



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

FINAL REPORT:

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

APRIL 16, 2003 THROUGH JUNE 30, 2009

**Report No.
E-HP-AR-03-09
February 2010**



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

February 26, 2010

Memorandum

To: Thomas Wilkey
Executive Director

From: Curtis W. Crider
Inspector General

Subject: Final Audit Report - Administration of Payments Received Under the Help America Vote Act by the Arkansas Secretary of State (Assignment Number E-HP-AR-03-09)

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 Arkansas 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 lack of personnel certifications and the maintenance of comprehensive equipment inventories, our audit concluded that 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. The SOS also complied with section 251 requirements.

In its December 21, 2009 and October 19, 2009 responses (Appendices A-1 and A-2), the SOS agreed with the report's finding and recommendations, and provided corrective action.

Please provide us with your written response to the recommendation included in this report by April 27, 2010. 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 ARKANSAS

April 16, 2003 Through June 30, 2009

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 Arkansas**

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 Arkansas Secretary of State (SOS) for the period April 16, 2003 through June 30, 2009 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 lack of personnel certifications and the maintenance of comprehensive equipment inventories, our audit concluded that the SOS generally accounted for and expended HAVA funds in accordance with the requirements mentioned above for the period from April 16, 2003 through June 30, 2009. The exceptions needing SOS's management attention are as follows:

- The SOS did not complete semi-annual certifications for personnel working full-time on HAVA activities.

- Controls over equipment purchased with HAVA funds at the Counties visited did not ensure retention of physical possession of all equipment transferred to them, and property records were not maintained in accordance with federal regulations.

We have included in this report the SOS managements' formal response to the draft audit report dated December 21, 2009 as Appendix A-1, which confirmed their responses to the findings and recommendations dated October 19, 2009, Appendix A-2. In the State's October 19, 2009 response, there was a response to a draft finding (NFR #2) which was subsequently resolved with satisfaction and therefore no longer reported in this final report. Although we have included management's written responses to our findings and recommendations, such responses have not been subjected to the audit procedures and, accordingly, we do not provide any form of assurance on the appropriateness of the responses or the effectiveness of the corrective actions described therein. The SOS officials agreed with the recommendations and provided corrective action.

BACKGROUND

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

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

Title II also requires that states must:

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

AUDIT OBJECTIVES

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

1. Used payments authorized by Sections 101, 102, and 251 of HAVA in accordance with HAVA and applicable requirements;
2. Accurately and properly accounted for property purchased with HAVA payments and for program income;
3. Met HAVA requirements for Section 251 funds for an election fund and for a matching contribution. We did not determine whether the SOS met the requirement for maintenance of a base level of state outlays, because the Commission is reviewing its guidance on the applicability of the maintenance of a base level of state outlays to subgrantees of the SOS.

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

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

SCOPE AND METHODOLOGY

We audited the HAVA funds received and disbursed by the SOS from April 16, 2003 through June 30, 2009.

Funds received and disbursed from April 16, 2003 (program initiation date) to June 30, 2009 (75-month period) are shown below:

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.

TYPE OF PAYMENT	FUNDS RECEIVED					FUNDS DISBURSED	DATA AS OF
	EAC PAYMENT	PROGRAM INCOME	STATE MATCH	INTEREST EARNED	TOTAL AVAILABLE		
Section 101	\$ 3,593,164	\$ -	\$ -	\$ 376,200	\$ 3,969,364	\$ 3,969,364	6/30/2009
Section 102	2,569,738	-	-	74,935	2,644,673	2,644,673	6/30/2009
Section 251	23,586,449	-	1,500,000	2,133,929	27,220,378	21,591,875	6/30/2009
	<u>\$ 29,749,351</u>	<u>\$ -</u>	<u>\$ 1,500,000</u>	<u>\$ 2,585,064</u>	<u>\$ 33,834,415</u>	<u>\$ 28,205,912</u>	6/30/2009

Note: The Sec. 102 interest earned of \$74,935 is included in Sec. 102 funds disbursed, and has been deducted from the Sec. 251 funds disbursed in the above schedule, because the funds were transferred from Sec. 102 to Sec. 251 as all of the Sec. 102 monies were expended.

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 personnel certifications, the maintenance of comprehensive equipment inventories, and the determination of whether the SOS and its subgrantees met the requirement for maintenance of a base level of state outlays which were specifically omitted from our scope of work as explained above, our audit concluded that SOS generally accounted for and expended HAVA funds in accordance with the requirements mentioned above. The SOS has taken action on or is working to resolve the exceptions described below as set forth in Appendix A:

I. Personnel Certifications

The State of Arkansas's Office of the Secretary of State (SOS) did not complete semi-annual certifications for employees that worked full-time or solely on HAVA activities for the period during which the SOS was paying personnel costs with HAVA program funds (July 16, 2003 – June 30, 2007). No HAVA program funds were used to pay personnel costs during the period from July 1, 2007 to the end of the audit period (June 30, 2009). All personnel costs during the period after July 1, 2007 were paid for through the State of Arkansas' general fund.

Recommendation:

We recommend that the SOS resolve with the EAC the appropriate corrective action regarding the lack of periodic certifications for the period personnel costs were paid by HAVA program funds.

