

OFFICE OF INSPECTOR GENERAL

U.S. Election Assistance Commission

AUDIT OF THE HELP AMERICA VOTE ACT GRANTS AWARDED TO THE STATE OF WASHINGTON

Report No. G22WA0015-22-04
September 6, 2022



HIGHLIGHTS

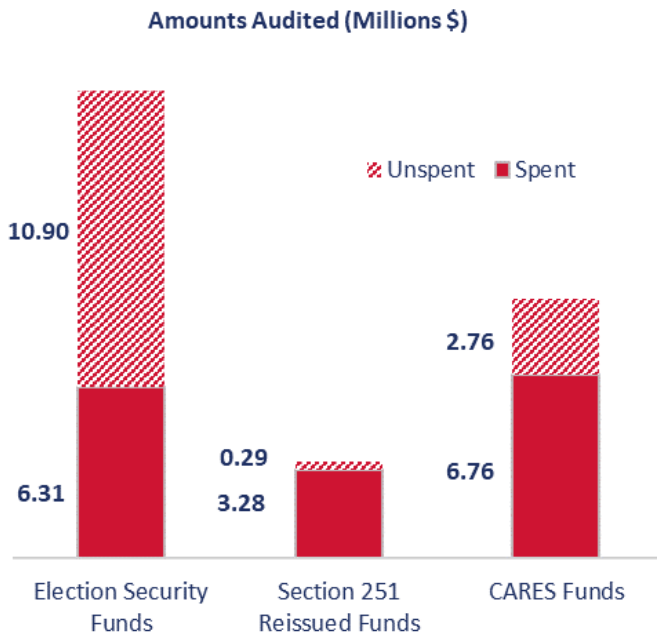
AUDIT OF THE HELP AMERICA VOTE ACT GRANTS AWARDED TO THE STATE OF WASHINGTON

Report No. G22WA0015-22-04

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What OIG Audited

The Office of Inspector General, through the independent public accounting firm of McBride, Lock & Associates, LLC, audited funds received by the State of Washington under the Help America Vote Act (HAVA), including state matching funds and program income, totaling \$30.3 million.



The **objectives** of the audit were to determine whether the State of Washington:

- (1) Used funds for authorized purposes in accordance with Section 101 and Section 251 of HAVA and other applicable requirements;
- (2) properly accounted for and controlled property purchased with the HAVA payments; and
- (3) used funds in a manner consistent with the informational plans provided to EAC.

What OIG Found

The Office of Inspector General found that the Washington Secretary of State generally accounted for HAVA funds in accordance with applicable requirements, accounted for and controlled property purchased, and used the funds in a manner consistent with informational plans submitted during the audit period.

However, the Secretary of State (1) charged \$190,363 in unallowable subrecipient costs to the CARES award; (2) may not have correctly calculated and reported interest earned on its financial reports; and (3) incorrectly cataloged some expenditures in its Schedule of Expenditures of Federal Awards.

What OIG Recommended

The Office of Inspector General made five recommendations to address the noted deficiencies:

- 1 Return federal funds that were spent on unallowable expenditures.
- 2 Implement procedures and training to prevent supplanting state and local funds with federal funds.
- 3 Determine the correct amount of interest earned to be reported on federal financial statements.
- 4 Implement procedures and training to ensure interest earned is properly reported.
- 5 Implement policies to ensure awards are properly identified by assistance listing number.



OFFICE OF INSPECTOR GENERAL

U.S. Election Assistance Commission

DATE: September 6, 2022

TO: U.S. Election Assistance Commission, Interim Executive Director, Mark Robbins

FROM: U.S. Election Assistance Commission, Inspector General, Brianna Schletz

SUBJECT: Audit of the Help America Vote Act Grants Awarded to the State of Washington
(Report No. G22WA0015-22-04)

This memorandum transmits the final report on Help America Vote Act grants awarded to the state of Washington. The Office of Inspector General contracted McBride, Lock & Associates, LLC, an independent certified public accounting firm, to conduct the audit. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards. We monitored the firm's work to ensure that it adhered to those standards.

Please keep us informed of the actions taken on the report's five open recommendations, as we will track the status of their implementation.

We appreciate the assistance you and your staff provided to us during this audit.

cc: Commissioner Thomas Hicks, Chair
Commissioner Christy McCormick, Vice Chair
Commissioner Benjamin W. Hovland
Commissioner Donald L. Palmer

McBRIDE, LOCK & ASSOCIATES, LLC

Certified Public Accountants

Established 1980

Performance Audit Report

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

Prepared for

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

By

McBride, Lock & Associates, LLC

July 2022

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

EXECUTIVE SUMMARY

McBride, Lock & Associates, LLC was engaged by the United States Election Assistance Commission (EAC) Office of the Inspector General to conduct a performance audit of the of the administration of payments received under the Help America Vote Act (HAVA or the Act) by the Washington Secretary of State's Office (Office). The payments received by the Office are identified as Election Security, Section 251 Reissued, and the CARES Act. The scope of the audit includes: Election Security administration from inception on May 13, 2018 through September 30, 2020; Section 251 Reissued administration from inception on October 1, 2018 through September 30, 2020; CARES Act administration from inception on April 16, 2020 through December 31, 2020, including matching fund expenditures made after December 31, 2020. The objective of the audit was to determine whether the Office used payments authorized by Sections 101 and 251 of the Help America Vote Act of 2002 (the HAVA) in accordance with HAVA and applicable requirements; properly accounted for and controlled the funds and property purchased with HAVA payments; and, used the funds in a manner consistent with the budget plan provided to EAC.

