



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

**FINAL REPORT:**

**ADMINISTRATION OF PAYMENTS  
RECEIVED UNDER THE HELP AMERICA  
VOTE ACT BY THE VERMONT SECRETARY  
OF STATE**

**APRIL 10, 2003 THROUGH SEPTEMBER 30, 2015**

**Report No.  
E-HP-VT-03-16  
August 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: August 1, 2017

Subject: Final Performance Audit Report - Administration of Payments Received  
Under the Help America Vote Act by the Vermont Secretary of State  
(Assignment Number E-HP-VT-03-16)

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 Vermont Secretary of State (VTSOS).

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 April 10, 2003 through September 30, 2015. However the following exceptions were identified:

1. The Office allocated indirect costs on a base other than the base indicated by the approved indirect cost agreement.
2. The Office was not able to provide support for the baseline maintenance of expenditure calculation.
3. The Office did not adequately support all salaries and wages charged to the grant award.
4. The Office's equipment management is inadequate in regards to the maintenance of property records and the performance of a physical observation of inventory.
5. The Office did not provide documentation of a competitive bidding process for the procurement of equipment.

6. The Office expended \$54, 112 of HA VA funds for purposes that are not allowable under the award's terms and conditions or HA VA regulations.
7. The Office did not provide adequate documentation to support allowability for certain expenditures.

In the report, McBride, Lock & Associates, LLC summarized the VTSOS response to the reported recommendations, as well as their comments on the responses after the recommendations. The VTSOS office generally agreed with the findings and recommendations. The EAC indicated that it would work with the VTSOS to resolve the issues in the report. The VTSOS complete 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 to the findings and recommendation 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 Vermont Secretary of State**

Prepared for

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

By

**McBride, Lock & Associates, LLC**

April 2017

**McBRIDE, LOCK & ASSOCIATES, LLC**

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CERTIFIED PUBLIC ACCOUNTANTS  
KANSAS CITY

**Performance Audit Report  
Administration of Payments Received Under the Help America Vote Act by  
the Vermont Secretary of State**

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**U.S. Election Assistance Commission  
Performance Audit Report  
Administration of Payments Received Under the Help America Vote Act by  
the Vermont 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 Vermont Secretary of State's Office (Office) from inception on April 15, 2003 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 April 15, 2003 through September 30, 2015. The exceptions are as follows:

1. The Office allocated indirect costs on a base other than the base indicated by the approved indirect cost agreement.
2. The Office was not able to provide support for the baseline maintenance of expenditure calculation.
3. The Office did not adequately support all salaries and wages charged to the grant award.
4. The Office's equipment management is inadequate in regards to the maintenance of property records and the performance of a physical observation of inventory.
5. The Office did not provide documentation of a competitive bidding process for the procurement of equipment.
6. The Office expended \$54,112 of HAVA funds for purposes that are not allowable under the award's terms and conditions or HAVA regulations.
7. The Office did not provide adequate documentation to support allowability for certain expenditures.

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 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 Vermont Secretary of State**

The HAVA funds were awarded to the Vermont Secretary of State. The Elections Division guides the administration of Vermont's elections, works to protect the integrity of the democratic process, assists in the registration of voters, oversees campaign finance reporting, and implements Vermont's lobbyist disclosure laws. Elections in Vermont are administered at the local level. The Elections Division works closely with Town, City and County clerks across Vermont to ensure the smooth administration of Vermont's local, state, and federal elections. The Elections Division provides guidance on the election law, provides supplies that are fundamental to carrying out elections, and is a resource before and on election day to help election officials with any emergencies or routine questions that may arise.

### **Help America Vote Act State of Vermont State Plan**

The State of Vermont's advisory committee consisted of 14 individuals representing a cross section of election stakeholders. The committee was selected by the Chief Elections Officer and the Secretary of State.

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 Secretary of State 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 Office has managed all expenditures funded by HAVA and has not distributed any of the requirements 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

We audited the Grant funds received and disbursed by the Office from April 15, 2003 through September 30, 2015 as shown in the following table:

Description	HAVA Section 101	HAVA Section 102	HAVA Section 251	Total
Funds Received from EAC	\$ 5,000,000	\$ -	\$ 12,453,257	\$ 17,453,257
State Matching Funds	-	-	702,438	702,438
Program Income	580,051	-	2,488,486	3,068,537
Total Funds	\$ 5,580,051	\$ -	\$ 15,644,181	\$ 21,224,232
Less Disbursements	(5,580,051)	-	(5,754,596)	(11,334,647)
Fund Balance	\$ -	\$ -	\$ 9,889,585	\$ 9,889,585

## 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 April 15, 2003 through September 30, 2015. The exceptions to applicable compliance requirements are described below.

