

SEMIANNUAL REPORT TO CONGRESS

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



*For the Period:
October 1, 2013 Through
March 31, 2014*

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



1335 East West Highway – Suite 4300
Silver Spring, MD 20910

April 30, 2014

To: Acting Executive Director, U.S. Election Assistance Commission

The Inspector General Act of 1978 (Public Law 95–452), as amended, calls for the preparation of semiannual reports to the Congress summarizing the activities of the Office of Inspector General (OIG) for the six-month periods ending each March 31st and September 30th. I am pleased to enclose the report for the period from October 1, 2013 to March 31, 2014.

The Act requires that you transmit the report to the appropriate committees of the Congress within 30 days of receipt, together with any comments you may wish to make. Comments that you might offer should be included in your management report that is required to be submitted along with the Inspector General's report.

Working together, I believe we have taken positive steps to improve Commission programs and operations.

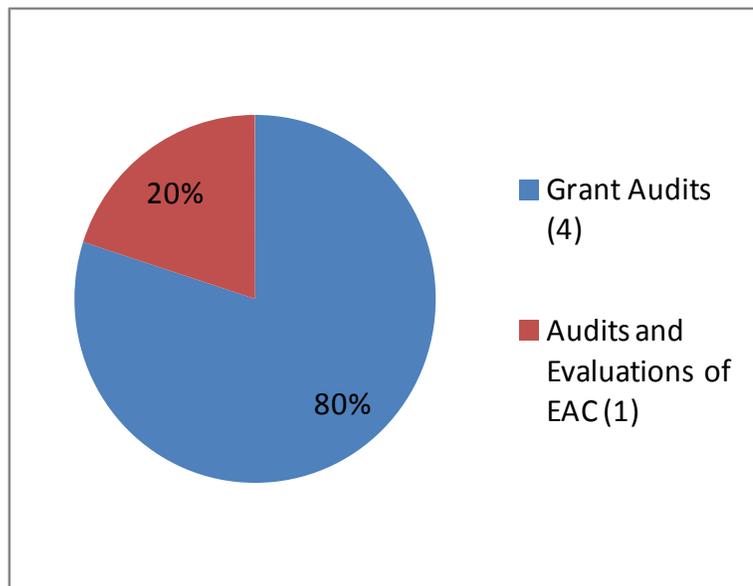
Sincerely,

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

Curtis W. Crider
Inspector General

Profile of Performance

Audit, Evaluation and Investigation Reports Issued for the Period October 1, 2013 through March 31, 2014



Profile of Performance for the Period October 1, 2013, through March 31, 2014

Results	
Questioned Costs	\$ 4,298,367
Potential Additional Program Funds	\$ 608,475
Funds to be Put to Better Use	\$ 113,345

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Election Assistance Commission Profile

The U.S. Election Assistance Commission (EAC or Commission) is a bipartisan, independent commission consisting of four members. The Help America Vote Act of 2002 specifies that commissioners be nominated by the President on recommendations from the majority and minority leadership in the U.S. House and U.S. Senate. Once confirmed by the full Senate, commissioners may serve two consecutive terms and no more than two commissioners may belong to the same political party. There are four vacancies on the commission.

The EAC mission is to assist states with improving the administration of elections for Federal office. The EAC accomplishes this mission by providing funding, innovation, guidance and information to be used by the states to purchase voting equipment, train election personnel, and implement new election programs. The EAC has awarded over \$3 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, educated voters, trained officials and poll workers, improved polling places, and recruited poll workers.

HAVA made EAC responsible for the federally run testing and certification program for voting systems. Through this 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.

The EAC is responsible for administering the National Voter Registration Act (NVRA) by promulgating regulations for the content and use of the National Mail Voter Registration form.

Office of Inspector General Profile

HAVA required the appointment of an inspector general for the EAC and amended the Inspector General Act (IG Act) of 1978 (5 U.S.C.A. App. 3) to identify the EAC as a designated Federal entity (DFE).

The OIG has always been a very small office. Other agencies have provided assistance by detailing employees; we have contracted independent CPA firms to conduct audits, and, finally, hiring permanent staff. The OIG currently has one employee the inspector general.

