



## **EAC MANAGEMENT DECISION:**

*Resolution of the OIG Audit Report on the Administration of Payments Received Under the Help America Vote Act by the Hawaii Office of Elections for the Period April 23, 2003 Through September 30, 2009, Report No. E-HP-HI-01-10*

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April 7, 2011

### **BACKGROUND**

The EAC is an independent, bipartisan agency created by the Help America Vote Act (HAVA). EAC assists and guides state and local election officials in improving the administration of elections for Federal office. EAC distributes HAVA funds to States for the acquisition of voting systems, and supports the establishment of statewide voter registration lists, and other activities to improve the administration of elections for Federal office. EAC monitors State use of HAVA funds to ensure funds distributed are being used for authorized purposes. To help fulfill this responsibility, the EAC determines the necessary corrective actions to resolve issues identified during Single Audit Act and Department of Inspector General (OIG) audits of state administration of HAVA funds. The EAC OIG has established a regular audit program to review the use of HAVA funds by States. The OIG's audit plan and audit reports can be found at [www.eac.gov](http://www.eac.gov).

The EAC Audit Follow-up Policy authorizes the EAC Executive Director to issue the management decision for OIG audits of Federal funds to state and local governments, to non-profit and for-profit organizations, and for single audits conducted by state auditors and independent public accountants (external audits). The Executive Director has delegated the evaluation of final audit reports provided by the OIG and single audit reports to the Director of the HAVA Grants Division of EAC. The Division provides a recommended course of action to the Executive Director for resolving questioned costs, administrative deficiencies, and other issues identified during an audit. The EAC Executive Director issues the EAC Management Decision that addresses the findings of the audit and details corrective measures to be taken by the State.

States may appeal the EAC management decisions. The EAC Commissioners serve as the appeal authority. A State has 30 days to appeal the EAC management decision. All appeals must be made in writing to the Chair of the Commission. The Commission will render a decision on the appeal no later than 60 days following receipt of the appeal or, in the case where additional information is needed and requested, 60 days from the date that the information is received from the State. The appeal decision is final and binding.

Please note with two vacancies, the Commission presently lacks a quorum to conduct appeals. The 30 day period to file an appeal remains in place. However, the 60 day period for a decision will toll until a Commission quorum is reestablished.

## **AUDIT HISTORY**

The OIG issued an audit report on the administration of payments received under the Help America Vote Act (HAVA) by the Hawaii Office of Elections (HOE) on February 4, 2011. The audit concluded that the HOE did not account for and expend HAVA funds in accordance with the requirements mentioned in the report for the period from April 23, 2003 through September 30, 2009. The audit identified findings and recommendations related to maintenance of proper inventory listings, identification of ineligible or unallowable costs, recording of earned interest, reimbursement of a pre-HAVA distribution, financial accounting reconciliations, and completion of semi-annual personnel certifications.

### **Finding 1 – Property Management**

Since the state of Hawaii leases its voting equipment when needed for elections, the inventory listing provided by the HOE included only equipment that was housed at the elections office. In addition, the listing was not maintained in accordance with the Common Rule as follows:

- The fixed asset listing did not contain all the required information such as: description of equipment, location of equipment, condition of equipment, acquisition date, nor the funding source of the purchase of equipment (specifically, whether the equipment item was purchased with HAVA funds).

In addition, computer equipment purchased with HAVA funds, such as monitors and laptops to be used for Hawaii Computerized Voter Registration (HCVR) and other HAVA activities, were used primarily for operations.

The risk of loss, theft or misappropriation is increased if properties are not properly accounted for in the accounting records or are not properly tagged as property of the HOE.

### **Recommendations:**

The auditors recommended the HOE:

1. Update its equipment inventory records to include all information required by federal guidelines and identify the equipment purchased with HAVA funds.
2. Perform periodic inventories of equipment to facilitate proper accountability and safeguarding of assets for which federal funds were used to acquire.

### **HOE's Response:**

The HOE agreed with the corrective action recommended.

**EAC Response:**

EAC will work with the HOE to ensure proper inventory records and develop an inventory schedule to facilitate accountability.

**Finding 2 – Procurements**

During the test of other direct costs, the auditors identified costs that were ineligible or unallowable under HAVA and other federal guidelines. The HOE management stated that the office had experienced significant turnover in key positions, which possibly contributed to the limited knowledge of current staff regarding federal regulations and HAVA requirements.

There is a potential loss of HAVA funds totaling \$49,375.77. In addition, there is a potential for additional questioned costs for amounts that were not included in the test sample but were part of the total costs paid for the same activities questioned in the test sample:

- \$10,784.17 of computer equipment costs.
- \$29,809.29 for radio advertising costs for “get out and vote”.

