOCK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
KANSAS CITY

Performance Audit Report
2008 Election Data Collection Grant Program
Award Number: 08-EDC-800168
State of Ohio

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**U.S. Election Assistance Commission
Performance Audit Report
2008 Election Data Collection Grant Programs
Award Number: 08-EDC-800168
State of Ohio**

EXECUTIVE SUMMARY

McBride, Lock & Associates was engaged by the United States Election Assistance Commission (EAC) Office of the Inspector General to conduct a performance audit of award 08-EDC-800168, Election Data Collection Grant (Grant), to the Ohio Secretary of State's Office (Office) from inception on May 27, 2008 through the award conclusion date of June 30, 2010 to determine whether the Office was in compliance with EAC's and Federal regulations concerning award administration and management.

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 Grant funds in accordance with the requirements mentioned above for the period from May 27, 2008 through June 30, 2010. The exceptions to applicable compliance requirements are as follows:

1. The Office did not credit interest earnings to the EAC-DCG fund in a timely manner.
2. The Office paid invoices which did not have adequate detail of hours and hourly rates to support contractor billings as outlined in the agreed-upon contract provisions.

We have included in this report as Appendix A-1 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

In December 2007 Congress authorized the fiscal year 2008 Omnibus Appropriations Act (Public Law 110-161, Title V), which directed the EAC to award grants of \$2 million to each of five eligible states to improve the collection of precinct level data relating to the November 2008 Federal elections. The act provided for the creation of the Election Data Collection Grant Program, the purpose of which was to:

- Develop and document a series of administrative and procedural best practices in election data collection that can be replicated by other States;

- Improve data collection processes;
- Enhance the capacity of States and their jurisdictions to collect accurate and complete election data; and
- Document and describe particular administrative and management data collection practices, as well as particular data collection policies and procedures.

The States were to use the Grant funds to implement programs to improve the collection of data relative to the November 2008 Federal general election and to improve the reporting of election data at the precinct level. The Grants were awarded in May 2008 and were for a period of 13 months. The Grants were awarded on a cost-reimbursement basis, and some States had laws in place that required legislative approval of funding for the Grant program prior to reimbursement by EAC. The Ohio Secretary of State's office obtained EAC approval to receive in advance \$1,500,000 on September 4, 2008.

The States were to provide their report on the data collected from the November 2008 election to the EAC by March 2009. In turn, the EAC was required to submit, by June 30, 2009, a report to Congress on the impact of the Election Data Collection Grant Program on States' abilities to effectively collect Federal Election data. The EAC granted the Office a no-cost extension on the grant beyond June 30, 2009 until June 30, 2010.

In its Performance Report for the period ended June 1, 2009, the Ohio Secretary of State reported expenditures of \$1,419,293, or 71 percent of the total award amount. The report disclosed that, "While not all deliverables have been completed at the time of this report (June 1, 2009), all required deliverables have been submitted, and all Ohio proposed outcomes are either "Accomplished" or "In process" as noted in the status." The outcomes that were reported as "In process" related to completing the upgrade of systems infrastructure, pilot testing and deployment of system modifications which was delayed due to enhancement and clean-up of data quality, data conversion to new system, demonstrating data analytics capabilities to prospective users, and a precinct mapping application.

Data Collection Grant Activity

Category	(a) Proposed Amount	(b) As of June 1, 2009	(c) As of June 30, 2009	(d) As of Jan. 31, 2010	(d) - (c) = (e) Difference
Personnel	\$ 123,707	\$ -	\$ -	\$ -	\$ -
Contractual	1,676,293	797,099	797,099	1,352,674	555,575
Maintenance and Supplies	-	73,044	97,850	97,850	-
Equipment	200,000	549,150	549,150	549,150	-
Totals	\$ 2,000,000	\$ 1,419,293	\$ 1,444,099	\$ 1,999,674	\$ 555,575

The Office requested and was granted by EAC a one year no-cost extension so they could complete the remaining outcomes. The majority of the \$555,575 of disbursements charged to the award during the no-cost extension period and subsequent to June 30, 2009 were continuations of existing contractual agreements, and 61 percent, or \$341,147, were paid within 60 days of June 30, 2009. In its Final Performance Report for the period ended June 30, 2010, the Office

reported successful completion of all grant award requirements, and did not require \$16,570 of the authorized \$2,000,000 award.

