

**UNITED STATES
ELECTION ASSISTANCE COMMISSION
OFFICE OF INSPECTOR GENERAL**



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



OFFICE OF THE INSPECTOR GENERAL
US ELECTION ASSISTANCE COMMISSION
633 3RD STREET, NW, SUITE 200
WASHINGTON, DC 20001

Memorandum

To: Mona Harrington
Executive Director

From: *Patricia L. Layfield*
Patricia L. Layfield
Inspector General

Date: March 8, 2021

Subject: Final Performance Audit Report – Administration of Payments Received Under the Help America Vote Act by the Kentucky State Board of Elections (Assignment Number E-HP-KY-10-20)

The Office of Inspector General (OIG) engaged McBride, Lock & Associates, LLC (MLA), an independent certified public accounting firm, to audit the administration of payments received under the Help America Vote Act (HAVA) by the Kentucky State Board of Election (KYBOE). The audit scope covered the grant funds received and disbursed by the KYBOE, from July 13, 2018, through September 30, 2019. The \$5.7 million in funds paid to the KYBOE represented Kentucky's share of the appropriation of \$380 million under the Consolidated Appropriations Act of 2018 (P.L. 115-151). KYBOE expended approximately \$3.6 million of the HAVA funds (including program income) during the period covered by the audit.

Results of Audit

Based on the audit procedures performed, MLA concluded that, except for the matters discussed below, KYBOE generally accounted for and expended the Grant funds in accordance with Federal requirements for the period from July 13, 2018 through September 30, 2019. However, MLA noted the following exceptions:

1. The interest income reported on the Federal Financial Reports (FFRs) for the years ended September 30, 2019 and 2018 was not allocated between Election Security grant funds and previously awarded HAVA Section 101 funds using an allocation method. Additionally, there was one expense in the amount of \$67,180 for election auditing

services that was allocated between Election Security grant funds and the previously awarded Section 101 funds for reporting on the FFRs. Of the total amount expended, \$28,174 was allocated to the Election Security grant. The Board did not provide an explanation for how the allocation was determined, therefore the \$28,174 is considered unsupported.

2. The Board purchased 5,226 e-pollbooks at \$570 per item, which exceeded the state threshold of \$500 for tagging and recording in an inventory listing. However, the e-pollbooks were not tagged and recorded in the Board's fixed asset inventory listing on the eMARS accounting system. The Board provided a listing of e-pollbooks deployed at each county; however, this record did not include cost, acquisition date, source of funding, or use and condition of the property. Also, to the extent that the items were not included in the Board's official inventory listing, they would not be included in the annual physical inventory that is performed.
3. The 2019 Schedule of Expenditures of Federal Awards (SEFA) disclosed \$5,014,207 of expenditures for the year ended June 30, 2019 under Catalog of Federal Domestic Assistance (CFDA) 39.011, Election Reform Payments. The correct CFDA for the \$3,232,874 of Election Security grant expenditures for the year ended June 30, 2019 is 90.404.

The KYBOE generally agreed with the report's findings and recommendations. The EAC responded on March 2, 2021, and stated that they are reviewing KYBOE's planned actions.

Evaluation of MLA's Audit Performance

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

- Reviewed MLA'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 MLA's audit report and selected work products, to ensure compliance with Government Auditing Standards; and
- Coordinated issuance of the audit report.

MLA is responsible for the attached auditor's report and the findings and conclusions expressed in the report. The work the EAC OIG performed in evaluating MLA's conduct of the audit was not sufficient to support an opinion on the effectiveness of internal control or compliance with laws and regulations, thus EAC OIG does not express any opinion on the internal controls or compliance of the KYBOE.

The Inspector General Act of 1978, as amended, requires semiannual reporting to Congress on all reports issued, actions taken to implement recommendations, and recommendations that have not been implemented. Therefore, we will report the issuance of this audit report in our next semiannual report to Congress. The distribution of this report is not restricted and copies are available for public inspection. Pursuant to the IG Empowerment Act of 2016, the EAC OIG will post this audit report on the OIG website within 3 days of its issuance to EAC management. The OIG will also post the report to Oversight.gov.

