



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

FINAL REPORT:

**ADMINISTRATION OF PAYMENTS RECEIVED
UNDER THE HELP AMERICA VOTE ACT BY
THE MARYLAND STATE BOARD OF
ELECTIONS**

JANUARY 1, 2006 THROUGH SEPTEMBER 30, 2015

**Report No.
E-HP-MD-08-16
September 2017**



U.S. ELECTION ASSISTANCE COMMISSION
1335 EAST-WEST HIGHWAY, SUITE 4300
SILVER SPRING, MD 20910
OFFICE OF THE INSPECTOR GENERAL

MEMORANDUM

To: Brian Newby
Executive Director

A handwritten signature in blue ink that reads "Patricia L. Layfield".

From: Patricia L. Layfield
Inspector General

Date: September 6, 2017

Subject: Final Performance Audit Report - Administration of Payments Received
Under the Help America Vote Act by the Maryland State Board of Elections
(Assignment Number E-HP-MD-08-16)

We contracted with the independent certified public accounting firm of McBride, Lock & Associates, LLC to audit the administration of payments received under the Help America Vote Act (HAVA) by the Maryland State Board of Elections (MDSBE).

In its audit, McBride, Lock & Associates, LLC concluded that the Office generally accounted for and expended the HAVA funds in accordance with applicable requirements for the period from January 1, 2006 through September 30, 2015. However the following exceptions were identified:

1. The Office did not have established policies and procedures affecting financial management activities including equipment management, Federal financial reporting and Federal grant oversight and administration
2. The Office submitted financial reports for Section 101, Section 102 and Section 251 funds that could not be supported by underlying accounting records.
3. The Office's equipment management is inadequate in regards to the maintenance of property records.
4. The Office did not provide adequate documentation to support allowability for certain expenditures.
5. The Office did not exceed the maintenance of expenditure during fiscal year 2006.

In the report, McBride, Lock & Associates, LLC summarized the MDSBE response to the reported recommendations, as well as their comments on the responses after the recommendations. The MDSBE office generally agreed with the findings and recommendations and, in some cases, provided additional information for EAC to consider. The EAC indicated that it would work with the MDSBE to resolve the issues in the report. The complete MDSBE response is included as Appendix A-1 and the EAC's complete response is included as Appendix A-2.

We would appreciate being kept informed of the actions taken on our recommendations as we will track the status of their implementation. Please respond in writing concerning the findings and recommendations included in this report by October 20, 2017. Your response should include information on actions taken or planned, targeted completion dates, and titles of officials responsible for implementation.

To fulfill our responsibilities under *Government Auditing Standards*, the Office of Inspector General:

- Reviewed McBride, Lock & Associates, LLC's approach and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Reviewed the audit report, prepared by McBride, Lock & Associates, LLC to ensure compliance with *Government Auditing Standards*; and
- Coordinated issuance of the audit report.

McBride, Lock & Associates, LLC is responsible for the attached auditor's report and the conclusions expressed in the report. We do not express any opinion on the conclusions presented in McBride, Lock & Associates, LLC's audit report.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit reports issued, actions taken to implement our recommendations, and recommendations that have not been implemented.

If you have any questions regarding this report, please call me at (301) 734-3104.

Attachment

cc: Director of Grants and Payments

Performance Audit Report

Administration of Payments Received Under the Help America Vote Act by the Maryland State Board of Elections

Prepared for

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

By

McBride, Lock & Associates, LLC

July 2017

McBRIDE, LOCK & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS
KANSAS CITY

**Performance Audit Report
Administration of Payments Received Under the Help America Vote Act by
the Maryland State Board of Elections**

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

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 Maryland State Board of Elections (Office) from January 1, 2006 through September 30, 2015 to determine whether the Office used payments authorized by Sections 101, 102, and 251 of the Help America Vote Act of 2002 (the HAVA) in accordance with HAVA and applicable requirements; accurately and properly accounted for property purchased with HAVA payments and for program income; maintained state expenditures at a level not less than the level maintained in the fiscal year ending prior to November 2000; and met HAVA requirements for Section 251 funds for an election fund and for a matching contribution.

