

SEMIANNUAL REPORT TO CONGRESS

U.S. ELECTION ASSISTANCE
COMMISSION
OFFICE OF INSPECTOR GENERAL



*For the Period:
October 1, 2008, through
March 31, 2009*



U.S. Election Assistance Commission
Office of Inspector General

A Message from the Inspector General

This report is submitted to Congress pursuant to the Inspector General Act of 1978, as amended. It summarizes the activities of the Office of Inspector General (OIG) for the six-month period ending March 31, 2009.

During this semiannual period, we issued four significant reports on the U.S. Election Assistance Commission's (EAC) financial statements, programs and operations. The audits revealed material weaknesses in EAC's financial management and a significant deficiency in its information technology operations. The reports contained 47 recommendations to improve the operations of the EAC.

In addition, we issued three reports on the states' uses of Help America Vote Act (HAVA) funds. We found that for the most part states are using HAVA funds properly, but there were issues with procurement processes, documenting expenses—including salaries—and inventorying equipment purchased with Federal funds.

Our work reflects the mandate of the OIG to identify, fraud, waste and abuse and to recommend appropriate actions. The OIG is committed to conducting reviews and making recommendations to improve and protect the integrity of the EAC's programs and operations. Over the past six months, the OIG has added two new positions to enhance our ability to carry out these functions. We have hired a Director of Audits and a Counsel to the Inspector General.

I would like to thank the hardworking and dedicated professionals on my staff. We have identified major challenges at the EAC through our work over the last six months. With their help and the efforts of the EAC staff, we will work together to assist the EAC in identifying and implementing policies and procedures to overcome those challenges.

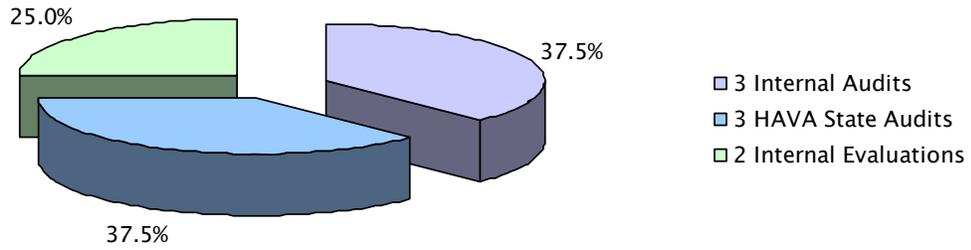
Submitted April 28, 2009



Curtis W. Crider
Inspector General

Reports Issued and Profile of Performance

Audit and Evaluation Reports Issued for the Period October 1, 2008, through March 31, 2009



Profile of Performance for the Period October 1, 2008, through March 31, 2009

Results	
Questioned Costs	\$ 261,808
Potential Additional Program Funds	\$ 5,289
Funds to be Put to Better Use	\$ 0

Table of Contents

	<u>Page</u>
Election Assistance Commission Profile	<u>1</u>
Office of Inspector General Profile	<u>2</u>
EAC's Management Challenges	<u>3</u>
Reviews of EAC Operations	<u>4</u>
State Audits	<u>7</u>
Other Activities	<u>9</u>
Appendices:	
A. Reports Issued	<u>11</u>
B. Monetary Impact of Audit Activities	<u>13</u>
C. Reports with Questioned Costs	<u>14</u>
D. Reports with Potential Additional Program Funds	<u>15</u>
E. Summary of Reports More Than 6 Months Old Pending Corrective Action At March 31, 2009	<u>16</u>
F. Reporting Requirements of the Inspector General Act	<u>17</u>



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EAC Profile

The U.S. Election Assistance Commission (EAC or Commission) is a bipartisan, independent commission consisting of four members: Gineen Bresso Beach, Chair; Gracia Hillman, Vice Chair; and Donetta Davidson. There is one vacancy on the Commission due to the resignation of a Commissioner in February 2009.