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

- Expend payments in accordance with Federal cost principles established by the Office of Management and Budget (OMB) – (2 CFR 200).
- Submit detailed annual financial reports on the use of Title I and Title II payments.
- Maintain documents and records subject to audit to determine whether payments were used in compliance with HAVA.

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 and for the periods mentioned above. The exceptions are as follows:

1. During our audit, we selected 37 subrecipient expenditures for testing totaling \$3,954,622 (\$3,281,392 HAVA and \$673,230 match). We noted 3 expenditures of CARES Act

funding by subrecipients totaling \$190,363 (\$158,635 federal and \$31,728 match) that were approved by the Office that appear to be unallowable per the terms and conditions of the award.

2. The Federal Financial Report (FFR) for the fiscal year ended September 30, 2020 for the Election Security grants reported \$303,369 of cumulative program income earned. However, the amount supported by the underlying accounting records was \$262,865, a difference of \$40,504 which is equal to the amount of program income earned and reported on the September 30, 2018 FFR for the Election Security grants.
3. The Schedule of Expenditures of Federal Awards (SEFA) for the State of Washington reported \$4,310,991 of expenditures for the year ended June 30, 2019 under Catalog of Federal Domestic Assistance (CFDA) 90.401, Help America Vote Act Requirements Payments. That amount included \$3,546,342 of Election Security Grant expenditures with a correct CFDA of 90.404. The SEFA reported \$3,908,188 of expenditures for the year ended June 30, 2020 under Catalog of Federal Domestic Assistance (CFDA) 90.401, Help America Vote Act Requirements Payments. That amount included \$1,369,278 of Election Security Grant expenditures with a correct CFDA of 90.404.

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 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 grants to States authorized by HAVA under Title I and Title II, as follows:

- Title I, Section 101 payments are for activities such as complying with Title III of HAVA for uniform and nondiscriminatory election technology and administration requirements; improving the administration of elections for Federal office; educating voters; training election officials and poll workers; developing a state plan for requirements payments; improving, acquiring, leasing, modifying, or replacing voting systems, and methods for casting and counting votes; improving the accessibility and quantity of polling places; and establishing toll-free telephone hotlines that voters may use.
- 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.

The HAVA Election Security, Section 251 Reissued and CARES Act grants also require that states must:

- Maintain funds in a state election fund (as described in Section 104 (d) of HAVA).

- Expend payments in accordance with Federal cost principles established by the Office of Management and Budget (OMB) – (2 C.F.R. § 200).
- Submit detailed annual financial reports on the use of Title I and Title II payments. Reports must include a summary of expenditures aligned with budget categories in the grantee’s plan, a list of equipment obtained with the funds, and a description of how the funded activities met the goals of the plan.
- Provide matching funds of the Federal funds within a period stipulated by the award to be documented on the annual SF-425 submission
- Maintain documents and records subject to audit to determine whether payments were used in compliance with HAVA.

The Awardee – The Washington Secretary of State

The HAVA funds were awarded to the Washington Secretary of State. The mission of the Office of the Secretary of State is to promote public trust by safeguarding vital government records, documents, publications and processes; preserving the integrity of elections in Washington State; providing the business community and public with easy access to information about corporations and charities; performing public outreach to improve civic knowledge and participation; and leveraging technology to improve efficiency and enhance customer services.

Responsibilities of the Secretary of State’s office include supervising state and local elections and certifying the results of state primaries and general elections; filing and verifying initiatives and referendums; and producing and distributing state voter’s pamphlet and election-notice legal advertising.

Help America Vote Act State of Washington State Plans

The Washington Secretary of State’s HAVA budget narratives were prepared by the Secretary of State.

Election Security 2018 and 2020

The main objectives of the 2018 Election Security grant was to improve the administration of elections for federal office by enhancing election technology and make election security improvements. The Office created a Security Operations Center (SOC) to address cyber vulnerabilities at the state and county levels. SOC personnel were tasked with regularly reviewing state and county voting equipment, voter registration systems, and computer system for security vulnerabilities and to ensure compliance with current security policies. Results from these reviews are used to create tailored training for each county to ensure deficiencies are addressed. Major planned expenditures included monitoring sensors, security and event management software, upgraded firewalls, and multi-factor authentication for all key personnel with access to the centralized voter registration system.

Section 251 Reissued

On July 15, 2019, the Office was informed of an interim administrative closeout of the HAVA Section 251 grant through September 30, 2018. On that date, the unexpended program income was carried forward and reissued as a new grant. The funds were to be spent in accordance with Section 251. The Office expended these funds mostly for the purpose of the VoteWA voter registration system.