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

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

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

Based on the audit procedures performed, except for the matters discussed below, we concluded that the Office generally accounted for and expended the Grant funds in accordance with the

requirements mentioned above for the period from January 1, 2006 through September 30, 2015. The exceptions are as follows:

1. The Office did not have established policies and procedures affecting financial management activities including equipment management, Federal financial reporting and Federal grant oversight and administration
2. The Office submitted financial reports for Section 101, Section 102 and Section 251 funds that could not be supported by underlying accounting records.
3. The Office's equipment management is inadequate in regards to the maintenance of property records.
4. The Office did not provide adequate documentation to support allowability for certain expenditures.
5. The Office did not exceed the maintenance of expenditure during fiscal year 2006.

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

BACKGROUND

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

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

Title II also requires that states must:

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

The Awardee – The Maryland State Board of Election

The HAVA funds were awarded to the Maryland State Board of Elections. The Maryland State Board of Elections (SBE), comprised of the Administrator as the chief State election official, the five-member State Board as the principal authority, and 30 employees, is responsible for administering and supervising elections conducted by the 24 Local Boards of Elections (LBEs) in the State. The LBEs and their respective local governments have the majority of fiscal responsibility for elections. In addition to fulfilling federal election responsibilities, the State's elections community works cooperatively to serve State government, approximately 2.8 million registered voters, and over 1,700 political campaigns.

Help America Vote Act State of Maryland State Plan

The State of Maryland's advisory committee consisted of 10 individuals representing a cross-section of election stakeholders. The committee was selected by the State Administrator for the Maryland State Board of Elections.

The main objectives of the project funded by HAVA, as set forth in the state plan, were to purchase, implement, administrate and maintain compliant voting systems; and purchase, implement, administrate and maintain a computerized statewide voter checklist.

The Maryland State Board of Elections established and is maintaining an election fund for the exclusive purpose of carrying out activities of HAVA. The fund is non-lapsing and accrues interest earned. Additionally, the BOE has managed all expenditures funded by HAVA and has not distributed any of the requirement payments to the local units of government.

AUDIT OBJECTIVES

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

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

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

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

SCOPE AND METHODOLOGY

The Maryland State Board of Elections received the initial Grant funds in 2003. The period May 1, 2003 through December 31, 2005 has been previously audited by the EAC-OIG and that activity was not considered in the scope of this audit.

The Maryland State Board of Elections received Grant Funds in the following amounts:

	<u>May 1, 2003 to September 30, 2015</u>	<u>May 1, 2003 to December 31, 2005</u>	<u>January 1, 2006 to September 30, 2015</u>
HAVA Section 101	\$ 5,636,731	\$ 5,636,731	\$ -
HAVA Section 102	1,637,609	1,637,609	-
HAVA Section 251	42,455,017	37,270,291	5,184,726

State matching fund contributions and expenditures required for Section 251 funds received between January 1, 2006 and September 30, 2015 were determined to be \$272,880.

Based upon the accounting system records provided by the Maryland State Board of Elections, total expenditures of Grant Funds during the January 1, 2006 through September 30, 2015 period was \$30,423,095. As noted in finding 2, the FFR submission were not be supported by the accounting records reviewed. Therefore, the accounting system records are not necessarily representative of the true expenditures during the audit period.

The scope of this audit also included consideration of Program Income, however, because of the inadequacy of the accounting records, a determination of those revenues for the audit period could not be made.

AUDIT RESULTS

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

Based on the audit procedures performed, except for the matters discussed below, we concluded that the Office accounted for and expended the HAVA funds in accordance with the requirements mentioned above for the period from January 1, 2006 through September 30, 2015. The exceptions to applicable compliance requirements are described below.

Finding No. 1 – Documentation of Policies and Procedures

Key internal control policies affecting financial management activities including equipment management, Federal financial reporting and Federal grant oversight and administration, had not

been addressed in policy and procedure documentation. The Maryland State Board of Election (Office) relied heavily on written documentation set forth in State manuals, and electronic controls implemented in the accounting system.