The EAC was created by the Help America Vote Act of 2002 (HAVA) to assist states with improving the administration of elections for Federal office. EAC accomplishes this mission by providing funding, innovation, guidance and information that can be used by the states to purchase equipment, train election personnel, and implement new election programs. EAC has distributed more than \$3.1 billion in funding to the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam and American Samoa (hereinafter referred to as “states”). With those funds, the states have purchased voting equipment, established statewide voter registration lists, implemented provisional voting, provided informational material to voters at the polling place, and implemented a program to verify the identity of voters using the statewide voter registration list in combination with other state and Federal databases.

HAVA also placed EAC in charge of the first Federally-run testing and certification program for voting systems. Through its program, the EAC develops standards for voting equipment, accredits laboratories, and reviews and certifies voting equipment based upon the tests performed by the accredited laboratories.

EAC also has the responsibility for administering the National Voter Registration Act (NVRA) by promulgating regulations for the content and use of the National Mail Voter Registration form. EAC inherited the responsibility from the Federal Election Commission.

OIG Profile

The EAC is a designated Federal entity under the Inspector General Act (IG Act) of 1978 (Public Law 95–452, as amended). As such, the Commission in August 2006 appointed the Inspector General. The OIG also employs a senior auditor and a general counsel.

We perform the duties of the Inspector General as established in the IG Act, including:

- Conducting and supervising audits, investigations, and other services (e.g., evaluations) relating to the programs and operations of the EAC;
- Providing leadership and coordination, and recommending actions to management, which (1) promote economy, efficiency, and effectiveness in agency programs and operations; and (2) prevent and detect fraud, waste, abuse, and mismanagement of government resources; and
- Keeping the agency head, management, and Congress fully informed regarding problems and deficiencies, and the progress of corrective actions.

To accomplish all of this with our limited staff, we use contract auditors to conduct many of the state and agency audits. In addition, when conducting an investigation, we work with other Federal government agencies to detail or contract for investigative services.

The OIG has experienced significant success with its audit programs over the past two and half years. Audits of states that have received HAVA funds have covered 19 states and more than \$ 750 million in expenditures at a cost of only \$2 million. For that \$2 million, we have identified \$22.4 million in audit findings—a return on investment of

approximately \$11 for each dollar spent on OIG audits. Further, the OIG has assisted the EAC by identifying needed improvements to its programs and operations.

EAC's Management Challenges

In keeping with the requirements of the Chief Financial Officers Act of 1990 and the Reports Consolidation Act of 2002, the OIG identified two management challenges in 2008: (1) management and accountability, and (2) financial management. These management challenges were derived from the assessment report delivered by this office in February 2008 and the financial statement audit.

The OIG not only works to identify management challenges, but also to ensure that the EAC implements policies, procedures and programs to overcome those challenges. Our monitoring of EAC activities disclosed that the EAC has developed some policies to clarify the roles of senior management: the Commissioners and the Executive Director. In addition, they have adopted a strategic plan that provides guidance for addressing the critical issues facing the Commission in the coming years. Similarly, we are monitoring EAC's progress on improving financial management controls and procedures. EAC has hired persons with Federal experience to staff its financial management operations. We are awaiting new policies and procedures for those activities.

Reviews of EAC Operations

Opinion on EAC's Fiscal Year 2008 Financial Statements

In fiscal year 2008, the EAC received more than \$25 million and, as a result, was subject its first financial audit as required by the Accountability of Tax Dollars Act of 2002. The audit was performed by Clifton Gunderson LLP under a contract that was monitored by the OIG.

The auditors were unable to express an opinion on the EAC's balance sheet as of September 30, 2008, and on the related statements of net cost, changes in net position, and the statement of budgetary resources for the year then ended. This disclaimer resulted from the EAC's inability to provide sufficient, appropriate evidence to allow the auditors to conduct the audit. Because the EAC was unable to provide the needed evidence and documentation, the auditors also were unable to test EAC's compliance with laws and regulations. The audit identified four material weaknesses, as follows:

- (1) Financial accounting and reporting controls,
- (2) Lack of support for grant accounting,
- (3) Weak funds control, and
- (4) Federal Managers' Financial Integrity Act compliance and reporting.

The audit identified one significant deficiency related to information technology.

The EAC generally concurred with the findings and recommendations of the audit and indicated that corrective actions would be taken.

