



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

FINAL REPORT:

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

APRIL 29, 2003 THROUGH SEPTEMBER 30, 2012

**Report No.
E-HP-ND-08-12
November 2013**



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

Memorandum

November 6, 2013

To: Alice Miller
Acting Executive Director

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

Subject: Final Performance Audit Report – Administration of Payments Received Under the Help America Vote Act by the North Dakota Secretary of State (Assignment Number E-HP-ND-08-12)

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

In its audit, McBride, Lock & Associates concluded that the Office generally accounted for and expended the HAVA funds in accordance with applicable requirements for the period from April 2003 through September 30, 2012. However the following exceptions were identified:

- The Office submitted financial reports that could not be supported by underlying accounting records.
- The Office property records were not adequate per 41 CFR 105-71.132.
- The Office did not have documented policies and procedures.
- The Office did not timely deposit into the election fund the required state match for all Section 251 requirements payments.
- The Office expended HAVA funds without adequate approval of certain invoices.

In its September 3, 2013 response to the draft report (Attachment A-1), the Office provided comments to the findings and corrective actions, as applicable, to address the recommendations.

In the report McBride, Lock & Associates summarized the Office'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 findings and recommendation included in this report by January 6, 2014. 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 (301) 734-3104.

Attachment

cc: Director of Grants and Payments

Performance Audit Report

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

Prepared for

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

By

McBride, Lock & Associates

June 2013

McBRIDE, LOCK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
KANSAS CITY

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

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

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 the North Dakota Secretary of the State's Office (Office) from inception on April 29, 2003 through September 30, 2012 to determine whether the Office used payments authorized by Sections 101, 102, and 251 of the Help America Vote Act of 2002 (HAVA) in accordance with HAVA and applicable requirements; accurately and properly accounted for property purchased with HAVA payments and for program income; maintained state expenditures at a level not less than the level maintained in the fiscal year ending prior to November 2000; and met HAVA requirements for Section 251 funds for an election fund and for a matching contribution.

In addition, the Commission requires states to comply with certain financial management requirements, specifically:

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

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Based on the audit procedures performed, except for the matters discussed below, we concluded that the Office generally accounted for and expended the Grant funds in accordance with the requirements mentioned above for the period from April 29, 2003 through September 30, 2012. The exceptions are as follows:

1. The Office submitted financial reports that could not be supported by underlying accounting records.
2. The Office property records were not adequate per 41 CFR 105-71.132.
3. The Office does not have documented policies and procedures.
4. The Office did not timely deposit into the election fund the required state match for all Section 251 requirements payments.
5. The Office expended HAVA funds without adequate approval of certain invoices.

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

BACKGROUND

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

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

Title II also requires that states must:

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

The Awardee – The North Dakota Secretary of State

The HAVA funds were awarded to the North Dakota Secretary of State, who is an elected official and is charged with the oversight of all elections, including administration of state election law, election official training, candidate filings, candidate certification, campaign finance and disclosure oversight, and compilation of election results. Elections in the State are administered at the county level by the county election officials. North Dakota is the only state in the nation without some form of voter registration due to the rural character of the numerous small precincts and the local election boards whose members know most of the voters who enter the polling location.

Help America Vote Act North Dakota State Plan

The objectives of the project funded by HAVA, as set forth in the state plan, were to equip each polling location with voting systems capable of providing second-chance voting and allowing voters with disabilities to vote unassisted; posting easy to understand voting information, improve election official training and poll worker training; improve voter education; and develop and implement a centralized database of voters for the purpose of preventing and detecting fraud.

The Secretary of State established and is maintaining an Election Fund for the exclusive purpose of carrying out activities of HAVA. Additionally, the Office has managed all expenditures funded by HAVA and has not distributed any of the requirements payments to the local units of government.