### **Finding No. 1 – Indirect Cost Allocation**

The Vermont Secretary of State (Office) allocated indirect costs on a base other than the base indicated by the approved indirect cost agreement.

The indirect cost agreements negotiated by the Office with the EAC and HHS indicates the base to apply indirect costs is “Total Direct Costs excluding capital expenditures (buildings, individual items of equipment; alterations and renovations).”

*Office of Management and Budget Circulars and Guidance, Cost Principles for State, Local, and Indian Tribal Governments* 2 CFR § 225, Appendix E.C.2.(b) states, “Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs”.

The Office negotiated indirect cost rate agreements for the fiscal years 2006 through 2015. The agreements were approved by EAC and HHS. The Office charged \$1,827,022 of indirect costs to the HAVA award as of September 30, 2015. The base and capital expenditures were provided to us by the Office. The maximum indirect costs allowable was calculated by audit under the

approved agreements for each year for the years 2006 through 2015. Based upon this calculation, the Office charged indirect costs in excess of the allowable amount for the fiscal years 2007, 2008, 2010, 2012, 2013, 2014 and 2015 by a total amount of \$424,695. The Office charged less than the allowable amount for the fiscal years 2006, 2009 and 2011 by a total amount of \$268,893.

The Office's procedure for charging indirect costs to the HAVA award has been to use an estimated rate from the beginning of the State's fiscal year up until the date the Indirect Cost Agreement is approved. Once the rate is approved, the Office uses the approved rate until the end of the fiscal year. The base used to apply the rates was administrative expenses rather than total direct costs excluding capital expenditures.

### **Recommendation**

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

- (a) Review the calculation provided by the audit of the maximum indirect costs allowable.
- (b) Transfer \$155,802 to the election fund, which is the calculated amount of Indirect Costs charged in excess of the allowable amount.
- (c) Implement procedures to ensure indirect costs are charged in accordance with the negotiated indirect cost agreement and federal regulations.

### **Secretary of State Response:**

We have reviewed the calculation provided by the audit of the maximum indirect costs allowable for the period 6-30-2006 thru 6-30-2015. The IDC worksheets we provided to the Auditors for FFY14 and FFY15 were overstated as they included direct capital costs. The approved IDC rate for both years did not include direct capital costs, and the modified rate from the Agency of Health & Human Services reflected this, and was applied correctly in the auditor's worksheets.

On July 1, 2015, recognizing that the IDC charged to the election fund from SFY06 thru SFY2015 were in excess of the allowable amount, we reduced the IDC rate from 17.0 to 9.32. The IDC of 9.32% has been applied for SFY16 and SFY17 (see "speedcharts" Fund 7/1/2015 & 7/1/2015). We will continue to review and revise the IDC rate as needed to ensure the elections fund is appropriately charged.

Procedures have been implemented to ensure indirect costs are charged in accordance with the negotiated indirect cost agreement and federal regulations.

### **Auditor's Response:**

The Secretary of State's response provides additional information pertaining to the indirect costs claimed. However, the information does not modify the original position of the audit.

## **Finding No. 2 – Maintenance of Expenditure**

The Office was not able to provide support for the baseline maintenance of expenditure calculation.

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 Vermont will continue to fund the election system at or above the level required by HAVA. The Office established the maintenance of expenditure as \$150,000. Per the state plan, this amount represented the amount expended by the state for the Election Division during fiscal year 2000.

The Office was not able to provide support for this amount, therefore it could not be determined that the maintenance of expenditure was properly established.

The Office used the amount of budget and expenditures for the Elections Division budget to determine the base for Maintenance of Effort. The current officials at the Office have not been able to locate the budget and expenditure information for that time period.

### **Recommendation:**

We recommend the EAC require the Office to evaluate the baseline established for the 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.