Compliance with Privacy and Data Protection Requirements

An audit of EAC's compliance with Section 522 of the Consolidated Appropriations Act of 2005 identified several areas of noncompliance with privacy and data protection requirements. The EAC had not designated a Chief Privacy Officer, identified information systems housing personally identifiable information, or conducted related Privacy Impact Assessments as required by the Office of Management and Budget Memorandum 06-16, Requirements for Protecting Personally Identifiable Information.

In addition, the EAC had not developed policies and procedures to address the information protection needs associated with personally identifiable information that is accessed remotely or physically removed. The EAC did not have policies and procedures that:

- (1) Explicitly identify the rules for determining whether physical removal is allowed;
- (2) Require encryption of information and that appropriate procedures, training and accountability measures be in place to ensure that remote use of this encrypted information does not result in bypassing the protections provided by the encryption;
- (3) Explicitly identify the rules for determining whether remote access is allowed for personally identifiable information that can be removed;
- (4) Require remote access of information be accomplished via a virtual private network connection established using agency-issued authentication certificate(s) or hardware token, when remote access is allowed; and
- (5) Identify the rules for determining whether the download or remote storage of information is allowed, when remote access is allowed.

The EAC generally concurred with the findings and recommendations of the audit and indicated that corrective actions would be taken.

FISMA Evaluation

The fiscal year 2008 Financial Information Security Management Act (FISMA) evaluation reported that the EAC had made progress in educating users through security and privacy awareness training and had initiated discussions to develop EAC specific policies related to information system security and privacy. However, additional improvements were needed. The evaluation found that the EAC had not established an information security program and was not proactive in reviewing security controls and identifying areas to strengthen this program. In addition, the EAC did not fully comply with several privacy and data protection requirements.

The EAC generally concurred with the findings and recommendations of the evaluation and indicated that corrective actions would be taken.

Internet Usage

The objective of the evaluation was to determine whether the EAC had implemented effective controls to ensure compliance with internet usage policies. The review covered internet activity from August 24, 2008, through September 6, 2008, and focused on access to sexually explicit, gambling, gaming, and auction sites. The evaluation found that the EAC had effective controls to prevent access to sexually explicit, gambling, gaming, and auction sites.

State Audits

The OIG conducts audits of the recipients of HAVA funds. Through those audits, the OIG examines whether the recipient used HAVA funds in accordance with HAVA and other applicable Federal requirements. We also determine whether the recipient has properly accounted for purchases made with HAVA funds and any income derived from those purchases. Last, we assessed whether grant funding has been maintained and accounted for in keeping with HAVA, particularly, whether the recipient has provided sufficient matching funds and maintained Federal monies in a separate election fund.

During the reporting period, the OIG contracted with the professional auditing firm Clifton Gunderson LLP to conduct the audits. Three reports were issued based upon those audits:

North Carolina: The audit of the North Carolina State Board of Elections (SBE) revealed that the SBE generally accounted for and expended HAVA funds in accordance with the HAVA requirements and complied with the financial management requirements established by the EAC. The SBE also complied with section 251 requirements. However, the SBE did not (1) properly account for and report interest and state matching of funds, and (2) the SBE did not file comprehensive financial reports with the EAC.

In its July 16, 2008, and October 17, 2008, responses to the draft report, the SBE agreed with the report's findings and recommendations, and provided corrective actions.

Florida: An audit of the Florida Secretary of State (SOS) disclosed 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 EAC. The SOS also complied with section 251 requirements. The audit did reveal several weaknesses related to counties that received funds as a subgrantee from the SOS.

Issues identified at the county level included weaknesses in program income accounting and recognition, equipment controls, procurement and disbursement procedures, and cash management controls.

In its July 16, 2008, response to the findings and recommendations, the SOS was in general agreement, and proposed to implement corrective action. However, the SOS was in partial disagreement with requiring the reimbursement of those questionable expenditures that were included in plans approved by the state's Division of Elections, and disagreed with the recommendation to have counties compute and repay interest that should have been earned on unexpended HAVA balances from the date of receipt. The EAC is in the process of resolving the outstanding issues with the SOS.