Federal regulations, specifically 41 CFR § 105-71.120 –*Standards for Financial Management Systems* require that:

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

The Comptroller of Maryland, Internal Control Manual states, "The agency head must establish controls that reasonably ensure that: (i) obligations and costs are in compliance with applicable law; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

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

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

Recommendation

We recommend that the EAC resolve with the Office the adequacy of the internal policies. Specifically, internal policies and procedures should address financial management activities including equipment management, Federal financial reporting and Federal grant oversight and administration. Additionally, the EAC should require the Office to provide training to personnel involved in the administration of Federal awards to ensure the understanding of the new policies. Further, these procedures should be reviewed and updated on a regular basis.

State Board of Elections' Response:

SBE consistently followed and continues to follow State of Maryland's financial management, procurement, inventory, and record retention policies and procedures. In response to this audit, however, SBE supplemented these policies and procedures to include applicable federal requirements and will provide the revised policies and procedures to the EAC. SBE staff members will attend the State's annual grant training conference to ensure that SBE's policies and procedures reflect the latest federal requirements.

Auditor’s Response:

The response provides for appropriate corrective action. The Commission should ensure that the supplemental policies and procedures fully resolve the deficiencies identified.

Finding No. 2 – Financial Reporting

The Office submitted financial reports for Section 101, Section 102 and Section 251 funds that could not be supported by underlying accounting records.

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

Section 101, 102 and 251

The Office was not able to provide financial records with adequate detail to separate expenditures between Section 101, 102 and 251. Therefore, the audit has combined the amounts in order to perform an analysis of Election Fund activity.

Federal Funds Authorized - The Office's latest Federal Financial Report (FFR) submission of the Section 101, 102 and 251 funds were done for the periods ending September 30, 2009, September 30, 2012 and September 30, 2015, respectively. The amount of federal funds authorized, did not agree to disbursement records provided by the General Services Administration (GSA). The discrepancies noted are as follows:

	<u>FFR Reported</u>	<u>GSA Records</u>	<u>Variance</u>
Section 101	\$ 5,636,731	\$ 5,636,731	\$ -
Section 102	1,637,609	1,637,609	-
Section 251	<u>47,639,743</u>	<u>47,663,156</u>	<u>(23,413)</u>
Total Authorized	<u>\$ 54,914,083</u>	<u>\$ 54,937,496</u>	<u>\$ (23,413)</u>

Federal Expenditures - The amount of federal expenditures, did not agree to the accounting records. Additionally, the accounting records were not kept with sufficient detail to determine whether the expenditures were related to Section 101, Section 102 or Section 251. The discrepancies noted are as follows:

	FFR Reported	Maryland Accounting Records	Variance
Section 101	\$ 5,528,847	\$ -	\$ 5,528,847
Section 102	1,637,609	-	1,637,609
Section 251	47,639,743	-	47,639,743
Fund 105	-	49,632,515	(49,632,515)
Fund 106	-	3,177,286	(3,177,286)
Total Expenditures	<u>\$ 54,806,199</u>	<u>\$ 52,809,801</u>	<u>\$ 1,996,398</u>

Recipient Share - The amount of total recipient share required did not agree to GSA records. The discrepancies noted are as follows:

	FFR Reported	GSA Records	Variance
Total recipient share required	\$ 2,507,356	\$2,508,588	\$ (1,232)

Additionally, the Office did not provide a transaction detail to support the recipient share of expenditures reported. The amounts reported are as follows:

	FFR Reported
Section 101	\$ 1,946,189
Section 251	29,756,998
Recipient share of expenditures	<u>\$ 31,703,187</u>

Program Income - The Office did not provide a transaction detail to support the amount of program income earned reported on the FFR. The amounts reported are as follows:

	FFR Reported
Section 101	\$ 875,980
Section 102	51,353
Section 251	3,888,041
Total Federal program income earned	<u>\$ 4,815,374</u>

Additionally, the Office did not provide a transaction detail for program income expended. The amounts reported are as follows:

	FFR Reported
Section 101	\$ 549,875
Section 102	51,353
Section 251	<u>3,888,041</u>
Total Program Income expended	<u>\$ 4,489,269</u>

The Office has not attempted to provide a reconciliation between the submitted financial reports and the accounting records, further the Office has not provided a transaction detail for program income or recipient share.

Recommendation:

We recommend that the EAC require the Office to perform a reconciliation of their accounting records to the submitted financial reports to ensure that all expenditures, matching contributions and program income earned have been fully disclosed and have been adequately tracked in the State’s accounting system.