AUDIT OBJECTIVES

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

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

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

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

SCOPE AND METHODOLOGY

We audited the Grant funds received and disbursed by the Office from April 29, 2003 through September 30, 2012 as shown in the following table:

TYPE OF PAYMENT	FUNDS RECEIVED				FUNDS DISBURSED
	EAC PAYMENT	STATE MATCH	INTEREST EARNED	TOTAL AVAILABLE	
Section 101	\$ 5,000,000	\$ -	\$ 48,195	\$ 5,048,195	\$ 5,025,685
Section 251	13,028,257	1,846,347	1,338,626	16,213,230	10,421,101
Total	<u>\$ 18,028,257</u>	<u>\$ 1,846,347</u>	<u>\$ 1,386,821</u>	<u>\$ 21,261,425</u>	<u>\$ 15,446,786</u>

Notes to Table of Funds Received and Disbursed:

- (1) Section 101 interest earned and amounts disbursed are based on the official accounting records of the Office. As indicated in Finding No. 1 activity from the initial years is no longer maintained by the Office due to the state retention policy.
- (2) The State Match Funds Received and Funds Disbursed include \$457,491 as received and disbursed to account for in-kind transactions and invoices paid for by general funds or expenditures transferred to the general fund to meet the matching requirement.

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 HAVA funds in accordance with the requirements mentioned above for the period from April 29, 2003 through September 30, 2012. The exceptions to applicable compliance requirements are described below.

Finding No. 1 – Financial Reporting

The North Dakota Secretary State’s Office (Office) submitted financial reports for Section 101 and Section 251 funds that could not be supported by underlying accounting records.

The terms and conditions of the HAVA awards require the submission of accurate and complete Federal Forms 269 (Financial Status Report) and 425 (Federal Financial Report) which reflect the uses of award funds and the interest and program income generated from those funds. HAVA Title IX, Section 902. AUDITS AND REPAYMENT OF FUNDS, Part (a) – Recordkeeping Requirement states, “Each recipient of a grant or other payment made under this Act shall keep such records with respect to the payment as are consistent with sound accounting principles, including records which fully disclose the amount and disposition by such recipient of funds, the total cost of the project or undertaking for which 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 will facilitate an effective audit.”

The Office submitted the final report for Section 101 funds for the period ending February 28, 2006. The report disclosed that the Office had received and expended all of the available funds totaling \$5,063,997. The receipts are comprised of \$5 million in Federal funds and \$63,997 of interest income derived from the Federal funds. A summary of the reconciliation of the financial reports to the accounting records is as follows:

	<u>Final Report</u>	<u>Accounting Records</u>	<u>Variance</u>
Federal Share of Outlays	\$ 5,063,997	\$ 5,025,685	\$ 38,312
Federal Funds Authorized	\$ 5,063,997	\$ 5,048,195	\$ 15,802

The variances are comprised of the following:

A revision to the Calendar Year 2005 financial report was submitted on March 29, 2006. The revision recognized \$10,830 in interest income previously reported as Section 101 that should have been attributed to Section 251. However, this adjustment and the resulting cumulative balances were not considered in the Final Report submission. Accordingly, the final report beginning amounts for Federal share of outlays and Federal funds authorized were overstated by \$11,677 and \$10,830, respectively.

The remaining variances for Federal share of outlays and Federal funds authorized of \$26,635 and \$4,972 is a result of the current accounting system not including all of the transactions that were reported for the Section 101 funds. The State of North Dakota changed accounting software during the fiscal year ending June 30, 2004. The general ledger as provided included detailed expenditures from June 2004 through September 30, 2012. For Calendar Year 2003 the Office was able to provide a listing of expenditures, totaling \$110,700. However, of the \$110,700 reported, \$27,184 could not be determined whether it was included in the accounting system because the conversion entries were journalized at a batch level only and detail was not maintained.

It was also noted that the initial federal receipt of funds of \$5 million of section 101 payments was not included in the new accounting system. It could not be assured therefore, that all interest has been credited to the election fund.