Washington: An audit of the Washington Secretary of State (SOS) found that the SOS accounted for and expended HAVA funds in accordance with the HAVA requirements and complied with the financial management requirements established by the EAC. The SOS also complied with section 251 requirements. The report did not include any recommendations.

Other Activities

The IG Act requires reporting on other activities. We are reporting no activities in the following categories:

- **Reviews of Legislation, Rules, Regulations and Other Issuances**
OIG conducts regular monitoring of EAC program activities and policy-making efforts. We provide comment to significant policy statements, rulemaking and legislation that affects the EAC. During the reporting period, there were no significant policy-making or program activities undertaken on which the OIG provided comment.
- **Investigations**
The OIG operates a hotline for the receipt of complaints from employees and members of the public. While the OIG received 37 complaints on its hotline during the reporting period, those complaints were referred to another agency deemed more appropriate for resolution or did not warrant an investigation given the general nature of the complaint. The OIG did not initiate any investigations of hotline or other complaints during the reporting period.
- **Matters Referred to Prosecuting Authorities**
- **Denial of Access to Records**
- **Significant Revised Management Decisions Made During the Period**
- **Significant Management Decisions with Which the Inspector General Disagrees**



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Reports Issued

Audits

1. Audit of the U.S. Election Assistance Commission's Fiscal Year 2008 Financial Statements (Assignment No. I-PA-EAC-01-08), November 2008

2. Audit of U.S. Election Assistance Commission's Compliance with Section 522 of the 2005 Consolidated Appropriations Act (Assignment No. I-PA-EAC-02-08), March 2009

Management Letter

1. Management Issues Identified During the Audit of the U.S. Election Assistance Commission's Fiscal Year 2008 Financial Statements (Assignment No. I-PA-EAC-01-08(A)), March 2009

State Audits

1. Administration of Payments Received Under the Help America Vote Act by the North Carolina State Board of Elections (Assignment Number E-HP-NC-04-08), October 2008

2. Administration of Payments Received Under the Help America Vote Act by the State of Washington Secretary of State (Assignment Number E-HP-WA-05-08), November 2008

3. Administration of Payments Received Under the Help America Vote Act by the State of Florida (Assignment Number E-HP-FL-02-08), November 2008

Evaluations

1. United States Election Assistance
Commission Federal Information Security
Management Act 2008 Independent Evaluation
Report (Assignment No. I-EV-EAC-01-08),
October 2008

2. United States Election Assistance
Commission Internet Usage (Assignment No. I-
EV-EAC-02-08), February 2009

Monetary Impact of Audit Activities

Questioned Costs*	\$ 261,808
Potential Additional Program Funds	\$ 5,289
Funds to Be Put to Better Use	\$ 0
Total	<u>\$ 267,097</u>

*Unsupported costs are included in questioned costs.

Reports With Questioned Costs

<u>Category</u>	<u>Number</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision had been made by the beginning of the reporting period.	1	\$ 6,308,350	\$ 0
B. Which were issued during the reporting period.	1	\$ 261,808	\$ 0
Subtotals (A + B)	2	\$ 6,570,158	\$ 0
C. For which a management decision was made during the reporting period.	1	\$ 6,308,350	\$ 0
(i) Dollar value of recommendations that were agreed to by management.		\$ 6,308,350	\$ 0
(ii) Dollar value of recommendations not agreed to by management.		\$ 0	\$ 0
D. For which no management decision has been made by the end of the reporting period.	1	\$ 261,808	\$ 0
E. Reports for which no management decision was made within 6 months of issuance.	0	\$ 0	\$ 0

Reports With Potential Additional Program Funds

<u>Category</u>	<u>Number</u>	<u>Dollar Value</u>
A. For which no management decision had been made by the beginning of the reporting period.	1	\$ 899,367
B. Which were issued during the reporting period.	2	\$ 5,289
Subtotals (A+B)	3	\$ 904,656
C. For which a management decision was made during the reporting period.	2	\$ 901,434
(i) Dollar value of recommendations that were agreed to by management.		\$ 901,434
(ii) Dollar value of recommendations that were not agreed to by management.		\$ 0
D. For which no management decision has been made by the end of the reporting period.	1	\$ 3,222
E. Reports for which no management decision was made within six months of issuance.	0	\$ 0

Summary of Reports More Than 6 Months Old Pending Corrective Action at March 31, 2009

The following is a list of audit and evaluation reports that are more than 6 months with management decisions for which corrective action has not been completed. It provides report number, title, issue date, and the number of recommendations without final corrective action.