Despite our small size, we perform all of the duties required of the inspector general under 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 Commission, management, and Congress fully informed regarding problems and deficiencies, and the progress of corrective actions.

When conducting an investigation, we work with other Federal agencies to detail investigators or contract for investigative services.

The OIG's program to ensure economy, efficiency and integrity in the use of funds does not exclusively translate into audits of the EAC or of its grant recipients. The OIG also investigates allegations of waste, fraud, abuse and mismanagement in EAC programs and operations. The OIG operates a hotline to receive complaints regarding EAC, its programs, and its funding recipients.

EAC Audits

Fiscal Year 2013 Financial Audit

The Office of Inspector General (OIG) engaged Leon Snead & Co. P.C. (LSC), an independent certified public accounting firm, to conduct an audit of the EAC's fiscal year 2013 financial statements. LSC was unable to express an opinion on the EAC's balance sheet as of September 30, 2013, and on the related statements of net cost, changes in net position, and the statement of budgetary resources for the year then ended. The disclaimer resulted because of significant and pervasive uncertainties relating to the validity of approximately \$2.2 million in grant accruals, as well as, the validity of obligations totaling approximately \$900,000 relating to the 2008 requirements payment appropriation and reported in the FY 2013 financial statements. The resolution of the uncertainties could result in the agency needing to report an Anti-Deficiency Act violation and an improper payment.

The EAC generally agreed with the report's recommendations and indicated that corrective will be taken to implement the recommendations. Four of the six recommendations are considered resolved and implemented.

State Audits

HAVA funds have been distributed by the EAC to states for use to improve the administration of Federal elections by purchasing new equipment, establishing and operating statewide voter lists, implementing provisional voting, and verifying the identity of persons who wish to register to vote. The OIG conducts audits of the states' use of HAVA funds. Through those audits, the OIG examines:

- whether the recipient used HAVA funds in accordance with HAVA and other applicable Federal requirements;

- whether the recipient has properly accounted for purchases made with HAVA funds and any income derived from those purchases;
- whether grant funding was maintained and accounted for in keeping with HAVA; and
- Whether the recipient provided sufficient matching funds and maintained Federal monies in a separate, interest-bearing election fund.

Virgin Islands: At the request of the U.S. Election Assistance Commission (EAC) Office of Inspector General the Department of the Interior (DOI) Office of Inspector General reviewed the Election System of the Virgin Islands' (ESVI) compliance with the Help America Vote Act of 2002 (HAVA).

In its audit, the DOI found that ESVI's Office of the Supervisor of Elections (Office) lax posture on internal controls put \$3.3 million in HAVA funds and other funding at risk of fraud, waste, or mismanagement. The audit found:

- no supporting documentation or certification for payroll activities;
- circumvention of procedures established to prevent the abuse of work time;
- no written justification or comparison quotes for small purchases; inaccurate and late Federal Financial Reports, including financial reports due months ago that still have not been submitted;
- no supporting documentation for funds spent and transferred between bank accounts;
- poor accounting for fees collected, making program income vulnerable to fraud, waste, and mismanagement;
- a petty cash account for the Office that is susceptible to misuse because it is managed by one person;

- no inventory records for Office property, leaving voting and office equipment unaccounted for;
- noncompliance with HAVA–required expenditure levels for local elections for 4 fiscal years; and
- noncompliance with administrative complaint procedures, resulting in voters’ grievances not being addressed.

As a result, DOI questioned the Office’s ability to properly account for any of the HAVA funds it received. DOI specifically question approximately \$1.1 million associated with payroll and procurement deficiencies, inaccurate and late financial reporting, unsecured equipment, and unreported program income.

DOI made 20 recommendations to assist the ESVI in resolving the issues identified in the report. We consider 19 of the recommendations resolved but not implemented, and 1 closed.

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

Colorado: In its audit, McBride, Lock & Associates concluded that the Colorado Secretary of State (SOS) generally accounted for and expended the HAVA funds in accordance with applicable requirements for the period from April 28, 2003 through September 30, 2012. However, the following exceptions were identified:

- The SOS lacked sufficiently comprehensive written guidelines for the preparation, documentation and timely submission of Federal reports, and related policies for their review and approval, which resulted in one

report that could not be entirely supported by or agreed to the accounting records.