Further the Office reported \$1,872,663 as the recipient share of expenditures for Section 251 funds as of September 30, 2012. The accounting records disclosed \$516,910 in matching expenditures. Additionally, \$457,491 of recipient match was provided through in-kind contributions, invoices paid for by general funds or expenditures transferred to the general fund. This results in an over-reporting of \$898,262 of the recipient share of expenditures. The Office was able to provide a listing of the transactions that accounted for the amount reported. However, the detail provided to support the amount included budget appropriations, reimbursements from counties and program income earned. The amount reflects funds going into the fund and not the outlays incurred by the Office.

Recommendation:

We recommend that the EAC address and resolve the following recommendation that the North Dakota Secretary of State's Office:

- (a) Perform a reconciliation of the grant activity for the Section 101 funds and ensure that all interest earned and expenditures incurred are fully disclosed.
- (b) Prepare and submit revised financial reports to the EAC for Section 101 and Section 251 activities as of September 30, 2012.

Secretary of State's Response:

The Office believes that the interest earned and expenditures incurred for Section 101 funds have been previously verified through processes independent of this Office. The Office stated that prior to the previous accounting software being closed, all records in the system were reconciled by the Office and audited by the State Auditor. After the retention period expired, the records were purged according to state law. The Office also indicated that the state auditors conducted an audit of the administration of the HAVA funds every two years and no findings were reported in any of those audits. Due to the fact that the early accounting records have been purged the auditors were provided spreadsheets used by the HAVA coordinator for the sole purpose of the general tracking of expenditures and income. These spreadsheets were not intended for accounting purposes.

The Office has submitted a revised financial report for Section 251 as of September 30, 2012 as a result of the finding.

Auditor's Response:

The auditors acknowledge that the old accounting records were purged after the retention period expired and recommend that EAC provide further guidance on the resolution of Section 101 reporting.

The submission of the revised Section 251 FSR as of September 30, 2012 addressed the concern.

Finding No. 2 – Inadequate Equipment Management

The Office's equipment management is inadequate in regards to property records.

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

The Office purchased, with HAVA funds, approximately \$6.3 million of voting equipment for all 53 counties. The counties were required to verify the delivery of the equipment along with a remittal of a 2.5% matching contribution. Upon the verification and receipt of payment the title of the assets were transferred to the counties. The inventory records of the Office provided the required detail for only one of the 53 counties. The detail for the other counties had not been entered into the system as of the beginning of fieldwork. The Office did update the inventory system for the remaining 52 counties during the audit. The audit was able to substantiate the accuracy of the inventory listing through physical observation of three county inventories representing 28% of the voting equipment.

Without the updated inventory system it cannot be assured that the Office adequately monitored and safeguarded assets purchased with grant funds since the initial purchase in 2004. The Office receives maintenance reports from the equipment provider on an annual basis that identify how many voting systems were serviced to ensure that the counties still maintain the equipment that was purchased.

Recommendation:

We recommend that the EAC require the Office to ensure that the equipment listing is updated as necessary and a physical inventory be conducted every two years through the use of county or state personnel. An analysis should also be performed to ensure that all purchases have been ultimately recorded through the inventory.

Secretary of State's Response:

The Office could not initially provide the inventory records for all counties since the data had not been uploaded to the inventory system. The Office uploaded the data for all the counties and verified the data with each county and provided a complete inventory list to the auditors. The inventory listing was substantiated by the auditors through their on-site visits.

The Office does conduct a physical inventory annually in conjunction with the yearly billing process for each county's share of equipment maintenance costs. The statements sent to the

counties and payments received are compared and any differences are resolved and reconciled to maintain accurate lists.

Auditor’s Response:

The Office has adequately updated the inventory records for the equipment purchased with HAVA funds. The Office also adequately addressed the performance of a physical inventory.

Finding No. 3 – Documentation of Policies and Procedures

Key internal control policies affecting financial management activities including purchasing, payment, payroll, Federal financial reporting, monthly budgetary and reconciliation reviews, and Federal grant oversight and administration, have not been addressed in a departmental policy and procedure document. Due to the few personnel involved in award administration, accounting and financial reporting, policies and procedures have been developed informally over the years.