SOS Response:

The SOS contacted the EAC both by phone and via email, and was advised that, unless the EAC specifically requests the information, the SOS is not required to send the certifications at this time. The EAC also suggested the SOS inform the Auditor that we have updated the personnel certifications and we are now aware of this requirement. If federal funds are spent on personnel salaries in the future and, if applicable, the SOS will prepare the required certifications and submit to the appropriate agency.

II. Property Management

During our testing of the existence of HAVA purchased equipment to the inventory documentation provided by the Secretary of State staff, we noted that there were discrepancies at five of eight counties we visited. The serial numbers on four of the equipment items at two of the counties did not match the serial numbers per the counties' written inventory records. At three of the counties, they did not have written records or physical possession of a total of five equipment items that the SOS indicates were transferred to them.

It was also noted that during our review of the County's equipment/property maintenance records, the Counties are not complying with the requirements of 41 CFR 105-71.132 with regards to the identification and management of equipment purchased with federal funds. The Counties do not maintain property records that include the attributes outlined in 41 CFR 105-71.132.

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

Recommendations:

We recommend that the SOS:

- 1) Ensures that the property listings of HAVA funded equipment owned by the state reflect accurate information as prescribed by the state fixed asset guidelines.
- 2) Instruct the counties to ensure that the property listings of HAVA funded equipment in their possession reflect accurate information as prescribed by 41 CFR 105-71.132.
- 3) Issue guidance to the jurisdictions that identifies 41 CFR 105-71.132(d) as the regulation that describes the property records to be prepared and maintained, and implement procedures to periodically monitor compliance with this regulation.

SOS Response:

The SOS will prepare and send correspondence to all Arkansas counties regarding the requirements of the Arkansas County Accounting Law 14-25-106, "Fixed Assets and Equipment

Records” and the Code of Federal Regulations 41 CFR 105-71.132. In addition, the SOS will send a template for the counties to use when establishing this inventory tracking procedure/policy. The template will include the following: Description of Property, Serial Number, Who Holds Title, Acquisition Date, Cost of the Property, Percentage of Federal Participation, Location of Property, Use and Condition. The SOS will conduct a physical inventory on all HAVA-funded equipment in the possession of the counties in order to correct and properly record any discrepancies.

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

CG performed its work between August 18, 2009 and August 27, 2009.

Clifton Henderson LLP

Calverton, Maryland
November 4, 2009



State of Arkansas
Secretary of State

Charlie Daniels
Secretary of State

December 21, 2009

Mr. Curtis Crider
Inspector General
U.S. Election Assistance Commission
1225 New York Ave. NW Suite 1100
Washington, D.C. 20005

Re: Letter dated December 1, 2009 with attached Draft Performance Audit Report-Administration of Payments Received Under the Help America Vote Act by the State of Arkansas dated November 10, 2009

Dear Inspector General Crider,

Thank you for the opportunity to review and comment on the draft Audit Report dated November 10, 2009 that you sent on December 1, 2009.

Our comments regarding both findings remain the same.

Again, thank you for the opportunity to review and comment prior to the publication of this report. If I can be of any further assistance regarding this audit, please do not hesitate to contact me.

Sincerely,

Charlie Daniels
Arkansas Secretary of State

State of Arkansas Secretary of State



Charlie Daniels
Secretary of State

Business & Commercial Services	682-3409
Elections	682-5070
Building & Grounds	682-3407
Communications & Education	683-0057
State Capitol Police	682-5173
Business Office	682-8032
Information Technology	682-3411

October 19, 2009

U. S. Election Assistance Commission
Curtis Crider, Inspector General
1225 New York Ave. NW – Suite 1100
Washington, DC 20005

Dear Mr. Crider:

The Arkansas Secretary of State (SOS) respectfully submits the following responses to U. S. Election Assistance Commission (EAC) Audit findings and recommendations concerning Arkansas's administration of Help America Vote Act (HAVA) funds for period ending June 30, 2009.

NFR # 1: The Arkansas SOS office contacted the EAC both by phone and via email. Our contact, [REDACTED], advised the SOS that unless the EAC specifically requests the information, the SOS is not required to send the certifications at this time. [REDACTED] also suggested the SOS inform the Auditor that we have updated the personnel certifications and we are now aware of the requirement. If federal funds are spent on personnel salaries in the future and if applicable, the Arkansas Secretary of State will prepare the required certifications and submit to the appropriate agency.

NFR # 2: The two payments were approved according to policy, however notation was not indicated or internal routing as required. Proper procedures previously implemented will be enforced.

NFR # 3: The (SOS) will prepare and send correspondence to all Arkansas counties regarding the requirements of the Arkansas County Accounting Law section 14-25-106, "Fixed Assets and Equipment Records" and the Code of Federal Regulations 41 CFR 105-71.132. In addition, the SOS will send a template for the counties to use when establishing this inventory tracking procedure/policy. The template will include the following: Description of Property, Serial Number, Who Holds the Title, Acquisition Date, Cost of the Property, Percentage of Federal Participation, Location of Property, Use and Condition. The SOS will conduct a physical inventory of all HAVA-funded equipment in the possession of the counties in order to correct and

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.
- Evaluated compliance with the requirements for accumulating financial information reported to the Commission on the Financial Status Reports, Form SF-269, accounting for property, purchasing HAVA related goods and services, and accounting for salaries.
- Verified the establishment and maintenance of an election fund.

- Conducted site visits of selected counties to perform the following:
 - Observe equipment purchased with HAVA funds for proper accounting and safeguarding
 - Ensure compliance with HAVA Act.

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