If you have any questions regarding this report, please call me at (202) 853-2760.

cc: Commissioner Donald L. Palmer, Chair
Commissioner Thomas Hicks, Vice-Chair
Commissioner Christy McCormick
Commissioner Benjamin W. Hovland,
Jared Dearing, Executive Director, Kentucky State Board of Elections

Attachment

McBRIDE, LOCK & ASSOCIATES, LLC

Certified Public Accountants

Established 1980

Performance Audit Report

**Administration of Election Security Payments Received Under the Help
America Vote Act by the Kentucky State Board of Elections**

Prepared for

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

By

McBride, Lock & Associates, LLC

January 2021

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

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**U.S. Election Assistance Commission
Performance Audit Report
Administration of Election Security Payments Received Under the Help
America Vote Act by the Kentucky 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 election security funds the Kentucky State Board of Elections (Board) received between July 13, 2018 and September 30, 2019. The objective of the audit was to determine whether the Board used payments authorized by Sections 101 of the Help America Vote Act of 2002 (the HAVA) in accordance with HAVA and applicable requirements; properly accounted for and controlled the funds and property purchased with HAVA payments; and, used the funds in a manner consistent with the budget plan provided to EAC.

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

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

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

Based on the audit procedures performed, except for the matters discussed below, we concluded that the Board generally accounted for and expended the Grant funds in accordance with the requirements mentioned above for the period from July 13, 2018 through September 30, 2019. The exceptions are as follows:

1. The interest income reported on the Federal Financial Reports (FFR's) for the years ended September 30, 2019 and 2018 was not allocated between Election Security grant funds and previously awarded HAVA Section 101 funds using an allocation method. Additionally, there was one expense in the amount of \$67,180 for Election auditing services that was allocated between Election Security grant funds and the previously awarded Section 101 funds for reporting on the FFR's. Of the total amount expended, \$28,174 was allocated to

the Election Security grant. The Board did not provide an explanation for how the allocation was determined, therefore the \$28,174 is considered unsupported.

2. The Board purchased 5,226 e-pollbooks at \$570 per item, which exceeded the state threshold of \$500 for tagging and recording in an inventory listing. However, the e-pollbooks were not tagged and recorded in the Board's fixed asset inventory listing on the eMARS accounting system. The Board provided a listing of e-pollbooks deployed at each county. 150 e-pollbooks were selected to be viewed and were determined to exist. To the extent that the items were not included in the Board's official inventory listing, they would not be included in the annual physical inventory that is performed.
3. The 2019 Schedule of Expenditures of Federal Awards (SEFA) disclosed \$5,014,207 of expenditures for the year ended June 30, 2019 under Catalog of Federal Domestic Assistance (CFDA) 39.011, Election Reform Payments. The correct CFDA for the \$3,232,874 of Election Security grant expenditures for the year ended June 30, 2019 is 90.404.

We have included in this report as Appendix A, the Board of Elections 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 grants to States authorized by HAVA under Title I, as follows:

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

The 2018 HAVA Election Security Grant also requires that states must:

- Provide matching funds equal to 5 percent of the total federal funds within two years of the award to be spent for activities for which Election Security Grants are made.
- Maintain all federal funds and state cash matching funds in the state election fund, as described in Section 104 (d) of HAVA, along with interest earned on the award's funds. States may also track eligible funds/activities from their state and local general operating

budgets to meet the match obligations. State and local funds used for match must be different from funds used to meet Maintenance of Effort or state match associated with HAVA Requirement Payments.

The Awardee – The Kentucky State Board of Elections

The HAVA funds were awarded to the Kentucky State Board of Elections, which is chaired by the Secretary of State. The Secretary of State is Kentucky's Chief Election Official and the filing official for all candidates seeking an office to be voted for by the electors of more than one county, members of Congress, members of the General Assembly and of the Court of Justice. The Secretary of State also certifies candidates for those offices to be printed on the ballots, and vote totals for those offices are certified to the Secretary of State by the respective county clerks.

The Secretary of State also serves as Chair of the State Board of Elections, an independent agency that administers the Commonwealth's election laws, promulgates administrative regulations necessary to properly carry out its duties, supervises the registration and purgation of voters, appoints political party representatives to the 120 county boards of elections and certifies the official election results.

Help America Vote Act Commonwealth of Kentucky State Plan

The Commonwealth of Kentucky's HAVA budget narrative was prepared by the Secretary of State. The main objectives of the project funded by HAVA, as set forth in the budget letter, were for the purposes of increasing security for election systems, election technology and physical security for election administrators. The Board will purchase new voting machines which create a Voter Verified Paper Audit Trail. The Commonwealth of Kentucky has the need to replace 13,000 voting machines. The Board recommended that the majority of the HAVA funds be utilized in this area. A portion of the funding is proposed to be used to hire a full-time SBE Chief Information Security Officer who will work exclusively on matters related to elections cyber security. A portion of the funding is proposed to be used to develop and produce an updated version of the Commonwealth's voter registration system, which will be achieved by hiring a full-time systems architect. A portion of the funding will be used to identify and rectify any physical security needs and concerns specific to the Board's physical location.