Federal regulations, specifically 41 CFR 105-71.120 – *Post-Award Requirements/Financial Administration, Standards for Financial Management Systems, Internal Control*, require that:

- (a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds, and
- (b) Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

North Dakota Management and Budget Fiscal and Administrative Policy 216 – Internal Control & Fraudulent/Significant Dishonest Acts states, “Each state agency has a particular role to play and is ultimately responsible for implementing proper internal controls within their organization.”

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

The lack of documented departmental internal control policies and procedures may result in lack of awareness, consistency in application, and compliance of regulations, which could allow for noncompliance with grant terms and conditions to occur and not be detected.

Recommendation:

We recommend that the EAC require the Office to complete and document internal control procedures and other appropriate policies in written manuals and also provide training to personnel involved in the administration of Federal awards. Specifically, these policies and procedures should address financial management activities including purchasing, payment, payroll, Federal financial reporting, monthly budgetary and reconciliation reviews, and Federal

grant oversight and administration. Additionally, these procedures should be reviewed and updated on a regular basis.

Secretary of State's Response:

The Office established an Internal Control Policy plan as of September 6, 2013 to address the concern.

Auditor's Response:

The Office has adopted an Internal Control Policy that should be considered by EAC in resolving the finding.

Finding No. 4 – Matching Contributions

The Office deposited a portion of the state matching funds into the election fund subsequent to receipt of certain requirements payments.

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 requirement payment is made to the State under this part.
- (b) The requirements payment made to the State under this part.
- (c) Such other amounts as may be appropriated under law.
- (d) Interest earned on deposits of the fund.

The Office received \$4,150,000 for 2003 and \$7,446,803 for 2004 in requirements payments on July 13, 2004 and May, 11, 2005, respectively. The Office's matching requirement was \$218,421 and \$391,937, respectively. The Office provided \$105,000 and \$334,070 through budget appropriations and an in-kind contribution of the Election Management System used for HAVA activities for the 2003 and 2004 requirement, respectively. The remaining \$113,421 and \$57,867 was to be provided as reimbursements from the counties. Based on the accounting records, the county portion of the match was not met until February 2006. This resulted in an undetermined amount of lost interest earning for the period from July, 13, 2004 to the date the matching funds were deposited in the election fund.

Additionally, the Office received \$500,000 on July 9, 2009 for the 2009 requirements payments which required a state match of \$26,316. The State of North Dakota authorized a \$30,000 transfer from general funds to be deposited into the election fund. However, it could not be verified that the funds were actually deposited into the fund.

Further, the Office received \$350,000 on April 8, 2010 for the 2010 requirements payment which required a state match of \$18,421. The Office met this matching requirement through a partial payment of an invoice for HAVA activity in December 2010. This results in an undetermined amount of lost interest earning for the period April 8, 2010 through the date the invoice was paid with general funds.

Finally, the Office recorded approximately \$1.87 million in matching contributions. Of this amount, \$1.26 million was received from the 53 counties for reimbursements of voting equipment, maintenance of equipment and electronic poll books. The Office determined, based on the number of existing precincts as of 2002, the number of votes cast in the last Gubernatorial Election, number of eligible voters and square miles, the number of precincts within the counties that would receive 95% grant funded voting equipment. The county could also purchase additional machines at their own cost. Once the equipment was purchased and deployed, the Office invoiced 2.5% of the allotted equipment and the full amount for additional requested equipment. The Office also has been invoicing the counties for a percentage of maintenance and warranty costs that are incurred annually for the voting equipment. The percentage of reimbursement has increased through the years to transition the cost entirely to the counties.

The Office did not maintain archived receivable records to support that all counties have remitted their share of the required matching amounts. There is evidence that the Office does establish a tracking sheet when invoices are prepared and monitors and enters in the receipts as they are received. However, documentation could not be provided that assures that the Office has received all invoices billed and that the deposit of those funds have been made to the election fund.