AUDIT OBJECTIVES

The objectives of our performance audit were to identify costs claimed in the Grant's Financial Status Reports that are not allocable, allowable, reasonable, and in conformity with EAC award terms and conditions and applicable Federal grant requirements. The Office is required to follow the requirements of the Grant program's legislation and program regulations, Grant award terms and conditions, Office of Management and Budget (OMB) Circular A-87 (2 CFR 225), *Cost Principles for State, Local, and Indian Tribal Governments*, and OMB Circular A-102 (41 CFR 105-71), *Grants and Cooperative Agreements with State and Local Governments*.

SCOPE AND METHODOLOGY

We audited the Grant funds received and disbursed by the Office from May 27, 2008 through June 30, 2010 as shown in the following table:

Award amount	<u>\$ 2,000,000</u>
Award funds received	\$ 1,983,429
Program income	<u>16,245</u>
Total Available	<u>\$ 1,999,674</u>
Program expenditures	<u>\$ 1,999,674</u>

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.

Based on the audit procedures performed, except for the matters discussed below, we concluded that the Office accounted for and expended the Grant funds in accordance with the requirements mentioned above for the period from May 27, 2008 through June 30, 2010. The exceptions to applicable compliance requirements are described below.

Finding No. 1 – Interest Earned on Federal Funds

Untimely crediting of interest earnings to the EAC Data Collection Grant (DCG) fund resulted in lost interest earnings to the fund.

Cash management requirements as set forth in 41 CFR §105-71.121 (f) address the effect of interest income on grant payments, and states that “grantees and subgrantees shall disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments.”

Due to State Statutes (Title 1, Chapter 126.07) which require a certification of available funds before contracts can be validated, the EAC allowed the State to receive advance payments of DCG funds prior to incurring the related expenditures. However, the EAC advised the Secretary of State (Office) in an August 7, 2008 communication that DCG monies were to be accounted for in a separate fund and that interest earned on those monies was to be credited to the fund and used to offset the amount of DCG monies requested.

Grant funds amounting to \$1,500,000 were received on September 4, 2008. The Office calculated the interest earned on these grant funds and to be credited to the DCG fund. On September 23, 2009 the Accounting Division of the State’s Office of Budget and Management posted a journal entry to record interest of \$16,245 to the DCG fund. The calculation supporting the entry applied a rate of interest to the available balances in the DCG fund each month. The calculation should have recognized the effect of increasing the balance of the DCG fund by the interest that would have been earned each month, had the fund balances been invested and credited with interest during the course of the Grant award. However, the journal entry did not recognize the fact that compound interest would have also been earned on the recalculated higher balances each month.

The Office requested the State Controlling Board on July 21, 2008 to create a new fund and establish appropriation authority of \$2.0 million for the EAC DCG. While the Controlling Board has statutory authority to create funds, it does not have authority to designate what funds are to receive interest earnings; only the General Assembly has that authority through legislative action. As part of the State’s budgetary process for fiscal year 2010-2011, the Ohio Legislature passed a bill which provided for the transfer of interest that should have been earned and credited during fiscal year 2009 to the DCG fund. However, the amount transferred as calculated by the Office did not include consideration of the amounts that would have been earned had the interest been credited to the DCG fund on a timely basis. The Office subsequently requested that the Ohio Office of Budget and Management calculate the interest in accordance with the standard methodology used for all other State funds participating in the State’s investment pool. This calculation, which utilizes quarterly rather than monthly investment balances of the participating funds, resulted in an amount of interest earned on the DCG monies which supports the adequacy of the amount credited by the State. Accordingly, as this methodology is a structured, documented and accepted methodology used by the State, the auditors accept the resulting calculation of interest earnings as reasonable.

Recommendation

We recommend that the EAC require the Office to adopt procedures to ensure future calculations of interest earnings on Federal funds be performed in a manner consistent with the methodology used by the Ohio Office of Budget and Management.

Office of the Secretary of State Response:

The Office noted that, ideally, the calculation of interest earned should have been performed by the Ohio Office of Budget and Management consistent with the normal business practices of the State. The Office concurred with the auditor's suggestion that the interest amount credited to the DCG fund be accepted and no further adjustment made. The Office also agreed to request the Ohio Office of Budget and Management to perform future interest calculations should a similar situation arise.