- The SOS' equipment management was not in compliance with 41 CFR 105-71.132 with respect to property records and the performance of biennial physical inventories.
- The SOS expended HAVA funds for purposes that are not allowable under the award's terms and conditions or HAVA regulations, utilizing processes that were not consistent with the Federal and State laws and regulations.

In responses to the draft report, the SOS agreed with the finding related to federal reports but did not agree with the findings related to equipment management or the finding related to the improper use of HAVA funds or the resulting \$362,691 in questioned costs. The EAC indicated that it would work with the SOS to ensure corrective action. MLA made 13 recommendations to address the issues identified in the report. We consider the 13 recommendations resolved but not implemented.

Massachusetts: In its audit, McBride, Lock & Associates concluded that the Secretary of the Commonwealth of Massachusetts (Office) generally accounted for and expended the HAVA funds in accordance with applicable requirements for the period from May 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 did not timely credit interest earnings to the Elections Fund.
- The Office property records were not adequate per 41 CFR 105-71.132.
- The Office did not deposit into the election fund the required state match for all Section 251 requirements payments.

- The Office expended HAVA funds for purposes that are not allowable under the award's terms and conditions or HAVA regulations.

In its August 29, 2013 response to the draft report, the Office provided comments to the findings and corrective actions, as applicable, to address the recommendations. The Office did not agree with the finding relating to the questioned costs of \$195,873 for the creation and distribution of Public Service Announcements and for the printing of mail-in voter registration cards. MLA made nine recommendations to address the issues identified in the report. We consider the nine recommendations closed.

North Dakota: In its audit, McBride, Lock & Associates concluded that the North Dakota Secretary of State (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.

MLA made seven recommendations to assist the Office in resolving the issues identified in the report. We consider the seven recommendations closed.

Other Activities

Reviews of Legislation, Rules, Regulations and Other Issuances

The 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 this reporting period, the EAC did not have any Commissioners and did not issue any policy determinations. The Administration issued several pieces of guidance and Executive Orders during the reporting period, which we reviewed. Last, we participated in surveys and data calls issued by the Council of Inspectors General on Integrity and Efficiency.

Matters Referred to Prosecuting Authorities

We are reporting no activities in this category during the reporting period.

Denial of Access to Records

We are reporting no activities in this category during the reporting period.

Peer Review Activity

Section 989C of the Dodd–Frank Act contains additional semiannual reporting requirements pertaining to peer review reports. Federal Inspectors General are required to engage in peer review processes related to both their audit and investigative operations. In keeping with Section 989C, the EAC OIG is reporting the following information related to its audit peer review activities. These activities cover our role as both the reviewed and the reviewing OIG.

Audit Peer Reviews

On a 3–year cycle, peer reviews are conducted of an OIG’s audit organization’s system of quality control in accordance with the *CIGIE Guide for Conducting*

External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General, based on requirements in the Government Auditing Standards.

During this semiannual reporting period, no peer reviews were conducted by another OIG organization on the EAC OIG and EAC OIG did not conduct a peer review on other OIGs. Listed below is information concerning peer review activities during prior reporting periods

Peer Review of EAC OIG Audit: In a prior reporting period, the EAC OIG was subject to a peer review. The Federal Labor Relations Authority, Office of Inspector General (FLRA OIG) conducted the review and issued its system report on July 31, 2012. In the FLRA OIG's opinion, the system of quality control for the EAC OIG audit organization in effect for the year-ended March 31, 2012, had been suitably designed and complied with to provide EAC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The EAC OIG received a peer review rating of *pass*

Reports Issued

EAC Audits

U.S. Election Assistance
Commission's Financial Statements
for Fiscal Years 2013 and 2012,
(Assignment No. I-PA-EAC-01-13),
December 2013

State Audits

Administration of Payments
Received Under the Help America
Vote Act by the Colorado Secretary
of State, (Assignment No. E-HP-
CO-05-12), January 2014