Recommendation:

We recommend that the EAC address and resolve the following recommendation that the North Dakota Secretary of State's Office:

- (a) Calculate the amount of interest to transfer to the election fund for the untimely deposit of matching funds. This calculation should consider the period from the date the requirements payments were received through the date the matching requirement was met and include any compound interest through the date of the transfer.
- (b) Perform an analysis of the amount invoiced to the counties to ensure that the election fund has received all county required matching contributions.

Secretary of State's Response:

The Office agreed with the \$26,316 matching contribution not being deposited into the election fund. There was a coding error made that inadvertently credited the match approved by the Legislative Assembly to the Office's general fund. The Office will submit a funding request to the Governor, which will be ultimately considered by the 2015 Legislative Assembly to appropriate \$26,316 plus the compound interest on that amount through the date of transfer.

The Office disagrees that interest was not properly accounted for on the other state matching dollars figures of \$113,421, \$57,867 and \$18,421. To obtain the matching funds, the Governor and Secretary of State must first certify that the state match has been provided. The EAC would not have released the requirements payments to North Dakota until it was certain that the Office and state had met the necessary requirements. Therefore, the Office believes that the matching funds and applicable interest for these funds were correctly accounted for and that no further discovery is warranted.

Auditor’s Response:

The Office’s corrective action plan for the 2009 matching requirement of \$26,316 is adequate. We believe the Office did not deposit the matching contributions as required prior to receipt of the applicable requirements payments as noted in the finding and should resolve with the EAC appropriate corrective action.

Finding No. 5 – Inadequate Invoice Approval

The Office paid invoices which did not have adequate review and approval to ensure that costs are accurate and appropriate for HAVA funds.

North Dakota Management and Budget Fiscal and Administrative Policy 216 – Internal Control & Fraudulent/Significant Dishonest Acts states, “Internal controls play an important role in the prevention and detection of fraud. Examples of internal controls are, but not limited to: Authorization of transactions – review of particular transactions by an appropriate person.” It further states, “Each state agency has a particular role to play and is ultimately responsible for implementing proper internal controls within their organization.”

Proper internal controls include assurance that documented support exists for costs charged to Federal awards are commensurate with the value received. The Office’s internal controls, as described, identify the Deputy Secretary of State as the person with the primary role of reviewing and approving invoices for allowability and allocability to the grant.

Six invoices were selected for review from the State of North Dakota Information Technology Department (ITD) and there was no indication of review or approval from the Deputy Secretary of State. There was only one that evidenced review by the Account/Budget Specialist III. The ITD provides data processing and storage services for the Office. The invoices that are provided on a monthly invoice document processing fees that are incurred by the Office and only a portion is allocated to HAVA based on usage. The total costs charged was \$200,968 from the six invoices reviewed. The accounting records disclosed that a total of \$800,904 was paid to ITD as of September 30, 2012.

Additionally, one invoice paid to an outside vendor for software and licensing fees, totaling \$633,946 that did not evidence review of the Deputy Secretary of State for allowability to the grant.

Recommendation:

We recommend that the EAC require the Office to implement procedures to ensure that all payments made with Federal funds are reviewed to ensure that costs are reasonable, allowable and allocable.

Secretary of State's Response:

Although the audit identified a few isolated invoices that did not have any evidence of being reviewed or approved directly noted on the invoices themselves, the Office did and does have procedures in place for review and approval of expenditures. The initial procedure involved the Accounting/Budget Specialist reviewing the invoices and then providing them to the Deputy Secretary of State for approval and signature. The Office subsequently implemented additional controls for the review and approval process for expenditures. The Deputy Secretary of State and the Accounting Director approve the claim for payment and the Accounting/Budget Specialist reviews and processes payment based on the claim for payment and documentation provided. Although a few earlier invoices missed having a notation of being reviewed, all payments were correctly and accurately processed and accounted for or they would not have been paid. In addition, the audit did not have any findings of unreasonable, unallowable or non-allocable expenditures.

