

SEMIANNUAL REPORT TO CONGRESS

U.S. ELECTION ASSISTANCE COMMISSION OFFICE OF INSPECTOR GENERAL



For the Period:
October 1, 2014 Through
March 31, 2015



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

April 30, 2015

To: The 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 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, 2014 to March 31, 2015.

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.

Working together, I believe we can take 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

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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 (HAVA) 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. Currently the EAC has three commissioners.

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 provided 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 Office of Inspector General (OIG) has always been a very small office. Other agencies have provided assistance by detailing employees; we have contracted with 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 with other Federal agencies 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

Opinion on EAC's Fiscal Year 2014 Financial Statements

The audit was performed by Brown & Company CPAs, PLLC (Brown & Company) under a contract that was monitored by the OIG.

In Brown & Company's opinion, the financial statements presented fairly, in all material respects, the financial position of EAC as of September 30, 2014, and its net costs, changes in net position, budgetary resources, and custodial activity for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Brown & Company identified a material weakness in internal control over disbursements. EAC's controls over disbursements were not effective, to ensure disbursements were not made from a canceled fund. EAC made a \$2,266,085 disbursement from a fiscal year (FY) 2008 fund after the fund was canceled on September 30, 2013. The disbursement was unable to be authorized from the FY 2008 authority. The payment was liquidated directly from Treasury's General Fund which caused EAC to be in violation of the Anti-Deficiency Act and also caused the agency to make an improper payment. Brown & Company determined that the responsible officials had no willful or knowing intent to violate the Anti-Deficiency Act.

The EAC reported the Anti-Deficiency Act violation to the President, Congress and the Comptroller General. The funds are in the collection process. In addition, a system control had been added, EAC's Administrative Control of Funds Policy has been amended to emphasize OMB Circular A-II Section 130.14, and to include the Closing Act, 31 U.S. Code 1552. In addition, EAC staff has been counseled and has taken appropriation law training.

Federal Information Security Management Act

The Office of Inspector General (OIG) engaged CliftonLarsonAllen LLP (CLA), an independent certified public accounting firm, to conduct an audit of the U.S. Election Assistance Commission's (EAC) compliance with the Federal Information Security Management Act and related information security policies, procedures, standards, and guidelines. The audit included assessing the EAC's effort to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the EAC. CLA found that EAC had a properly designed and effective information security program.

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 the 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.

The OIG used the professional auditing firm of McBride, Lock & Associates to conduct HAVA funds audits. Four reports were issued during this period.

Oklahoma: McBride, Lock & Associates concluded that the Oklahoma State Election Board (Board) generally accounted for and expended the HAVA funds in accordance with applicable requirements for the period from May 1, 2003 through September 30, 2013. However, the following exceptions were identified:

- The Board did not have established policies and procedures addressing financial management activities including equipment management, Federal financial reporting and Federal grant oversight and administration.
- The Board's equipment management was inadequate in regards to the maintenance of property records and the performance of a physical observation of inventory.
- The Board untimely credited interest earnings on the Election Fund.
- The State of Oklahoma temporarily borrowed HAVA funds for other activities.
- The Board did not exceed the maintenance of expenditure during fiscal year 2010.

The Board generally agreed with the findings and recommendations. The EAC indicated that it would work with the Board to resolve the issues in the report.

Maine: McBride, Lock & Associates concluded that the Maine Secretary of State (Office) generally accounted for and expended the HAVA funds in accordance with applicable requirements for the period from May 7, 2003 through September 30, 2013. However, the following exceptions were identified:

- The Office did not have established policies and procedures addressing financial management activities including purchasing, payment, payroll, Federal financial reporting and Federal grant oversight and administration.

- The Office did not adequately support all salaries and wages charged to the grant award.
- The Office expended \$103,964 of HAVA funds for purposes that are not allowable under the award's terms and conditions or HAVA regulations. The Office purchased paper ballots in 2006.
- The Office's equipment management was inadequate in regards to the maintenance of property records and the performance of a physical observation of inventory.

The Office did not agree that HAVA funds were spent for unallowable purposes. The Office felt that the HAVA funds spent in 2006, for paper ballots, should be considered an allowable cost. The EAC indicated that it would work with the Office to resolve the issues in the report. Subsequent to the issuance of the report, the EAC determined that the expenditure for the paper ballots was an allowable HAVA expenditure.