E-HP-IL-07-06	Administration of Payments Received Under the Help America Vote Act by the Illinois State Board of Elections, October 2006, 2 Recommendations
E-HP-SC-11-06	Administration of Payments Received Under the Help America Vote Act by the South Carolina Election Commission, January 2007, 3 Recommendations
E-HP-WY-03-07	Administration of Payments Received Under The Help America Vote Act by the Wyoming Secretary Of State Elections Division, January 2008, 2 Recommendations
E-HP-NM-01-07	Administration of Payments Received Under the Help America Vote Act by the New Mexico Secretary of State, May 2008, 5 Recommendations
I-PA-EAC-01-06	Improvements Needed in Management of Travel by the Election Assistance Commission, July 2007, 4 Recommendations
I-EV-EAC-01-07B	Assessment of the U.S. Election Assistance Commission's Program and Financial Operations, February 2008, 20 Recommendations

Reporting Requirements of the IG Act

<u>Section of Act</u>	<u>Requirement</u>	<u>Page</u>
Section 4(a)(2)	Review of Legislation and Regulations	None
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	None
Section 5(a)(2)	Recommendations for Corrective Action With Respect to Significant Problems, Abuses, and Deficiencies	None
Section 5(a)(3)	Significant Recommendations From Agency's Previous Report on Which Corrective Action Has Not Been Completed	16
Section 5(a)(4)	Matters Referred to Prosecutive Authorities and Resulting Convictions	None
Section 5(a)(5)	Matters Reported to the Head of the Agency	None
Section 5(a)(6)	List of Reports Issued During the Reporting Period	11
Section 5(a)(7)	Summary of Significant Reports	4
Section 5(a)(8)	Statistical Table – Questioned Costs	14
Section 5(a)(9)	Statistical Table – Recommendations That Funds Be Put to Better Use	None
Section 5(a)(10)	Summary of Audit Reports Issued Before the Commencement of the Reporting Period for Which No Management Decision Has Been Made	None
Section 5(a)(11)	Significant Revised Management Decisions Made During the Reporting Period	None
Section 5(a)(12)	Significant Management Decisions With Which the Inspector General Is in Disagreement	None
Section 5(a)(13)	Information Described Under Section 804(b) of the Federal Financial Management Improvement Act of 1996	None



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OIG's Mission

The OIG audit mission is to provide timely, high-quality professional products and services that are useful to OIG's clients. OIG seeks to provide value through its work, which is designed to enhance the economy, efficiency, and effectiveness in EAC operations so they work better and cost less in the context of today's declining resources. OIG also seeks to detect and prevent fraud, waste, abuse, and mismanagement in these programs and operations. Products and services include traditional financial and performance audits, contract and grant audits, information systems audits, and evaluations.

Obtaining Copies of OIG Reports

Copies of OIG reports are available on the OIG website, www.eac.gov/eac_ig.

Copies of OIG reports can be requested by e-mail: (eacoig@eac.gov).

Mail orders should be sent to:

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

To order by phone: Voice: (202) 566-3100
Fax: (202) 566-0957

To Report Fraud, Waste and Abuse Involving the U.S. Election Assistance Commission or Help America Vote Act Funds

By Mail: U.S. Election Assistance Commission
Office of Inspector General
1225 New York Ave. NW – Suite 1100
Washington, DC 20005

E-mail: eacoig@eac.gov

OIG Hotline: 866-552-0004 (toll free)

On-Line Complaint Form: www.eac.gov/eac_ig

FAX: 202-566-0957





Inspector General

U.S. Election Assistance Commission

This report, as well as other OIG reports and testimony, are available on the internet at: www.eac.gov/eac_ig