State Board of Elections’ Response:

SBE agrees that there are variances between financial records and the required Federal Financial Reports (FFR), but SBE has since reconciled some of the variances and has a corrective action plan for the remaining variances.

1. *Federal Funds Authorized:* SBE failed to include in the FFR submission for 2012 the 2012 disbursement of federal funds (\$23,413). SBE will amend the 2012 and subsequent FFR submissions, and this amendment will resolve the variance in the amount of federal funds disbursed and received.
2. *Federal Expenditures:* SBE provided the auditor with revised federal expenditures, but the revisions were not included in the audit report. Using the revised expenditures, the variance decreased from \$1,996,398 to \$547,974.58. This variance is the result of discrepancies and omissions in the FFR submissions and varying reporting periods (e.g., federal fiscal year versus calendar year). SBE will amend the FFR submissions, and these amendments will resolve the remaining variance.
3. *Recipient Share:* SBE failed to include the 5% match for the 2012 disbursement of federal funds. (The amount of the match is \$1,231.51, the same amount of the reported variance.) SBE will amend the 2012 FFY submission to include the 5% match amount.
4. *Program Income:* SBE identified a discrepancy in previously submitted reports and it appears that the change in how interest was reported (cumulative interest on SF 269 to interest earned in the reporting period on FFR 425) impacted the reconciliation. SBE will amend FFR submissions to reflect the program income earned and spent.

The audit reports states that SBE did not provide transaction details to support certain information. The State's financial management system maintains detailed information for five years, but since the information requested during this audit ranged from 6 to 11 years ago, detailed information was and continues to be difficult to obtain.

SBE will share with the EAC its reconciliations and amend the FFR submissions. The amended submissions will resolve all of the variances identified in the audit report.

Auditor's Response:

The response provides for appropriate corrective action except for the detail involving information from 6 to 11 years ago. The Commission should consider the revised submissions to ensure that they accurately portray the source and use of Section 101, 102 and 251 funds.

Finding No. 3 – Inadequate Equipment Management

The Office's equipment management is inadequate for the maintenance of property records.

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

The Office does not have documented policies regarding the maintenance of the equipment listing. The inventory listing provides a column for all required details with the exception of who holds the title, use and condition of the property and disposition data. The inventory listing does not adequately track the percentage of Federal participation in the cost of the property, therefore, the audit was not able to reconcile property purchased with federal funds per the financial records to property recorded on the inventory listing.

The Office was not compliant with federal and state regulations requiring property records to include who holds the title, disposition data, use and condition, and Federal participation in the cost of the property. The deficiencies in equipment management result from the Office not implementing adequate internal policies regarding the maintenance of a fixed asset inventory listing.

Recommendation

We recommend that EAC resolve with the Office the adequacy of the Office's formalized policies and procedures regarding inventory management. Additionally, the EAC should review the Office's inventory system to ensure all fields are populated with the required data for assets purchased with Federal funds.

State Board of Elections' Response:

During the audit, the auditor reviewed SBE's prior inventory reports and verified that SBE accounted for its equipment. Since the auditor's recommendations were limited to improving inventory documentation and recordkeeping, this finding confirms that SBE performed the required inventories and accounted for equipment purchased with federal funds.

Over the last several years, SBE has diligently worked to identify the inventory issues identified with its previous inventory system and procedures. This led to the procurement and implementation of the new inventory system. While the prior inventory system was sufficient to store most of the inventory data required, the new system improves the efficiency of the inventory process and will include all of the fields required by State and federal inventory rules.

SBE is in the final phase of implementing the new inventory management system. The system customization is almost complete, the equipment records have been converted, and the data fields for each equipment record are being updated. SBE is also establishing and documenting policies and procedures for adding, transferring, retiring, reporting, and other aspects of asset management for all users of the new inventory system. SBE will provide the EAC with the data dictionary for the new inventory system, any requested reports, and, when completed, its written inventory policies and procedures.

Auditor's Response:

The response provides for a description of an appropriate inventory system to be responsive to the recommendation. The Commission should evaluate that system to ensure that it is fully responsive to the inventory requirements.