CARES Act

The objective of the 2020 CARES Act was to prevent, prepare for, and respond to coronavirus, domestically or internationally, for the 2020 Federal election cycle. To address the impacts of coronavirus on the election, the Office distributed the funds to the 39 county election offices to use for additional staffing, facility rental, equipment needs, and personal protection equipment supplies to protect election workers against the virus.

AUDIT OBJECTIVES

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

1. Used funds for authorized purposes in accordance with Section 101 and Section 251 of HAVA and other applicable requirements;
2. Properly accounted for and controlled property purchased with HAVA payments; and
3. Used the funds in a manner consistent with the informational plans provided to EAC.

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:

- Expend payments in accordance with Federal cost principles established by the Office of Management and Budget (OMB) – (2 CFR 200).
- Submit detailed annual financial reports on the use of Title I and Title II payments.
- Maintain documents and records subject to audit to determine whether payments were used in compliance with HAVA.

SCOPE AND METHODOLOGY

We audited the Election Security grant funds received and disbursed by the Office from May 13, 2018 through September 30, 2020. These funds are related to the appropriation of \$380 million under the Consolidated Appropriations Act (CAA), 2018 (P.L. 115-151) and \$425 million under the CAA, 2020 (P.L. 115-141). We audited the Section 251 grant funds reissued to and disbursed by the Office from October 1, 2018, through September 30, 2020. We audited the CARES Act grant funds received and disbursed by the Office from April 16, 2020, through December 31, 2020. These funds are related to the \$400 million authorized by the U.S. Congress under the Coronavirus Aid, Relief and Economic Security Act (P.L. 116-136). The scope of activity audited is shown in the following table:

Description	Election Security Funds	Section 251 Reissued Funds	CARES Act Funds
Funds Received from EAC	\$ 16,805,723	\$ -	\$ 8,343,778
State Matching Funds	143,279	-	1,138,704
Program Income	262,865	3,572,432	43,903
Total Funds	\$ 17,211,867	\$ 3,572,432	\$ 9,526,385
Less Disbursements	(6,307,141)	(3,283,127)	(6,764,797)
Fund Balance	\$ 10,904,726	\$ 289,305	\$ 2,761,588

Program income in the above table consists entirely of interest earned on the federal funds as reported in the program income section of the federal financial reports.

The Office’s Election Security expenditures detailed by budget and program category, Section 251 Expenditures detailed by spending category, and CARES Act expenditures detailed by cost category are included as Appendix C.

In planning and performing our audit, we identified the following internal control components and underlying internal control principles as significant to the audit objective:

Objective	Component	Principle
1	Control Activities	Selects and develops control activities Selects and develops general controls over technology Deploys through policies and procedures
	Information and Communication	Uses Relevant Information Communicates Internally Communicates Externally
2	Control Activities	Selects and develops control activities Selects and develops general controls over technology Deploys through policies and procedures
	Information and Communication	Communicates Externally
3	Control Activities	Selects and develops control activities Selects and develops general controls over technology Deploys through policies and procedures

We assessed the design, implementation, and operating effectiveness of these internal controls and identified deficiencies that we believe could affect the Office’s ability to use funds for authorized purposes, and properly account for and control property. The internal control deficiencies we found are discussed in the Audit Results section of this report.

Additionally, for the components and principles which we determined to be significant, we assessed the internal controls and compliance with laws and regulations necessary to satisfy the audit objective.

However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

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, we concluded that the Office generally accounted for HAVA funds in accordance with the requirements mentioned above, accounted for and controlled property purchased, and used the funds in a manner consistent with informational plans submitted during the audit period. The exceptions to applicable compliance requirements are described below.

Finding No. 1 – CARES Act Unallowable Costs

During our audit, we selected 37 subrecipient expenditures for testing totaling \$3,954,622 (\$3,281,392 HAVA and \$673,230 match). We noted 3 expenditures of CARES Act funding by subrecipients totaling \$190,363 (\$158,635 federal and \$31,728 match) that were approved by the Office that appear to be unallowable per the terms and conditions of the award, as follows:

Lewis County expended \$100,000 of CARES Act funding (\$83,333 federal and \$16,667 match) for a ballot sorting system. The documentation we reviewed indicated that the County Commission had approved the purchase of this system in a meeting on September 16, 2019, prior to the onset of the COVID-19 pandemic in 2020. The County requested approval to use CARES funding for the purchase in April 2020 and the purchase was made in June 2020.

Pend Oreille County expended \$56,248 of CARES Act funding (\$46,873 federal and \$9,375 match) for an election tabulating system. The documentation we reviewed indicated that the County Commission approved the purchase in a meeting on October 21, 2019, prior to the onset of the COVID-19 pandemic in 2020. The contract for the purchase was signed on March 16, 2020. In the County's request to the office to charge the purchase to CARES Act funding on November 30, 2020, the County stated that the purchase had already been budgeted for 2020 prior to the pandemic. The request was initially denied by the Office but was subsequently allowed after the Office received approval from EAC.

Lincoln County expended \$34,115 of CARES Act funding (\$28,429 federal and \$5,686 match) for a ballot tabulation system. The documentation we reviewed indicated that the contract for the

equipment was signed on February 3, 2020 and the purchase was made from a quote obtained by the County with an expiration date of December 31, 2019. The Office spoke to the County Auditor who stated that they had been working with the vendor prior to making the purchase because of out-of-date equipment and software.