**Recommendations:**

The auditors recommended that:

3. The HOE discontinue the use of HAVA funds to pay interest charged on delinquent invoices, and ensure that the state reimburses the election fund for any late payment interest paid to date.
4. The EAC work with the HOE to determine the allowability of the advertising costs and the equipment costs.

**HOE Response:**

The HOE agreed with the corrective action recommendation to discontinue the use of HAVA funds to pay interest charged on delinquent invoices.

The HOE also agreed with the corrective action recommendation to work with the EAC to determine the allowability of the advertising costs and the equipment costs. However, they disagreed with the assessment that the advertising costs were not educational.

**EAC Response:**

EAC will work with the HOE to ensure appropriate corrective action and determine the allowability of advertising and equipment costs.

### **Finding 3 – Interest Earned**

The State of Hawaii, Department of Budget and Finance, Financial Administration Division – Treasury, determines the interest earned on HAVA funds using a pooling of funds approach and allocating the interest monthly based on average balances. The allocation is an electronic distribution as determined by the state’s accounting system. However, the allocation of the interest earned is not recorded timely and the HAVA election fund had not received all of the interest earnings to which it was entitled as of September 30, 2009.

The HAVA election fund is understated by an undetermined amount of interest earned as of September 30, 2009 and going forward as the recording delays continue.

#### **Recommendations:**

The auditors recommended that the HOE:

5. Determine the amount of delinquent interest due the election fund and transfer it to the fund.
6. Implement procedures to follow up with the treasurer’s office periodically to ensure timely recording of interest earned.

#### **HOE Response:**

The HOE agreed with the corrective action recommended.

#### **EAC Response:**

EAC will work with the HOE to ensure delinquent interest is transferred to the election fund and procedures are implemented to ensure timely recording of interest.

### **Finding 4 – Reimbursement of Funds (Pre-HAVA Distribution)**

Prior to the enactment of the Help America Vote Act (HAVA) of 2002, the State of Hawaii used its own funds to obtain electronic voting equipment for the regularly scheduled general election for federal office held in November 2000. Subsequent to the passing of HAVA, the Consolidated Appropriations Resolution Act authorizes a one-time payment to those states that had upgraded or replaced their voting systems prior to the November 2000 election. The State of Hawaii received \$1,339,192.30 as a reimbursement for qualifying equipment purchased for the 2000 election.

In a letter to the Governor dated May 16, 2003, the previous Chief Election Officer incorrectly described this special payment as Sec. 102 funds. The \$1.3 million was deposited in the HAVA election fund, and is still included with the HAVA fund balances as of September 30, 2009. In addition, interest has accrued on the funds since May 2003

through February 2009, and is included in the election fund. This has resulted in the HAVA fund balance being overstated by the \$1,339,192.30, plus compounded interest.

The current Office of Elections' management and staff did not know why the funds were not deposited in the state's general fund, since they were not on staff at the time.

**Recommendation:**

7. The auditors recommended the HOE officials determine whether these funds should remain in the HAVA election fund or be transferred to the state's general fund.

**HOE Response:**

The HOE stated that they agreed with the corrective action recommended, and have transferred the original reimbursement money to the general funds. Interest earned which had accrued on the original funds is still in the process of being determined.

**EAC Response:**

EAC will coordinate with HOE officials to ensure the proper determination and deposit of accrued interest.

**Finding 5 – Financial Accounting and Reporting**

The Office of Elections does not reconcile the HAVA funds in its books against the State Treasurer's records. As of September 30, 2009, the Office of Election's computed HAVA fund balance was \$8,661,280.33 and Hawaii's Financial Accounting and Management Information System (FAMIS) account balances totaled \$8,619,280.33, resulting in an unreconciled difference of \$42,000.

The auditors were informed that the HOE has experienced significant turnover, specifically in its accounting staff, therefore, reconciliations have not been performed as necessary.

**Recommendations:**

8. Perform monthly reconciliations of HAVA funds and accounts to ensure that all receipts and disbursements are properly recorded and accounted for in the state's accounting records.
9. Resolve the unreconciled difference of \$42,000.
10. Coordinate with EAC if corrected SF 269s need to be filed retroactively or prospectively.

**HOE response:**

The HOE agreed with the corrective action recommended.

**EAC Response:**

EAC will work with the HOE to ensure proper reconciliation and reporting of HAVA funds.

**Finding 6 – Personnel Documentation and Certifications**

The HOE did not complete semi-annual certifications for employees that worked full-time or solely on HAVA activities.

**Recommendation:**

11. The auditors recommended that the EAC consult with the HOE to determine the appropriate corrective action regarding the lack of periodic certifications.

**HOE Response:**

The HOE agreed with the corrective action recommended, and noted that the NFR stated that the position description for the employee indicates that the duties are HAVA-related activities.

**EAC Response:**

EAC will work with the HOE to determine the appropriate corrective action regarding the periodic personnel certifications.