Idaho: McBride, Lock & Associates concluded that the Idaho Secretary of State's (Office) generally accounted for and expended the HAVA funds in accordance with applicable requirements for the period from April 10, 2003 through September 30, 2013. However, the following exceptions were identified:

- The Office did not have established policies and procedures addressing financial management activities including purchasing, payment, payroll, equipment management, sub-recipient monitoring, Federal financial reporting and Federal grant oversight and award administration.
- The Office did not adequately support all salaries and wages charged to the grant award.
- The Office's equipment management was inadequate in regards to the documentation of a physical observation of inventory.

- The Office submitted financial reports that were not supported by underlying accounting records.
- The Office did not retain documentation of a competitive bidding process for the procurement of goods and services.
- The Office did not adequately monitor subawardees.
- The Office was unable to provide support for the baseline maintenance of expenditure calculation. Additionally, the Office did not exceed the maintenance of expenditure during fiscal year 2007.

The Office generally agreed with the findings and recommendations. The EAC indicated that it would work with the Office to resolve the issues in the report.

District of Columbia: McBride, Lock & Associates concluded that the District of Columbia Board of Elections and Ethics (Board) generally accounted for and expended the HAVA funds in accordance with applicable requirements for the period from April 23, 2003 through September 30, 2013. However, the following exceptions were identified:

- The Board did not appropriately categorize HAVA expenditures as Federal grant expenditures.
- The Board submitted financial reports that could not be supported by underlying accounting records.
- The Board did not adequately support all salaries and wages charged to the grant award.
- The Board's equipment management was not adequate in regards to the maintenance of property records.
- The Board did not provide adequate documentation to support allowability for certain expenditures.

- The Board expended \$309,020 of HAVA funds for purposes that were not allowable under the award's terms and conditions or HAVA regulations.
- The Board did not support that interest was credited accurately on Election Funds.

The Board indicated that it did not agree with the report's findings and recommendations. The EAC indicated that it would work with the Board to ensure appropriate corrective action.

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.

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. OIG is scheduled for its next peer review in the Spring of 2015. 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 Compliance with the Requirements of the Federal Information Security Management Act Fiscal Year 2014 (Assignment Number. I-PA-EAC-02-14), November 2014

U.S. Election Assistance Commission's Financial Statements for Fiscal Years 2014 and 2013 (Assignment Number I-PA-EAC-01-14), November 2014

State Audits

Administration of Payments Received Under the Help America Vote Act by the Oklahoma State Election Board (Assignment Number E-HP-OK-02-14), February 2015

Administration of Payments Received Under the Help America Vote Act by the Maine Secretary of State (Assignment Number E-HP-ME-05-14), February 2015

Administration of Payments Received Under the Help America Vote Act by the Idaho Secretary of State (Assignment Number E-HP-ID-04-14), March 2015

Administration of Payments Received Under the Help America Vote Act by the District of Columbia Board of Elections and Ethics (Assignment Number E-HP-DC-01-14), March 2015

Monetary Impact of Audit Activities

Questioned Costs*	\$ 2,407,186
Potential Additional Program Funds	\$ 4,939,000
Funds to Be Put to Better Use	\$ 0
Total	<u>\$ 7,346,186</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	\$ 1,073,226	\$ 0
B. Which were issued during the reporting period.	4	\$ 2,407,186	\$ 0
Subtotals (A + B)	5	\$ 3,480,412	\$ 0
C. For which a management decision was made during the reporting period.		\$ 103,964	\$ 0
(i) Dollar value of recommendations that were agreed to by management.		\$ 0	\$ 0
(ii) Dollar value of recommendations not agreed to by management.		\$ 103,964	\$ 0
D. For which no management decision has been made by the end of the reporting period.	5	\$ 3,376,448	\$ 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	\$ 4,939,000
Subtotals (A+B)	0	\$ 4,939,000
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	\$ 4,939,000

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.	1	\$ 113,345
B. Which were issued during the reporting period.	0	\$ 0
Subtotals (A+B)	1	\$113,345
C. For which a management decision was made during the reporting period.	1	\$ 113,345
(i) Dollar value of recommendations that were agreed to by management.		\$ 0
(ii) Dollar value of recommendations that were not agreed to by management.		\$ 113,345
D. For which no management decision has been made by the end of the reporting period.	0	\$ 0
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, 2015

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-VI-01-13	Election System of the Virgin Islands' Compliance with the Help America Vote Act of 2002, October 2013, 7 Recommendations

Summary of Reports More Than Six Months Old Pending Management Decision at March 31, 2015

This listing includes a summary of audit and evaluation reports that were more than 6 months old on March 31, 2015 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

Section of Act	Requirement	Page
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	8
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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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/