### **Secretary of State Response:**

We have not been able to locate the election division expenditures for SFY 2000 either in copy or electronic format. We contacted the Vermont Department of Finance & Management (DFM) to determine if the SFY2000 expenditures were available. Unfortunately, the oldest fiscal year the DFM has is SFY2001.

### **Auditor’s Response:**

The Secretary of State’s response does not provide any additional information. Therefore, there is no modification to the original position of the audit.

### **Finding No. 3 – Inadequate Payroll Documentation**

The Office had seven instances of not having adequate support of salaries and wages.

*Office of Management and Budget Circulars and Guidance, Cost Principles for State, Local, and Indian Tribal Governments* 2 CFR § 225, Appendix B.8.h.(3) states that “Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.”

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.”

The sample selection of eight payroll transactions found that in three instances the employee did not have an adequate work effort certification. In all of the instances, the employee worked on a single Federal award. The Office uses timesheets to document effort but the time sheet does not separately identify work effort by federal award. The effort is tracked as regular hours or administrative hours. In four instances, the Office did not maintain any support documentation for the transactions described.

Of the \$112,193 of salary costs reviewed \$70,346 (63%) was determined to be unsupported.

Effort allocations are determined by work title. There is no semi-annual certification for those employees whose time was allocated 100% to HAVA. Until May 2013, the Office used an exception based timekeeping system which did not allow for project reporting. The current electronic timesheet also does not allow for project reporting.

### **Recommendation**

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

- (a) Transfer into the election fund \$70,346 for the questioned salary charges, the related fringe benefits and the applicable indirect costs.

- (b) Implement written policies and provide training to ensure that employees who expend efforts on Federal activities accurately record their time in accordance with Federal Regulations.

**Secretary of State Response:**

Although we did not have the proper certification either written or via timesheets for the period tested, the Elections Administrator has worked solely on HAVA EAC allowable activities for her entire employment period. We do not believe it is appropriate to charge us for not reporting properly when we were following the intent and use of HAVA EAC requirements. The Auditors provided us with language for a semi-annual certification. Please note the attached semi-annual certifications from November 11, 2011 (date of employment), thru December 31, 2016. The originals of the semi-annual certifications are being retained in the employee's personnel file.

We have implemented a policy and procedure to ensure employees who expend efforts on Federal activities accurately record their time in accordance with Federal Regulations.

**Auditor's Response:**

The Secretary of State's response does provide certifications that would be relevant to the salary costs in question. We recommend EAC evaluate the submitted documentation to determine whether it meets allowable criteria.

**Finding No. 4 – Inadequate Equipment Management**

The Office's equipment management is inadequate in regards to the maintenance of property records and the performance of a physical observation of inventory.

*The Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* 41 CFR 105-71.132 (d), (the Common Rule) states that, "Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements: (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 data of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years."

The majority of equipment over the capitalization threshold that was charged to the HAVA award is voting tabulators. The vendor maintains an inventory of this equipment as part of the maintenance agreement on the equipment with the Office. The inventory listing provided did not list the following required items: source of property, cost of property, percentage of Federal participation, and the use and condition of property. The Office provided an inventory listing that included computer servers which were purchased over the capitalization threshold. The

inventory listing provided did not list the following required items: source of property, percentage of Federal participation, use and condition of property, and any ultimate disposition data including the date of disposal and sale price of property. Additionally, the Office could not provide documentation that an inventory was performed at least every two years.

The Office recently documented internal controls over equipment and software purchased with federal funds to ensure the adequate safeguarding of assets, including the performance of an annual physical observation of inventory. However, these controls were not in place during the audit period.

### **Recommendation**

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

- (a) Implement the recently documented policies and procedures regarding inventory management and the conduct of an annual physical observation of inventory.
- (b) Fully populate the required data in the inventory system for assets purchased with Federal funds.
- (c) Document the conduct of the annual physical observation of inventory.

### **Secretary of State Response:**

We have implemented the policies and procedures regarding inventory management and do have an annual physical observation of inventory. The State of Vermont uses a PeopleSoft financial application referred to as "VISION". Within VISION is a fixed asset module where the information noted above is entered annually.

An inventory has been performed every year in VISION (I am not certain when this was initiated as a statewide effort). Since FY2014 we have been fully populating the fixed asset module. We will verify and update any missing information relating to Federal funds. We will also work with LHS Associates regarding the tabulator inventory and missing information to ensure we are in compliance with federal guidelines.