Auditor's Response:

We appreciate the additional effort expended by the Office to obtain an appropriate calculation of interest earnings consistent with the methodology used for other participants in the State's investment pool. We agree with the Office's conclusion and its expressed intent to ensure future interest calculations are consistent with the State's adopted methodology.

Finding No. 2 – Inadequate Invoice Documentation

The Office paid invoices which did not have adequate detail of hours and hourly rates as outlined in the agreed-upon contract provisions.

Per Secretary of State Contract Number 2009-005, Article II, 2.01(a) the Secretary agreed to "Pay the Contractor, upon submission of appropriately detailed and accurate invoices for services performed by the contractor".

Per the State Term Contract, Terms and Conditions 2.6 "To be a proper invoice, the invoice must include the following information... (e) A description of the Deliverables, including, as applicable... unit price, quantity, and total price of the Deliverables".

The sample selection of four payments for contractual services found one payment for which the invoice did not have the required detailed information to support the invoiced amount. Specifically, this vendor, which provided project management services, agreed to be paid on an hourly basis yet submitted a lump sum invoice without the necessary detail of hours worked and price per hour charged. As a result, the audit testwork was expanded to include all nine disbursements made to this vendor, totaling \$299,674. The tests revealed that none of the invoices submitted by the vendor had the required detail. Accordingly, it was not possible to determine whether the vendor incurred a sufficient number of hours to support the costs billed. Therefore, these costs were considered to be unsupported and the total amount of \$299,674 was initially questioned. It should be noted that compensation to the above contractor did not exceed the contractual amounts, and the Board's project manager asserted that the contractors met all deliverables outlined in the statement of work.

Requiring the vendor to provide unit price and quantity detail provides assurance that billings are based upon and are consistent with the contractually agreed upon rates and services. Subsequent to this audit, the Office requested and obtained from the vendor the detail of labor hours which support the vendor invoices. Accordingly, the related costs of \$299,674 are accepted as adequately supported.

The Office's internal controls over the processing of vendor invoices were not sufficient to ensure that those involved in the approval and payment of invoices were aware of and considered the terms of the vendor's contract. The Office's policy was to pay an invoice after it is approved by a director or higher level administrator responsible for the area. Accordingly, because the contractor invoices were approved by the IT Director and he was in charge of the project, the invoices were paid by the Finance Division as submitted.

Recommendation

We recommend that the EAC address and resolve the following recommendation that the Ohio Secretary of State's Office implement procedures to ensure that all invoices are in compliance with the agreed upon contractual provisions before being approved for payment. The Office should document appropriate policies and procedures in written manuals and also providing training to personnel involved in the administration of contracts as necessary to ensure that the expenditure of future Federal award funds is adequately supported.

Office of the Secretary of State Response:

The SOS agreed with the finding and requested and obtained from the vendor *Billing Detail Reports* showing dates, number of hours worked and other details for all nine invoices totaling \$299,674. The SOS states that this information was validated and provides documentation that no excess funds were paid to the vendor. The SOS also asserts that it has already implemented procedures requiring Finance division employees to first review and verify that an invoice meets contractual requirements before it is forwarded to the director or senior level administrator for their approval. The SOS commits to update its written payable policies to include these new requirements and to ensure that current and future SOS employees handling contract invoices will receive communications and training to ensure awareness of them.

Auditor's Response:

We commend the SOS for promptly obtaining the information necessary to validate and support the award charges. The policy changes as described and the planned means of implementing them should adequately address the concern identified during the audit. Further, we inspected the additional detailed information provided by the Office to validate the nine invoices in question and found them to provide adequate support for the award charges.

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

The Office responded on August 7, 2013 and generally agreed with the report's findings and recommendations. The EAC responded on August 12, 2013 and stated that they would work with the Office to resolve the issues and ensure appropriate corrective action. The Office's complete response is included as Appendix A-1 and EAC's complete response as Appendix A-2.

McBride, Lock & Associates performed the related audit procedures between January 28, 2013 and June 6, 2103.