Finding No. 4 – Unallowable Costs

Certain expenditures were not supported by invoices and contracts to support the allowability of the expenditures.

Office of Management and Budget Circulars and Guidance, Cost Principles for State, Local, and Indian Tribal Governments 2 CFR § 225, Appendix A.C.1.j states, "To be allowable under Federal awards, costs must meet the following general criteria: (j) Be adequately documented."

The *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* 41 CFR § 105-71.120 (b)(6) (The "Common Rule") section states that, "Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contracts and subgrant award documents, etc."

The audit sampled 38 non-payroll transactions and 15 payroll transactions. The audit identified the following issues and discrepancies:

- 2 of the 38 non-payroll transactions were missing a contract or were not identified as not having a contract to ensure that the costs were charged in accordance with the contract agreement.
- 11 of the 38 non-payroll transactions were missing an invoice to provide the detail of the costs incurred.
- 15 of the 38 non-payroll transactions were missing either a payment voucher and/or an approved purchase order to indicate that the costs were properly approved when procured or when paid.
- 20 of the 38 non-payroll transactions were missing sufficient evidence regarding final work product or deliverables that provide the allowability of the transaction.
- 11 of 15 payroll transactions were not supported by an approved pay rate document.

Based on the discrepancies above the audit has determined that there were 20 non-payroll transactions and 11 payroll transactions reviewed that did not have sufficient evidence to support that the cost were allowable to HAVA grants. This resulted in \$14,352,212 in unsupported non-payroll costs and \$27,119 in unsupported payroll costs.

Recommendation:

We recommend that the EAC address and resolve the following recommendations that the Office:

- (a) Transfer to the election fund \$14,379,331 for the unsupported costs cited above.
- (b) Develop and implement policies and procedures regarding maintenance of supporting source documentation for all Federal expenditures incurred.

State Board of Elections' Response:

During the audit, there were delays in finding some of the requested documents, in part due to a State law that requires that voting system expenses be shared equally between the State and the local jurisdictions. When the auditor requested documents related to a federal fund expenditure of a certain amount (for example, \$25,000), SBE records reflect the full amount of the invoice (\$50,000), not just SBE's share. Because the requested amount differed from the actual amount, finding the supporting documents for the requested expenditures were challenging. SBE has since located relevant documents that resolve \$3.5 million and will provide them to the EAC for their review.

The majority of the expenditures without invoices or purchase orders – over \$10.2 million – are payments SBE made to the State Treasurer's Office (STO). When the State purchased a HAVA-

compliant voting system in 2003, the State Treasurer financed the purchase. Under the binding agreement with STO, SBE agreed to repay the STO's loan in semi-annual payments over five years. On each payment date, the STO electronically transferred funds from SBE into the State Treasury. There were no invoices from STO for SBE to pay; it was an automatic, electronic transfer. SBE has a copy master equipment lease-purchase agreement and payment schedule and will provide it to the EAC¹.

SBE was unable to obtain the personnel records necessary to support the approved pay rate for 11 transactions. Although the State's personnel system no longer has records from 2006- 2008, SBE has copies of official personnel documents showing the pay rate for the employees whose salaries were paid using federal funds. SBE will provide these documents to the EAC.

While SBE concurs that SBE did not retain the appropriate financial or payroll records, SBE disagrees with the recommendation that the funds be returned to the election fund. Each of these expenditures was allowable, and individuals with knowledge of these transactions can attest to the contracts and services provided under these contracts.

Auditor's Response:

The response provides for general response for the various concerns noted in the finding. Without detail of the specific items, the audit provides no additional comment. The Commission should evaluate the detail of the various compliance matters discussed in the finding. SBE does concur that the support for the payroll record is not available for support of those transactions.

Finding No. 5 – Maintenance of Expenditure

The Office did not exceed the maintenance of expenditure during fiscal year 2006.

HAVA Section 254(a)(7) requires the State Plan to describe "How the State, in using the requirements payment, will maintain the expenditures of the State for activities funded by the payment at a level that is not less than the level of such expenditures maintained by the State for the fiscal year ending prior to November 2000."