As stated in the Notice of Grant Award, the purpose of the HAVA CARES Act funding was to “prevent, prepare for, and respond to coronavirus, domestically or internationally, for the 2020 Federal election cycle.” The EAC provided guidance on the use of CARES Act funding in the form of Frequently Asked Questions, which state that, “supplanting occurs when a state or local government reduces state or local funds for an activity specifically because federal funds are available or expected to be available to fund that same activity. Supplanting of state funds with HAVA funds is not permitted. Federal funds must be used to supplement existing state or local funds and may not replace state or local funding that has been appropriated or allocated for the same purpose or that is required by law.”

The subrecipients had planned the purchases of the equipment prior to the onset of the pandemic, but due to the significant costs had not finalized the purchases until 2020. The equipment was beneficial to the administration of the 2020 federal elections and was therefore approved by the Office.

The audit noted \$190,363 (\$158,635 federal and \$31,728 match) of questioned costs which were determined to not be allowable per the terms and conditions of the CARES Act award.

Recommendation

We recommend that the EAC require the Office to:

1. Transfer \$158,635 into the election fund for the unallowable expenditures noted.
2. Implement procedures and training to ensure that supplanting of state and local funds with federal funds does not occur.

Secretary of State’s Response:

We disagree that the three identified approved expenditures are supplanting. None of the three counties had their expenditures or budgets reduced due to the grant funding. It is also important to note that Lewis County reported that, without the CARES funding, they would not have been able to successfully conduct the 2020 Federal Election. In all three cases, the narrative these counties provided indicates that the use of these funds absolutely was to “prevent, prepare for, and respond to coronavirus, domestically or internationally, for the 2020 Federal election cycle.”

The audit indicates that identified expenditures the county had “planned the purchases of the equipment prior to the onset of the pandemic”. However, we also must not forget that prior to the pandemic, every state and local government had plans that were swiftly moved aside in favor of the previously unknown and often unpredictable expenditures necessary to maintain and execute the critical business functions. While we appreciate the quick work to pass the Coronavirus Aid, Relief and Economic Security Act that provided additional funding for our County Auditors in

April 2020, by that time the state and local government had already reallocated their local funding and adjusted their plans for their annual budget in response to the pandemic. To hold them to their pre-pandemic plans without consideration of the broader context is not a reasonable finding in our opinion.

Auditor’s Response:

While the items purchases were beneficial to the conduct of the 2020 elections, the evidence provided indicated that the three counties had already made plans to purchase the items with local funding prior to the availability of federal funds.

Finding No. 2 – Financial Reporting of Program Income

The Federal Financial Report (FFR) for the fiscal year ended September 30, 2020 for the Election Security grants reported \$303,369 of cumulative program income earned. However, the amount supported by the underlying accounting records was \$262,865, a difference of \$40,504 which is equal to the amount of program income earned and reported on the September 30, 2018 FFR for the Election Security grants.

The terms and conditions of the Election Security grant awards require the submission of an accurate and complete Federal Form 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 such 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 as will facilitate an effective audit.”

HAVA grant activity may not be accurately reported or accounted for which may increase the potential of misuse of federal funds.

Recommendation

We recommend that the EAC work with the Office to:

3. Determine the proper amounts of program income to be reported on the Election Security grant FFR’s through September 30, 2020 and revise this FFR and any subsequent FFR’s as necessary.
4. Implement procedures and training in the FFR reporting process to ensure that all program income earned is fully disclosed in the financial reports.

Secretary of State's Response:

We disagree with the determination that we over reported interest by \$40,503.72 (rounded to \$40,504 in the audit report). A separate spreadsheet named "HAVA Interest.xlsx" we believe was provided to the auditor, which is different than the interest spreadsheet used in the calculation of post-FFY 2018 interest and noted in the audit report. However, the \$303,368.83 reported on the FFR noted in the audit, being a cumulative amount, is inclusive of the FFY 2018 interest, and therefore we believe it is correct (with the exception being noted below).

The difference between the two spreadsheets is that FFY 2018 interest was calculated using a more accurate method, using the known daily balances between the two comingled funds (Section 251 and Section 101 security funds). This was made possible by large and easily identifiable single expenditures, which made changes in cash balances between funds possible to track to a specific expenditure in the state accounting system, which contained the grant information. That changed with the addition of more complex expenditures, particularly salaries and benefits of security staff. Because of the lack of linkage between the accrual-based state accounting system (Agency Financial Reporting System, AFRS) and the cash-based treasury system (Treasury Management System, TMS), which is how interest is earned and calculated, it is impossible to attribute specific cash changes to expenditures in AFRS. When it became impossible to identify specific expenditures in the cash-based system, we switched spreadsheets, which is spreadsheet noted in finding #2.

However, while we believe the amount of \$303,368.83 is substantially correct, during the investigation process we uncovered a mistake in the interest reported on both the 2018 FFR and the 2018 progress report. This was due to a copy/paste error in the interest earned during August 2018. We reported earning interest in the amount of \$10,313.41 on the progress report, an amount that also was included in the FFY 2018 FFR, but in reality, only earned \$10,304.55, a difference of \$8.86. That mistake has carried through all subsequent FFR's to date.