The annual physical observation inventory is documented in VISION.

### **Auditor's Response:**

We commend the Secretary of State for establishing the current system.

## **Finding No. 5 – Procurement Procedures**

The Office did not provide competitive bidding documentation for three of seven equipment purchases tested.

The *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* 41 CFR § 105-71.136 (a) (the “Common Rule”) states that, “When procuring property and services under a grant, a State will allow the same policies and procedures it uses for procurements from its non-Federal funds.”

The Office follows State of Vermont Agency of Administration Bulletin No. 3.5, Contracting Procedures. The Bulletin requires competitive bidding using a standard or simplified bid process for contracts over \$15,000 and the standard bid process for contracts over \$100,000. A sole source contract may be made under certain circumstances and must be properly approved.

Three of seven equipment purchases tested were not supported with documentation of competitive bidding or documentation of an approved sole source contract. These transactions represent \$295,478 of expenditures.

Procuring all contractual services and goods through full and open competition helps prevent misuse of federal funds and responsible bidders are selected for goods and services needed for HAVA purposes.

Documentation of competitive bidding was not maintained in a manner that it could be provided to the auditors.

### **Recommendation**

We recommend that EAC require the Office to substantiate that the equipment purchased was done through a competitive bidding process or properly obtained through a sole source contract.

### **Secretary of State Response:**

We were unable to locate the files for the purchases of 11/2/2005 (Gateway Companies Inc.), 10/24/2008 & 1/20/2009 (LHS Associates). We believe the appropriate procurement process was followed, however, we cannot locate documentation to that effect.

### **Auditor’s Response:**

The Secretary of State’s response does not provide any additional information. Therefore there is no modification to the original position of the audit.



## **Finding No. 6 – Unallowable Cost**

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

HAVA Section 101 (b)(1) states, "A State shall use the funds provided under a payment made under this section to carry out one or more of the following activities: (C) Educating voters concerning voting procedures, voting rights, and voting technology.

The EAC, in its Funding Advisory Opinion FAO-08-005, concluded that:

- Neither Section 101 nor 251 funds may be used to conduct voter registration drives or get out the vote efforts.

Two of twenty-four Other Costs tested were for advertising expense that were not allowable according to HAVA. The supporting documentation for one of the expenses for \$12,000 was described in an email from the Secretary of State as a ":30 Get Out the Vote NCSA spot". The supporting documentation for the other expense of \$42,112 was a post card reminding voters of the change in the Primary Election date.

The Director of Corporations and Business Services stated she believed the \$12,000 amount was coded to the wrong fund. The Office did not state why the \$42,112 was charged to HAVA. Documentation of expenses was not maintained in a manner that it could be provided to the auditors.

## **Recommendation**

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

- (a) Transfer to the election fund \$54,112 for the questioned costs cited above along with the applicable indirect costs.
- (b) Develop and implement policies and procedures and provide training to ensure that charges to HAVA are allowable, allocable and reasonable to HAVA.

## **Secretary of State Response:**

The \$12,000 invoice (2009) appeared to be incorrectly coded and we agree to transfer this amount to the election fund. The \$42,112 (2010) invoice was for a voter education post card stating the change in Primary Election date. We consider the \$42,112 cost to be voter education, not a "get out the vote promotion", therefore, this was an appropriate charge to the election fund.

We have implemented policies, procedures, and training ensuring allowable, allocable and reasonable charges to HAVA.

**Auditor's Response:**

The Secretary of State's response requests that the \$42,112 expenditure be further evaluated since it is their belief that this represents a voter education expenditure. We recommend that EAC evaluate this activity to determine whether it meets allowable criteria.

**Finding No. 7 – Unsupported 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 64 transactions and identified the following issues and discrepancies:

- 4 of the 64 transactions were missing an invoice to provide the detail of the costs incurred.
- 5 of the 64 transactions were missing sufficient evidence regarding final work product or deliverables that provide the allowability of the transaction.
- All transactions related to matching costs were missing supporting documentation such as an invoice to support the allowability of the transaction as a matching expenditure.

In summary, there were nine transactions reviewed that did not have sufficient evidence to support that the costs were allowable to HAVA grants. This resulted in \$32,299 in unsupported costs. Additionally, the \$702,438 of matching expenditures reported did not have sufficient evidence to support their allowability.