The State Plan indicated that the State of Maryland will maintain expenditures of the State for activities funded by the payment at a level equal to or greater than the level of such expenditures in State FY 2000 – a total of \$1,994,914. This amount represents the amount of money paid in fiscal year 2000 for the statewide voter registration system and an allocation of all other State Board of Election expenditures made in fiscal year 2000.

The baseline maintenance of expenditure was exceeded every year from fiscal year 2006 through 2015 with the exception of fiscal year 2006. The state expended \$1,226,366 during fiscal year 2006, this resulted in \$768,548 less than the required level of expenditure of state funds.

¹ Since the binding agreement with the STO was in effect in 2006, SBE assumes that the EAC's previous auditors reviewed this agreement any payment schedule in its 2006 audit of HAVA funds.

Recommendation:

We recommend the EAC require the Office to:

- (a) Evaluate the baseline established for maintenance of expenditure to ensure that those expenditures included in the baseline are consistent with the maintenance of expenditure policy established by the EAC in June 2010.
- (b) Implement procedures to ensure that the maintenance of expenditure is exceeded each year.

State Board of Elections' Response:

While SBE concurs that the State did not meet its maintenance of effort in fiscal year 2006, budget instructions from the State's Department of Budget and Management specified the maximum amount of general funds that could be included in SBE's fiscal year 2006 budget. This reduced the budget target was the result of a shortfall of general funds and prevented SBE from including general funds to meet the maintenance of effort requirement in fiscal year 2006.

In each year prior to and after fiscal year 2006, the State exceeded the maintenance of effort amount. From federal fiscal year 2006 through federal fiscal year 2012, the State's maintenance of effort payments exceeded \$28.2 million, which exceeds the State's minimum maintenance of effort by 49%.

SBE will provide the EAC with documents showing how SBE's maintenance of effort was calculated. This documentation was reviewed during the prior EAC audit and found to be sufficient. During the annual budget preparation, SBE will review proposed expenditures to verify that the maintenance of effort can be met. As part of SBE's monthly expenditure review, SBE will review expenditures and verify that the maintenance of effort is being met throughout each fiscal year.

Auditor's Response:

The response concurs with the issue involving the 2006 Maintenance of Effort concerns. The Commission should review the information that the SBE indicates is available regarding the support for the Maintenance of Effort calculation.

We provided a draft of our report to the appropriate individuals of the Maryland State Board of Elections. We considered any comments received prior to finalizing this report.

The Office responded on August 31, 2017 and generally agreed with the report's findings and recommendations. The EAC responded on July 26, 2017 and stated they will work with the State Board of Elections to ensure appropriate corrective action. The Office's complete response is included as Appendix A-1 and the EAC's complete response as Appendix A-2.

McBride, Lock & Associates, LLC performed the related audit procedures between July 22, 2016 and July 14, 2017.

(Original Signed by McBride, Lock & Associates, LLC)

McBride, Lock & Associates, LLC
July 14, 2017

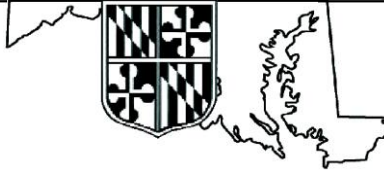
APPENDIX A-1

Response of the Maryland Secretary of State to the Draft Report

STATE BOARD OF ELECTIONS

P.O. BOX 6486, ANNAPOLIS, MD 21401-0486 PHONE (410) 269-2840

David J. McManus, Jr., Chairman
Patrick J. Hogan, Vice Chairman
Michael R. Cogan
Kelley A. Howells
Gloria Lawlah



Linda H. Lamone
Administrator

Nikki Charlson
Deputy Administrator

August 31, 2017

Via Electronic Mail Only

Patricia L. Layfield
Inspector General
U.S. Election Assistance Commission
1335 East-West Highway, Suite 4300
Silver Spring MD 20910

Dear Ms. Layfield:

Thank you for the opportunity to respond to the draft report entitled *Performance Audit Report – Administration of Payments Received Under the Help America Vote Act by the Maryland State Board of Elections* and dated May 2017.