Auditor's Response:

The audit used the spreadsheets "HAVA Interest FFY2019" and "HAVA Interest FFY2020" as well as reports of interest earned from the Treasury Management System which were provided by the Office during audit fieldwork. The EAC resolution process will determine the correct amounts of interest income to be reported on the FFR's.

Finding No. 3 – SEFA Reporting

The Schedule of Expenditures of Federal Awards (SEFA) for the State of Washington reported \$4,310,991 of expenditures for the year ended June 30, 2019 under Catalog of Federal Domestic Assistance (CFDA) 90.401, Help America Vote Act Requirements Payments. That amount included \$3,546,342 of Election Security Grant expenditures with a correct CFDA of 90.404. The SEFA reported \$3,908,188 of expenditures for the year ended June 30, 2020 under CFDA 90.401, Help America Vote Act Requirements Payments. That amount included \$1,369,278 of Election Security Grant expenditures with a correct CFDA of 90.404.

At the time, the Uniform Guidance at 2 CFR 200.302(b) stated that, “The financial management system of each non-Federal entity must provide for the following: (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.”¹ Chapter 95 of the State Administrative and Accounting Manual provides for each state agency to complete a federal disclosure form and submit to the Office of Financial Management to facilitate SEFA reporting, which includes providing the CFDA number.

The Election Security Grant funds were reported by the state of Washington using the original HAVA funds CFDA and no distinction was made for the Election Security Grant’s differing CFDA number. This was due to an error on the part of the Financial Services office in completing the annual disclosures to the Office of Financial Management. The Financial Services office has made note of the correct CFDA and will ensure proper reporting in future state fiscal years.

Proper identification of a federal program’s CFDA number increases the likelihood that the entity complies with the requirements of that program.

Recommendation

5. We recommend that the EAC require the Office implement policies to ensure federal awards reported on the federal disclosure form to the OFM are accurate and are properly identified by CFDA title and number (now known as Assistance Listings) in compliance with Uniform Guidance.

Secretary of State’s Response:

We agree that there was an error in the Catalog of Federal Domestic Assistance (CFDA) that was used due to an internal issue. Additional quality assurance processes have already been implemented to prevent this type of error in the future. Now, staff in the OSOS Financial Services Division will review all grant reports from the Election Division prior to submission and vice versa.

Auditor’s Response:

The proposed corrective actions, if implemented, would be sufficient to resolve the findings.

¹ In 2020, the US Office of Management and Budget finalized changes to the Uniform Guidance, which changed the term “CFDA” to “Assistance Listing.”

The Office responded on August 29, 2022, and disagreed with the report's Findings No. 1 and No. 2 and agreed with Finding No. 3. The EAC responded on August 25, 2022, and stated they will work with the Washington Secretary of State to implement and complete appropriate corrective action on the findings. The Office's complete response is included as Appendix A-1 and the EAC's complete response as Appendix A-2.

McBride, Lock & Associates, LLC performed the related audit procedures between July 7, 2021, and July 26, 2022.

A handwritten signature in blue ink that reads "McBride, Lock & Associates, LLC". The signature is written in a cursive, flowing style.

McBride, Lock & Associates, LLC
Kansas City, Missouri
July 26, 2022

APPENDIX A-1

**Response of the
Washington Secretary of State
to the Draft Report**

== WASHINGTON  SECRETARY OF STATE ==
Elections Division

August 29, 2022

U.S. Election Assistance Commission
Inspector General
Brianna Schletz

Dear Brianna Schletz,

The Secretary of State's Office appreciates the opportunity to review and respond to the Office of the Inspector General's (OIG) performance audit report, "Administration of Payments Received Under the Help America Vote Act by the Washington Secretary of State".

The performance audit concluded that our office accounted for HAVA funds in accordance with the grant requirements, accounted for and controlled purchased assets, and used the funds in a manner consistent our office's submitted plan for the audit period. However, the audit does include three findings.

Finding No. 1 – CARES Act Unallowable Costs – we disagree that the three identified approved expenditures are supplanting. None of the three counties had their expenditures or budgets reduced due to the grant funding. It is also important to note that Lewis County reported that, without the CARES funding, they would not have been able to successfully conduct the 2020 Federal Election. In all three cases, the narrative these counties provided indicates that the use of these funds absolutely was to "prevent, prepare for, and respond to coronavirus, domestically or internationally, for the 2020 Federal election cycle."

The audit indicates that identified expenditures the county had "planned the purchases of the equipment prior to the onset of the pandemic". However, we also must not forget that prior to the pandemic, every state and local government had plans that were swiftly moved aside in favor of the previously unknown and often unpredictable expenditures necessary to maintain and execute the critical business functions. While we appreciate the quick work to pass the Coronavirus Aid, Relief and Economic Security Act that provided additional funding for our County Auditors in April 2020, by that time the state and local government had already reallocated their local funding and adjusted their plans for their annual budget in response to the pandemic. To hold them to their pre-pandemic plans without consideration of the broader context is not a reasonable finding in our opinion.