(Original Signed by McBride, Lock & Associates)

McBride, Lock & Associates
June 6, 2013



Jon Husted
Ohio Secretary of State

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August 7, 2013

Curtis Crider, Inspector General
U.S. Election Assistance Commission
Office of Inspector General
1201 New York Ave. NW – Suite 300
Washington, DC 20005

Dear Inspector General Crider:

We have reviewed the Draft Audit Report for the audit conducted of award 08-EDC-8000168, Election Data Collection Grant for Ohio. This is our written response to the report.

The SOS office provided a June 27, 2013 written response to the Notice of Findings and Recommendations (NFR) and also additional information on August 1, 2013 regarding the interest earned on federal funds finding. Our exit conference was conducted on August 6, 2013. We thank you for your consideration of the information we have provided in our earlier responses and are pleased that each has been resolved satisfactorily.

Finding No. 1 – Interest Earned on Federal Funds

As noted in the follow-up information, the actual interest earnings transferred to the Election Data Collection Grant (DCG) Fund 3AC0, were in fact greater than what would have been transferred using the state's usual methodology for apportioning interest earnings to funds. While, interest was not transferred in a timely manner, when it was eventually transferred, it was an amount that exceeded what would have been transferred under the usual methodology, even accounting for compounding.

In the future, any interest earnings due to a fund will be calculated based on the data and typical methodology utilized by the state's accounting system (OAKS) to apportion interest earnings, after adjusting the fund's average daily balance by a compounding factor.

Finding No. 2 – Inadequate Invoice Documentation

The office was able to provide detailed back-up documents to support the invoiced amounts paid to the vendor. In addition, the office immediately implemented procedures for handling contract invoices (regardless of the funding sources) to review and ensure they are in compliance with contract provisions.

Again, we thank you for the open communication and productive working relationship during the audit process and for your careful consideration of the subsequent information provided.

Sincerely,


Veronica Sherman, CFO

c: Arnie Garza, U.S. Election Assistance Commission, Office of Inspector General
Ray Miller, McBride, Lock & Associates
Robert Lock, McBride, Lock & Associates
Peggy McBride, McBride, Lock & Associates



EAC RESPONSE TO THE DRAFT AUDIT:

*OIG Performance Audit Report - Election Data Collection
Grant Program Award Number : 08-EDC-800168, State of
Ohio*

August 12, 2013

MEMORANDUM

To: Curtis Crider
Inspector General

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

Subject: Draft Performance Audit Report – *Election Data Collection Grant
Program Award Number: 08-EDC-800168, State of Ohio*

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

The Election Assistance Commission (EAC) will work with the SOS to ensure appropriate corrective action.

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 Grant 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 Grant program.
- Reviewed prior State audits and other audits related to the state's financial management systems and the Grant 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 Grant program.
- Analyzed the inventory lists of equipment purchased with Grant funds
- Tested major purchases of equipment and contractual services and the supporting documentation.
- Tested other randomly sampled payments made with Grant funds.
- Evaluated compliance with the requirements for accumulating financial information reported to the Commission on the financial status reports and progress reports, Form SF-269 and SF-PPR, accounting for property, and purchasing Grant related goods and services.

SCHEDULE OF AWARDS AS OF JUNE 30, 2010

	<u>Budget</u>	<u>Actual</u>
Project Staffing Costs:		
Information Technology Specialist	\$ 114,082	\$ -
Budget and Grant Administration	7,375	-
Legal Counsel	2,250	-
Total Project Staffing Costs	<u>\$ 123,707</u>	<u>\$ -</u>
Contractual Management and Implementation Costs:		
Project Management	\$ 313,290	\$ 299,674
System Design, Development, Testing, and Deployment	1,363,003	1,053,000
Total Contractual Management and Implementation Costs	<u>\$ 1,676,293</u>	<u>\$ 1,352,674</u>
Maintenance and Supplies:	<u>\$ -</u>	<u>\$ 97,850</u>
Capital Costs:		
Equipment	<u>\$ 200,000</u>	<u>\$ 549,150</u>
Total Costs	<u><u>\$ 2,000,000</u></u>	<u><u>\$ 1,999,674</u></u>

MONETARY IMPACT AS OF JUNE 30, 2010

The findings did not result in any monetary impact.

OIG's Mission

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