Finding No. 1 – Documentation of Policies and Procedures

SBE consistently followed and continues to follow State of Maryland’s financial management, procurement, inventory, and record retention policies and procedures. In response to this audit, however, SBE supplemented these policies and procedures to include applicable federal requirements and will provide the revised policies and procedures to the EAC. SBE staff members will attend the State’s annual grant training conference to ensure that SBE’s policies and procedures reflect the latest federal requirements.

Finding No. 2 – Financial Reporting

SBE agrees that there are variances between financial records and the required Federal Financial Reports (FFR), but SBE has since reconciled some of the variances and has a corrective action plan for the remaining variances.

1. *Federal Funds Authorized:* SBE failed to include in the FFR submission for 2012 the 2012 disbursement of federal funds (\$23,413). SBE will amend the 2012 and subsequent FFR submissions, and this amendment will resolve the variance in the amount of federal funds disbursed and received.
2. *Federal Expenditures:* SBE provided the auditor with revised federal expenditures, but the revisions were not included in the audit report. Using the revised expenditures, the variance decreased from \$1,996,398 to \$547,974.58. This variance is the result of discrepancies and omissions in the FFR submissions and varying reporting periods (*e.g.*, federal fiscal year versus calendar year). SBE will amend the FFR submissions, and these amendments will resolve the remaining variance.

3. *Recipient Share:* SBE failed to include the 5% match for the 2012 disbursement of federal funds. (The amount of the match is \$1,231.51, the same amount of the reported variance.) SBE will amend the 2012 FFY submission to include the 5% match amount.
4. *Program Income:* SBE identified a discrepancy in previously submitted reports and it appears that the change in how interest was reported (cumulative interest on SF 269 to interest earned in the reporting period on FFR 425) impacted the reconciliation. SBE will amend FFR submissions to reflect the program income earned and spent.

The audit reports states that SBE did not provide transaction details to support certain information. The State's financial management system maintains detailed information for five years, but since the information requested during this audit ranged from 6 to 11 years ago, detailed information was and continues to be difficult to obtain.

SBE will share with the EAC its reconciliations and amend the FFR submissions. The amended FFR submissions will resolve all of the variances identified in the audit report.

Finding No. 3 – Inadequate Equipment Management

During the audit, the auditor reviewed SBE's prior inventory reports and verified that SBE accounted for its equipment. Since the auditor's recommendations were limited to improving inventory documentation and recordkeeping, this finding confirms that SBE performed the required inventories and accounted for equipment purchased with federal funds.

Over the last several years, SBE has diligently worked to identify the inventory issues identified with its previous inventory system and procedures. This led to the procurement and implementation of the new inventory system. While the prior inventory system was sufficient to store most of the inventory data required, the new system improves the efficiency of the inventory process and will include all of the fields required by State and federal inventory rules.

SBE is in the final phase of implementing the new inventory management system. The system customization is almost complete, the equipment records have been converted, and the data fields for each equipment record are being updated. SBE is also establishing and documenting policies and procedures for adding, transferring, retiring, reporting, and other aspects of asset management for all users of the new inventory system. SBE will provide the EAC with the data dictionary for the new inventory system, any requested reports, and, when completed, its written inventory policies and procedures.

Finding No. 4 – Unallowable Costs

During the audit, there were delays in finding some of the requested documents, in part due to a State law that requires that voting system expenses be shared equally between the State and the local jurisdictions. When the auditor requested documents related to a federal fund expenditure of a certain amount (for example, \$25,000), SBE records reflect the full amount of the invoice (\$50,000), not just SBE's share. Because the requested amount differed from the actual amount, finding the supporting documents for the requested expenditures were

challenging. SBE has since located relevant documents that resolve \$3.5 million and will provide them to the EAC for their review.

The majority of the expenditures without invoices or purchase orders – over \$10.2 million – are payments SBE made to the State Treasurer’s Office (STO). When the State purchased a HAVA-compliant voting system in 2003, the State Treasurer financed the purchase. Under the binding agreement with STO, SBE agreed to repay the STO’s loan in semi-annual payments over five years. On each payment date, the STO electronically transferred funds from SBE into the State Treasury. There were no invoices from STO for SBE to pay; it was an automatic, electronic transfer. SBE has a copy master equipment lease-purchase agreement and payment schedule and will provide it to the EAC¹.