Auditor's Response:

We agree that most expenditures reviewed through the audit disclosed appropriate reviews for reasonableness, allowability and allocability. However, we still recommend that all expenditures have sufficient documentation that cost have been approved and reviewed to ensure compliance with grant requirements.

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

The Office responded on September 9, 2013 and generally agreed with the report's findings and recommendations, except as noted in the responses. The EAC responded on September 9, 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 the EAC's complete response as Appendix A-2.

McBride, Lock & Associates performed the related audit procedures between February 25, 2013 and June 20, 2013.

(Original Signed by McBride, Lock & Associates)

McBride, Lock & Associates
June 20, 2013

RESPONSE OF THE NORTH DAKOTA SECRETARY OF STATE TO THE DRAFT REPORT

September 3, 2013

Finding No. 1 – Financial Reporting (pages 5 – 8)

Secretary of State's Second Response: The Office will wait for further guidance from the EAC regarding the Section 101 reporting interpretation.

With this response, the Office is submitting revised financial reports for Section 251 activities as of September 30, 2012 (Attachment 1).

Finding No. 2 – Inadequate Equipment Management (pages 8 – 9)

Secretary of State's Second Response: The Auditors acknowledged that the Office has adequately complied and no response is required.

Finding No. 3 – Documentation of Policies and Procedures (pages 9 – 10)

Secretary of State's Second Response: With this response, the Office is submitting its internal control policy (Attachment 2).

Finding No. 4 – Matching Contributions (pages 10 – 12)

Secretary of State's Second Response: The Auditors acknowledged that the Office has adequately complied with the 2009 matching requirement so no response is required.

As stated in its initial response, the Office believes it met all of the requirements in timely depositing the matching contributions and that no corrective action is warranted.

Finding No. 5 – Inadequate Invoice Approval (pages 13 – 14)

Secretary of State's Second Response: The Office did have and still has procedures in place that have been enhanced to ensure that all expenditures have been reviewed and approved, as is also required by the State Auditor.

Comment: In the second to last paragraph on page 14, it states that the Office “generally agreed with the report’s findings and recommendations.” While the Office “generally” agreed with the report and recommendations, the Office believes it is also important to note that it did not agree with all of the findings as it has identified in its respective responses.



EAC RESPONSE TO THE DRAFT AUDIT:

OIG Performance Audit Report on the Administration of Payments Received Under the Help America Vote Act by the State of North Dakota, for the Period April 29, 2003 through September 30, 2012.

September 9, 2013

MEMORANDUM

To: Curtis Crider
Inspector General

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

Subject: Draft Performance Audit Report – “Administration of Payments Received Under the Help America Vote Act by the State of North Dakota”

Thank you for this opportunity to review and respond to the draft audit report for the North Dakota 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 HAVA funds and of relevant information systems controls as applicable.
- Identifying sources of evidence and the amount and type of evidence required.
- Determining whether other auditors have conducted, or are conducting, audits of the program that could be relevant to the audit objectives.

To implement our audit methodology, below are some of the audit procedures we performed.

- Interviewed appropriate Office employees about the organization and operations of the HAVA program.
- Reviewed prior compliance audit reports related to the State's financial management systems and the HAVA program for the period under review.
- Reviewed policies, procedures and regulations for the Office management and accounting systems as they relate to the administration of the HAVA program.
- Analyzed the inventory lists of equipment purchased with HAVA funds
- Tested major purchases and the supporting documentation.
- Tested randomly sampled payments made with HAVA funds.
- Evaluated compliance with the requirements for accumulating financial information reported to the Commission on the financial status reports and progress reports, accounting for property, purchasing HAVA related goods and services and accounting for salaries.
- Verified the establishment and maintenance of an election fund.
- Verified the State expenditures met the Maintenance of Expenditures requirement.
- Conducted site visits of selected counties to observe physical security/safeguard of equipment purchased with HAVA funds and ensure compliance with federal regulation.

MONETARY IMPACT AS OF SEPTEMBER 30, 2012

The findings did not result in any questioned costs.

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