Documentation of invoices and contracts was not maintained in a manner that it could be provided to the auditors.

**Recommendation:**

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

- (a) Transfer to the election fund \$32,299 for the unsupported costs cited above along with the applicable indirect costs.
- (b) Provide an analysis of the \$702,438 reported as matching expenditures to substantiate their allowability.

- (c) Develop and implement policies and procedures regarding maintenance of supporting source documentation for all Federal expenditures incurred.

**Secretary of State Response:**

4 of the 64 (2006-2009) transactions were missing an invoice to provide the detail of the costs incurred. Five of the 64 transactions (2006 – 2011) were missing sufficient evidence regarding final work product or deliverables that provide the allowability of the transaction. Although we believe these transactions were allowable, we are unable to locate the supporting documentation.

We provided the auditors with expenditure detail reports from VISION for the \$702,438 reported matching expenditures from 10/1/2003 thru 9/30/2004 and 10/01/2005 thru 9/30/2006. The invoices for these two time periods could not be found as they had been purged according to our retention schedule.

The system detail provides the following funds and program codes:

- Fund 21160 = state elections (fund# is primary level, then program#). Expenses charged to the elections fund by program code in numerical order:
  - 29005 = indirect cost allocation to elections for administration
  - 29020 = elections administration
  - 29025 = elections – campaign finance
  - 29030 = Presidential Primary
  - 29940 = primary and general elections
  - 29960 = lobbyist

**Auditor’s Response:**

The Secretary of State’s response does not provide any additional information. Therefore, there is no modification to the original position of the audit.

We provided a draft of our report to the appropriate individuals of the Office of the Vermont Secretary of State. We considered any comments received prior to finalizing this report.

The Office responded on May 30, 2017 and generally agreed with the report’s findings and recommendations. The EAC responded on June 15, 2017 and stated they will work with the Secretary’s Office to ensure appropriate corrective actions are taken. 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 May 6, 2016 and April 12, 2017.

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

McBride, Lock & Associates, LLC  
April 12, 2017

## **APPENDIX A-1**

### **Response of the Vermont Secretary of State to the Draft Report**



**State of Vermont**  
**Office of the Secretary of State**

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**James C. Condos, Secretary of State**  
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**Secretary**  
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May 30, 2017

Ms. Patricia Layfield  
Inspector General  
Office of the Inspector General  
1335 East-West Highway, Suite 4300  
Silver Spring, MD 20910

Dear Ms. Layfield,

Thank you for the opportunity to respond to the draft Performance Audit Report for the Vermont Secretary of State. Per your request I am including our response to the report within the body of this letter, in PDF format. Additionally, I have attached documentation to support our response.

*Vermont Secretary of State Audit Response:*

**Finding No. 1 Indirect Cost Allocation**

- (a) We have reviewed the calculation provided by the audit of the maximum indirect costs allowable for the period 6-30-2006 thru 6-30-2015. The IDC worksheets we provided to the Auditors for FFY14 and FFY15 were overstated as they included direct capital costs. The approved IDC rate for both years did **not** include direct capital costs, and the modified rate from the Agency of Health & Human Services reflected this, and was applied correctly in the auditor's worksheets.
- (b) On July 1, 2015, recognizing that the IDC charged to the election fund from SFY06 thru SFY2015 were in excess of the allowable amount, we reduced the IDC rate from 17.0 to 9.32. The IDC of 9.32% has been applied for SFY16 and SFY 17 (see "speedcharts" Fund 7/1/2015 & 7/1/2015). We will continue to review and revise the IDC rate as needed to ensure the elections fund is appropriately charged.
- (c) Procedures have been implemented to ensure indirect costs are charged in accordance with the negotiated indirect cost agreement and federal regulations.

**Finding No. 2 – Maintenance of Expenditure**

We have not been able to locate the election division expenditures for SFY 2000 either in copy or electronic format. We contacted the Vermont Department of Finance & Management (DFM) to determine if the SFY2000 expenditures were available. Unfortunately, the oldest fiscal year the DFM has is SFY2001.