Finding No. 2 – Financial Reporting of Program Income - we disagree with the determination that we over reported interest by \$40,503.72 (rounded to \$40,504 in the audit report). A separate spreadsheet named "HAVA Interest.xlsx" we believe was provided to the auditor, which is different than the interest spreadsheet used in the calculation of post-FFY 2018 interest and noted in the audit report. However, the \$303,368.83 reported on the FFR noted in the audit, being a cumulative amount, is inclusive of the FFY 2018 interest, and therefore we believe it is correct (with the exception being noted below).

== WASHINGTON  SECRETARY OF STATE ==
Elections Division

The difference between the two spreadsheets is that FFY 2018 interest was calculated using a more accurate method, using the known daily balances between the two comingled funds (Section 251 and Section 101 security funds). This was made possible by large and easily identifiable single expenditures, which made changes in cash balances between funds possible to track to a specific expenditure in the state accounting system, which contained the grant information. That changed with the addition of more complex expenditures, particularly salaries and benefits of security staff. Because of the lack of linkage between the accrual-based state accounting system (Agency Financial Reporting System, AFRS) and the cash-based treasury system (Treasury Management System, TMS), which is how interest is earned and calculated, it is impossible to attribute specific cash changes to expenditures in AFRS. When it became impossible to identify specific expenditures in the cash-based system, we switched spreadsheets, which is spreadsheet noted in finding #2.

However, while we believe the amount of \$303,368.83 is substantially correct, during the investigation process we uncovered a mistake in the interest reported on both the 2018 FFR and the 2018 progress report. This was due to a copy/paste error in the interest earned during August 2018. We reported earning interest in the amount of \$10,313.41 on the progress report, an amount that also was included in the FFY 2018 FFR, but in reality, only earned \$10,304.55, a difference of \$8.86. That mistake has carried through all subsequent FFR's to date.

Finding No. 3 – SEFA Reporting – We agree that there was an error in the Catalog of Federal Domestic Assistance (CFDA) that was used due to an internal issue. Additional quality assurance processes have already been implemented to prevent this type of error in the future. Now, staff in the OSOS Financial Services Division will review all grant reports from the Election Division prior to submission and vice versa.

In conclusion, we appreciate the time the United States Election Assistance Commission (EAC) Office of the Inspector General staff spent learning about our grant management operation and extensive internal controls while performing the performance audit. The Office of the Secretary of State remains committed to continuous improvement and will implement and complete any recommendations set by the EAC.

Sincerely,

Stuart Holmes
Acting Election Director
Office of the Secretary of State
520 Union Ave
Olympia WA 98501
(360) 725-5794
stuart.holmes@sos.wa.gov

APPENDIX A-2

**Response of the
U.S. Election Assistance Commission
to the Draft Report**



U.S. ELECTION ASSISTANCE COMMISSION
633 3rd Street, NW. Suite 200
Washington, DC 20001

TO: Brianna Schletz, Inspector General

FROM: Kinza Ghaznavi, Grants Director

DATE: August 25, 2022

RE: Response to Draft Audit Report of Grants Awarded to the Washington Secretary of State

This is the EAC's response to the OIG draft audit of HAVA funds awarded to the Washington Secretary of State (Office) and serves as the EAC's management decision. The scope of the audit included HAVA Sections 251, 101 Election Security and 101 CARES grants. The EAC generally agrees with the recommendations and describes our management decisions related to each one below.

Finding and Recommendations #1 and #2, Unallowable CARES Act Costs: The auditors questioned \$190,363 (\$158,635 federal and \$31,728 match) in costs expended by three counties as unallowable because they viewed the purchases as supplanting state and local funds. The purchases were approved prior to the receipt of the CARES funds, thus using federal funds instead of the state funds already approved for the purchase. The auditors recommend that the EAC require the Office to:

1. Transfer \$158,635 into the election fund for the unallowable expenditures noted.
2. Implement procedures and training to ensure that supplanting of state and local funds with federal funds does not occur.

Management Decision: The EAC considers the costs unallowable because they were expenditures not directly related to the pandemic. The purchases were planned prior to the March 2022 pandemic declaration and, therefore, were not in response to the pandemic. The funds will be returned or other allowable costs can be found. The EAC determines supplanting occurs when a state or local government reduces state or local funds for an activity specifically because federal funds are available or expected to be available to fund that same activity. States have the flexibility to use federal funds as needed for planned activities but cannot decrease overall funding as a result of federal support. This can include cases in which state or local funds planned for one activity are needed to cover other costs. The Office has confirmed that funding did not decrease as a result of the CARES funding the counties received. To address Recommendation #2, the EAC Grants staff will review the Office's planned actions and determine if they have sufficient systems in place to ensure supplanting does not occur.

Finding #2 and Recommendations #3 and #4, Financial Reporting of Program

Income and Federal Expenditures: The auditors found that interest earned on the federal funds, as reported in the program income section of the FFR, was not accurately reported. The auditors recommend that the EAC require the Office to:

3. Determine the proper amounts of interest earned and expended to be reported on the Election Security grant FFR's through September 30, 2020 and revise this FFR and any subsequent FFR's as necessary.
4. Implement procedures and training in the FFR reporting process to ensure that all program income earned and expenditures incurred are fully disclosed in the financial reports.