SBE was unable to obtain the personnel records necessary to support the approved pay rate for 11 transactions. Although the State’s personnel system no longer has records from 2006-2008, SBE has copies of official personnel documents showing the pay rate for the employees whose salaries were paid using federal funds. SBE will provide these documents to the EAC.

While SBE concurs that SBE did not retain the appropriate financial or payroll records, SBE disagrees with the recommendation that the funds be returned to the election fund. Each of these expenditures was allowable, and individuals with knowledge of these transactions can attest to the contracts and services provided under these contracts.

Finding No. 5 – Maintenance of Expenditures

While SBE concurs that the State did not meet its maintenance of effort in fiscal year 2006, budget instructions from the State’s Department of Budget and Management specified the maximum amount of general funds that could be included in SBE’s fiscal year 2006 budget. This reduced the budget target was the result of a shortfall of general funds and prevented SBE from including general funds to meet the maintenance of effort requirement in fiscal year 2006.

In each year prior to and after fiscal year 2006, the State exceeded the maintenance of effort amount. From federal fiscal year 2006 through federal fiscal year 2012, the State’s maintenance of effort payments exceeded \$28.2 million, which exceeds the State’s minimum maintenance of effort by 49%.

SBE will provide the EAC with documents showing how SBE’s maintenance of effort was calculated. This documentation was reviewed during the prior EAC audit and found to be sufficient. During the annual budget preparation, SBE will review proposed expenditures to verify that the maintenance of effort can be met. As part of SBE’s monthly expenditure review, SBE will review expenditures and verify that the maintenance of effort is being met throughout each fiscal year.

¹ Since the binding agreement with the STO was in effect in 2006, SBE assumes that the EAC’s previous auditors reviewed this agreement and payment schedule in its 2006 audit of HAVA funds.

If you have any questions, please feel free to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Linda H. Lamone".

Linda H. Lamone
State Administrator

APPENDIX A-2

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



EAC RESPONSE TO THE DRAFT AUDIT:

OIG Performance Audit Report on the Administration of Payments Received Under the Help America Vote Act by the Maryland State Board of Elections for the Period January 1, 2006 through September 30, 2015.

July 26, 2017

MEMORANDUM

To: Patricia Layfield, Inspector General

From: Brian Newby, Executive Director

Subject: Draft Performance Audit Report – “Administration of Payments Received under the Help America Vote Act by the Maryland State Board of Elections.

Thank you for this opportunity to review and respond to the draft audit report for the Maryland State Board of Elections.

The Election Assistance Commission (EAC) appreciates the auditor’s detailed findings and recommendations outlined in the draft audit report and will work with the Secretary’s Office to ensure appropriate corrective actions are taken in a timely and complete manner.

BN

APPENDIX B

Audit Methodology

AUDIT METHODOLOGY

Our audit methodology included:

- Assessing audit risk and significance within the context of the audit objectives.
- Obtaining an understanding of internal control that is significant to the administration of the HAVA funds and of relevant information systems controls as applicable.
- Identifying sources of evidence and the amount and type of evidence required.
- Determining whether other auditors have conducted, or are conducting, audits of the program that could be relevant to the audit objectives.

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

- Interviewed appropriate Office employees about the organization and operations of the HAVA program.
- Reviewed prior 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.
- Analyzed the inventory lists of equipment purchased with HAVA funds.
- Tested major purchases and the supporting documentation.
- Tested randomly sampled payments made with HAVA funds.
- Evaluated compliance with the requirements for accumulating financial information reported to the Commission on the financial status reports and progress reports, accounting for property, purchasing HAVA related goods and services, and accounting for salaries.
- Verified the establishment and maintenance of an election fund.
- Verified the State expenditures met the Maintenance of Expenditures requirement
- Conducted site visits of selected counties to observe physical security/safeguard of equipment purchased with HAVA funds and ensure compliance with federal regulation.
- Verified that the matching requirement was timely met and matching expenditures met the prescribed criteria and allowability requirements of HAVA.
- Verified program income was properly accounted for and not remitted to the State's general fund.

APPENDIX C

Monetary Impact

MONETARY IMPACT AS OF SEPTEMBER 30, 2015

Description	Questioned Costs	Additional Funds for Program
Unsupported Costs	\$ 14,379,331	\$ -