### **Finding No. 3 – Inadequate Payroll Documentation**

- (a) Although we did not have the proper certification either written or via timesheets for the period tested, Elections Administrator Lelonie Adams has worked solely on HAVA EAC allowable activities for her entire employment period. We do not believe it is appropriate to charge us for not reporting properly when we were following the intent and use of HAVA EAC requirements. The Auditors provided us with language for a semi-annual certification. Please note the attached semi-annual certifications from November 11, 2011 (date of employment), thru December 31, 2016. The originals of the semi-annual certifications are being retained in the employee's personnel file.
- (b) We have implemented a policy and procedure to ensure employees who expend efforts on Federal activities accurately record their time in accordance with Federal Regulations.

### **Finding No. 4 – Inadequate Equipment Management**

- (a) We have implemented the policies and procedures regarding inventory management and do have an annual physical observation of inventory. The State of Vermont uses a PeopleSoft financial application referred to as "VISION". Within VISION is a fixed asset module where the information noted above is entered annually.
- (b) An inventory has been performed every year in VISION (I am not certain when this was initiated as a statewide effort). Since FY2014 we have been fully populating the fixed asset module. We will verify and update any missing information relating to Federal funds. We will also work with LHS Associates regarding the tabulator inventory and missing information to ensure we are in compliance with federal guidelines.
- (c) The annual physical observation inventory is documented in VISION.

### **Finding No. 5 – Procurement Procedures**

We were unable to locate the files for the purchases of 11/2/2005 (Gateway Companies Inc.), 10/24/2008 & 1/20/2009 (LHS Associates). We believe the appropriate procurement process was followed, however, we cannot locate documentation to that effect.

### **Finding No. 6 – Unallowable Cost**

- (a) The \$12,000 invoice (2009) appeared to be incorrectly coded and we agree to transfer this amount to the election fund. The \$42,112 (2010) invoice was for a voter education post card stating the change in Primary Election date. We consider the \$42,112 cost to be voter education, not a "get out the vote promotion", therefore, this was an appropriate charge to the election fund.
- (b) We have implemented policies, procedures, and training ensuring allowable, allocable and reasonable charges to HAVA.

### **Finding No. 7 – Unsupported Costs**

- (a) 4 of the 64 (2006-2009) transactions were missing an invoice to provide the detail of the costs incurred. Five of the 64 transactions (2006 – 2011) were missing sufficient evidence regarding final work product or deliverables that provide the allowability of the transaction. Although we believe these transactions were allowable, we are unable to locate the supporting documentation.
- (b) We provided the auditors with expenditure detail reports from VISION for the 702,438 reported matching expenditures from 10/1/2003 thru 9/30/2004 and 10/01/2005 thru

9/30/2006. The invoices for these two time periods could not be found as they had been purged according to our retention schedule.

The system detail provides the following funds and program codes:

- Fund 21160 = state elections (fund# is primary level, then program#).  
Expenses charged to the elections fund by **program code** in numerical order:
  - 29005 = indirect cost allocation to elections for administration
  - 29020 = elections administration
  - 29025 = elections – campaign finance
  - 29030 = Presidential Primary
  - 29940 = primary and general elections
  - 29960 = lobbyist

We look forward to discussing the report, our response, and resolution to the findings. Please contact me if you have any questions.

Thank you,



Marlene Betit  
Director of the Administrative Services &  
Corporations/Business Services Division

Attachment

cc: Secretary James C. Condos  
Deputy Secretary Chris Winters  
Elections Division Director Will Senning

## **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 Vermont Secretary of State for the Period April 10, 2003 through September 30, 2015*

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June 15, 2017

**MEMORANDUM**

To: Patricia Layfield, Inspector General

From: Brian Newby, Executive Director *BNW*

Subject: Draft Performance Audit Report – “Administration of Payments Received under the Help America Vote Act by the Vermont Secretary of State

Thank you for this opportunity to review and respond to the draft audit report for the Vermont Secretary of State.

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.

## **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.
- Tested amounts charged as indirect costs by verifying the approved rate and the reasonableness of the base.
- 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  
as of September 30, 2015**

**MONETARY IMPACT AS OF SEPTEMBER 30, 2015**

Description	Questioned Costs	Additional Funds for Program
Indirect Cost Allocation	\$ 155,802	\$ -
Unsupported Payroll Costs	70,346	-
Unallowable Costs	54,112	-
Unsupported Costs	32,299	-
Total	\$ 312,559	\$ -