Management Decision: The Office reviewed the auditor's working papers and compared their calculations to state accounting records. They determined the 2018 interest was not counted twice and the audit working papers may have calculated cumulative interest earned based on State Treasury initial calculations that had not been adjusted for expenditures between the 101 and 251 grants. The Office has provided its calculations for interest earned and allocated to the EAC Grants office. The EAC Grants staff will review both the audit working papers and the state calculations to determine if interest was reported accurately. We anticipate completing that process by October 31, 2022.

Finding #3 and Recommendation #5, SEFA Reporting: The auditors found the Election Security grant was reported under Assistance Listing #90.401 instead of under the correct number, 90.404. The auditors recommend that the EAC require the Office to implement policies to ensure federal awards reported on the federal disclosure form to the OFM are accurate and are properly identified by CFDA title and number (now known as Assistance Listings) in compliance with Uniform Guidance.

Management Decision: The Office has corrected the number going forward and is implementing a new grants management system that will associate various components with the Assistance Listing number. Full implementation of the system is expected by early December 2022.

The EAC expects to review the actions and documentation provided by the state by December 31, 2022.

AUDIT SCOPE AND 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.

As part of our audit, we gained an overall understanding of the internal control environment at the Office. Based on this understanding, we identified certain internal controls that we considered to be significant (or key controls) to achieving each objective. All components of internal control are relevant, but not all may be significant. Significance is defined as the relative importance of a matter within the context in which it is being considered, and is a matter of professional judgment. We made the following determination as to the significance of the underlying internal control principles:

	Objective		
	1	2	3
Control Environment			
1 Demonstrates Commitment to integrity and ethical values	No	No	No
2 Exercises oversight responsibility	No	No	No
3 Establishes structure, authority, and responsibility	No	No	No
4 Demonstrates commitment to competence	No	No	No
5 Enforces accountability.	No	No	No
Risk Assessment			
6 Specifies suitable objectives	No	No	No
7 Identifies and analyzes risk	No	No	No
8 Assesses fraud risk	No	No	No
9 Identifies and analyzes significant change	No	No	No
Control Activities			
10 Selects and develops control activities	Yes	Yes	Yes
11 Selects and develops general controls over technology	Yes	Yes	Yes
12 Deploys through policies and procedures	Yes	Yes	Yes
Information and Communication			
13 Uses relevant information	Yes	No	No
14 Communicates internally	Yes	No	No
15 Communicates externally	Yes	Yes	No
Monitoring			
16 Conducts ongoing and/or separate evaluations	No	No	No
17 Evaluates and communicates deficiencies	No	No	No

The significance was determined as follows:

Objective 1: Control Activities and its underlying principles were deemed to be significant to our determination of the awardee’s compliance with the objective. The Control Activities component includes the design and implementation of specific tasks performed by individuals within the entity to fulfill their duties and responsibilities and to respond to identified risks. These principles address the design and implementation of activities related to management review, segregation of duties (including restriction of access with the information system), and documentation of internal controls and transactions. We determined these principles to be the most significant to the state’s proper use of funds and compliance with award requirements.

The Information and Communication principles of Use Relevant Information, Communicate Internally and Communicate Externally were deemed to be significant to our determination of the awardee’s compliance with the federal financial reporting portion of this objective. These principles address the relevance of the information, the internal communication processes used to compile the data necessary to meet the state’s reporting objectives and the external communication processes used to inform the counties about grant requirements.

Objective 2: Control Activities and its underlying principles were deemed to be significant to our determination of the awardee's compliance with the objective. The Control Activities component includes the design and implementation of specific tasks performed by individuals within the entity to fulfill their duties and responsibilities and to respond to identified risks. These principles address the design and implementation of activities related to management review, segregation of duties (including restriction of access with the information system), and documentation of internal controls and transactions. We determined these principles to be the most significant to the state's proper accounting and control over equipment purchased with HAVA funds.

The Information and Communication principle of Communicate Externally was deemed to be significant to our determination of the awardee's compliance with the objective because the state communicated with and relied on information from the counties where the equipment is located as part of the control system for accounting and controlling equipment purchased with HAVA funds.

Objective 3: Control Activities and its underlying principles were deemed to be significant to our determination of the awardee's compliance with the objective. The Control Activities component includes the design and implementation of specific tasks performed by individuals within the entity to fulfill their duties and responsibilities and to respond to identified risks. These principles address the design and implementation of activities related to management review, segregation of duties (including restriction of access with the information system), and documentation of internal controls and transactions. We determined these principles to be the most significant to the state's use of funds in a manner consistent with the plans provided to EAC.

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 single audit reports and other reviews 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.
- 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 using funds in a manner consistent with the budget plan provided to EAC.
- Verified the establishment and maintenance of an election fund.
- Observed the physical security/safeguards of selected equipment purchased with HAVA funds and ensure compliance with federal regulation.
- Verified whether the matching requirement was met and, if so, that matching expenditures met the prescribed criteria and allowability requirements of HAVA.
- Verified program income and interest income was properly accounted for and not remitted to the State's general fund.