Administration of Payments
Received Under the Help America
Vote Act by the Massachusetts
Secretary of the Commonwealth
(Assignment No. E-HP-MA-06-12),
November 2013

Administration of Payments
Received Under the Help America
Vote Act by the North Dakota
Secretary of State, (Assignment No.
E-HP-ND-08-12), November 2013

Election System of the Virgin
Islands' Compliance with the Help
America Vote Act of 2002,
(Assignment No. E-HP-VI-01-13),
October 2013

Monetary Impact of Audit Activities

Questioned Costs*	\$ 4,298,367
Potential Additional Program Funds	\$ 608,475
Funds to Be Put to Better Use	\$ 113,345
Total	\$ 5,020,187

*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.	3	\$ 229,185	\$ 0
B. Which were issued during the reporting period.	3	\$ 4,298,367	\$ 0
Subtotals (A + B)	6	\$ 4,527,552	\$ 0
C. For which a management decision was made during the reporting period.	4	\$ 3,375,881	\$ 0
(i) Dollar value of recommendations that were agreed to by management.		\$ 2,745,756	\$ 0
(ii) Dollar value of recommendations not agreed to by management.		\$ 630,125	\$ 0
D. For which no management decision has been made by the end of the reporting period.	2	\$ 1,151,671	\$ 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.	0	\$ 0
B. Which were issued during the reporting period.	1	\$ 608,475
Subtotals (A+B)	1	\$ 608,475
C. For which a management decision was made during the reporting period.	1	\$ 608,475
(i) Dollar value of recommendations that were agreed to by management.		\$ 608,475
(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.	0	\$ 0

Reports With Funds Be Put To Better Use

<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.	0	0
B. Which were issued during the reporting period.	1	\$ 113,345
Subtotals (A+B)	1	\$113,345
C. For which a management decision was made during the reporting period.	0	\$ 0
(i) Dollar value of recommendations that were agreed to by management.		\$ 0
(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	\$ 113,345
E. Reports for which no management decision was made within six months of issuance.	0	0

Summary of Reports More Than Six Months Old Pending Corrective Action at March 31, 2014

The following is a list of audit and evaluation reports that are more than six 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.

I-EV-EAC-01-07B	Assessment of the U.S. Election Assistance Commission's Program and Financial Operations, February 2008, 4 Recommendations
E-HP-NE-07-12	Administration of Payments Received Under the Help America Vote Act by the Nebraska Secretary of State, September 2013, 9 Recommendations

Summary of Reports More Than Six Months Old Pending Management Decision at March 31, 2014

This listing includes a summary of audit and evaluation reports that were more than 6 months old on March 31, 2014 and still pending a management decision. It provides report number, title, and number of unresolved recommendations.

None.

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	8
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	15
Section 5(a)(4)	Matters Referred to Prosecuting 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	10
Section 5(a)(7)	Summary of Significant Reports	3
Section 5(a)(8)	Statistical Table – Questioned Costs	12
Section 5(a)(9)	Statistical Table – Recommendations That Funds Be Put to Better Use	14
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
Section 5(a)(14)(A)	Peer Review Reports Conducted on U.S. Election Assistance Commission Office of Inspector General during the Reporting Period	None

<u>Section of Act</u>	<u>Requirement</u>	<u>Page</u>
Section 5(a)(14)(B)	Statement of Peer Review Conducted on the U.S. Election Assistance Commission Office of Inspector General during a Prior Reporting Period	<u>8</u>
Section 5(a)(15)	Outstanding Recommendations from a Peer Review Report on the U.S. Election Assistance Commission Office of Inspector General	None
Section 5(a)(16)	Peer Review Reports Conducted by the U.S. Election Assistance Commission Office of Inspector General	None

OIG's Mission

Help to ensure efficient, effective, and transparent EAC operations and programs

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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
1335 East West Highway – Suite 4300
Silver Spring, MD 20910

To order by phone: Voice: (301) 734-3104
Fax: (301) 734-3115

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
1335 East West Highway – Suite 4300
Silver Spring, MD 20910

E-mail: eacoig@eac.gov

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

On-Line Complaint Form: www.eac.gov/inspector_general/
FAX: (301) 734-3115





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/inspector_general/