**ELECTION SECURITY EXPENDITURES BY BUDGET CATEGORY AND PROGRAM CATEGORY
MAY 13, 2018 TO SEPTEMBER 30, 2020**

Budget Categories	Program Categories						Total
	Voting Equipment	Election Auditing	Voter Registration Systems	Cyber Security	Communications	Other	
Personnel (Including Fringe)	\$ -	\$ 99,159	\$ 99,159	\$ 99,159	\$ -	\$ 753,365	\$ 1,050,842
Equipment	-	-	-	2,429,411	-	-	2,429,411
Subgrants	284,581	-	-	180,415	1,831	-	466,827
Training	-	3,449	-	73,266	-	239,961	316,676
All Other Costs	-	-	-	1,898,737	-	1,369	1,900,106
Total Direct Costs	\$ 284,581	\$ 102,608	\$ 99,159	\$ 4,680,988	\$ 1,831	\$ 994,695	\$ 6,163,862
Indirect Costs (if applied)	-	-	-	-	-	-	-
Total Federal Expenditures	\$ 284,581	\$ 102,608	\$ 99,159	\$ 4,680,988	\$ 1,831	\$ 994,695	\$ 6,163,862
Non-Federal Match	81,309	-	-	51,547	523	9,900	143,279
Total Program Expenditures	\$ 365,890	\$ 102,608	\$ 99,159	\$ 4,732,535	\$ 2,354	\$ 1,004,595	\$ 6,307,141

Subgrant Spending By Program Categories

<u>County</u>	<u>Equipment</u>	<u>Election Auditing</u>	<u>Registration Systems</u>	<u>Cyber Security</u>	<u>Communications</u>	<u>Other</u>	<u>Total</u>
ADAMS	\$ -	\$ -	\$ -	\$ 984	\$ -	\$ -	\$ 984
ASOTIN	24,313	-	-	-	-	-	24,313
BENTON	59,366	-	-	1,594	-	-	60,960
CHELAN	-	-	-	4,293	-	-	4,293
COLUMBIA	9,422	-	-	457	-	-	9,879
DOUGLAS	-	-	-	35,864	-	-	35,864
FERRY	-	-	-	16,892	-	9,551	26,443
FRANKLIN	-	-	-	2,795	-	3,330	6,125
GARFIELD	-	-	-	14,260	-	-	14,260
GRANT	-	-	-	1,684	-	-	1,684
JEFFERSON	424	-	-	-	-	-	424
KITTITAS	-	-	-	1,027	-	-	1,027
LEWIS	-	-	-	15,334	-	-	15,334
LINCOLN	-	-	-	3,284	-	-	3,284
MASON	-	-	-	7,046	-	-	7,046
OKANOGAN	25,297	-	-	-	-	-	25,297
PACIFIC	-	-	-	8,806	1,704	-	10,510
PEND OREILLE	-	-	-	8	-	676	684
PIERCE	-	-	-	108,217	-	-	108,217
SAN JUAN	5,902	-	-	3,022	-	-	8,924
SKAGIT	-	-	-	45,328	127	-	45,455
THURSTON	-	-	-	37,822	-	-	37,822
WAHKIAKUM	-	-	-	1,747	-	-	1,747
WALLA WALLA	-	-	-	3,926	-	-	3,926
WHATCOM	-	-	-	10,018	-	-	10,018
WHITMAN	-	-	-	2,307	-	-	2,307
Total Direct Costs	\$ 124,724	\$ -	\$ -	\$ 326,715	\$ 1,831	\$ 13,557	\$ 466,827
Indirect Costs (if applied)	-	-	-	-	-	-	-
Total Federal Expenditures	\$ 124,724	\$ -	\$ -	\$ 326,715	\$ 1,831	\$ 13,557	\$ 466,827

**SECTION 251 EXPENDITURES BY SPENDING CATEGORY
OCTOBER 1, 2018 TO SEPTEMBER 30, 2020**

<u>Spending Category</u>	Section 251 <u>Funds</u>
Voter Registration System	<u>3,283,127</u>
Total Direct Costs	\$ 3,283,127
Total Program Expenditures	<u>\$ 3,283,127</u>

**CARES ACT EXPENDITURES BY COST CATEGORY
APRIL 16, 2020 TO DECEMBER 31, 2020**

Cost Categories	Expenditure Type		Total
	Federal	Match	
Voting Processes	\$ 3,258,778	\$ 610,279	\$ 3,869,057
Staffing	339,786	59,683	399,469
Security and Training	446,598	83,995	530,593
Communications	205,965	117,014	322,979
Supplies	1,374,966	267,733	1,642,699
Total CARES Expenditures	<u>\$ 5,626,093</u>	<u>\$1,138,704</u>	<u>\$ 6,764,797</u>

**MONETARY IMPACT AS OF SEPTEMBER 30, 2020 FOR ELECTION
SECURITY AND SECTION 251 REISSUED GRANTS AND AS OF
DECEMBER 31, 2020 FOR CARES ACT GRANT**

Description	Questioned Costs	Unsupported Costs	Additional Funds for Program
CARES	\$ 158,635	\$ -	\$ -
Total	<u>\$ 158,635</u>	<u>\$ -</u>	<u>\$ -</u>



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