AUDIT OBJECTIVES

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

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

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

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

SCOPE AND METHODOLOGY

We audited the Grant funds received and disbursed by the Board, from July 13, 2018 through September 30, 2019. These funds are related to the appropriation of \$380 million under the Consolidated Appropriations Act (CAA), 2018 (P.L. 115-151). The scope of activity audited is shown in the following table:

<u>Description</u>	<u>Election Security Funds</u>
Funds Received from EAC	\$ 5,773,423
State Matching Funds	-
Program Income	<u>35,487</u>
Total Funds	\$ 5,808,910
Less Disbursements	<u>(3,612,874)</u>
Fund Balance	<u>\$ 2,196,036</u>

The Board’s expenditures detailed by budget and program category are included as Appendix C.

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

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

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

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

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

AUDIT RESULTS

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

Based on the audit procedures performed, we concluded that the Board accounted for HAVA funds in accordance with the requirements mentioned above, and used the funds in a manner consistent with the budget plan for the period from July 13, 2018 through September 30, 2019. However, the Board did not properly account for property purchased with HAVA payments. The exceptions to applicable compliance requirements are described below.

Finding No. 1 – Allocation of Program Income and Federal Expenditures

The interest income reported on the Federal Financial Reports (FFR's) for the years ended September 30, 2019 and 2018 was not allocated between Election Security grant funds and previously awarded HAVA Section 101 funds using an allocation method.

Election Security grant funds were received in July 2018, and were recorded in the same fund as the remaining unspent HAVA Section 101 funds. The \$35,487 of interest allocated to the fund for the months of August, September, and October 2018 was reported entirely as program income of the Election Security grant on the FFR's, while the \$94,138 of interest for all other months was reported as program income of the prior Section 101 grant. Our analysis determined that the Election Security grant comprised 63% to 76% of the fund balance between July 2018 and September 2019, however, only 27% of the total interest earned in the fund over that time was reported as program income of the Election Security grant on the FFR's. The Board did not provide an explanation for how the allocation was determined.

There was one expense in the amount of \$67,180 for Election auditing services that was allocated between Election Security grant funds and the previously awarded Section 101 funds for reporting on the FFR's. Of the total amount expended, \$28,174 was allocated to the Election Security grant. The Board did not provide an explanation for how the allocation was determined, therefore the \$28,174 is considered unsupported.

Uniform Guidance, 2 CFR 200.405(d) states that, "If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis."

The Board did not establish and apply a consistent, logical method or document the reasonable basis for allocating interest earned and expenses incurred in the election fund between the two HAVA grants.

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

Recommendation

We recommend that the EAC require the Board:

1. Transfer to the Election Security grant \$28,174 for the unsupported cost cited above.
2. Provide either an allocation of the program income based on the proportional benefit, or based on a documented basis for the allocation.

3. Implement procedures to ensure that for items which benefit multiple projects or activities, the allocation of program income earned or expenditures incurred is based on the proportional benefit, or on a reasonable documented basis.

Board of Elections' Response:

The Kentucky State Board of Elections does not contest this finding and agrees to work with the Election Assistance Commission to resolve this issue and establish procedures to prevent these actions in the future.

Auditor's Response:

The resolution of the findings and the appropriateness of procedures to resolve future findings will be determined during the resolution process between the Board and EAC.

Finding No. 2 – Property Records and Annual Physical Inventory

The Board purchased 5,226 e-pollbooks at \$570 per item, which exceeded the state threshold of \$500 for tagging and recording in an inventory listing. However, the e-pollbooks were not tagged and recorded in the Board's fixed asset inventory listing on the eMARS accounting system. The Board provided a listing of e-pollbooks deployed at each county. 150 e-pollbooks were selected to be viewed and were determined to exist. To the extent that the items were not included in the Board's official inventory listing, they would not be included in any annual physical inventory that is performed.

The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) at 2 CFR 200.313(b) states that, "A state must use, manage and dispose of equipment acquired under a Federal award by the state in accordance with state laws and procedures." FAP120-20-01 of the Commonwealth of Kentucky Finance and Administration Cabinet Manual of Policies and Procedures states that, "All non-expendable property valued at \$500 or more shall be recorded as a line item. This record shall include agency number, state property identification tag number, make, description, model number, serial number, quantity, location by building and cost." Further FAP120-20-01 states that, "The administrative head of an agency shall be responsible and accountable for the custody and safekeeping of all personal property assigned to, purchased, or otherwise acquired by the agency. Each agency head shall either serve as, or appoint an employee of the agency to serve as, agency property officer with responsibility for both maintaining the agency's fixed asset records and taking the annual physical inventory."

The items were shipped directly to the Counties, and the Board relied on the vendor to provide a listing of equipment sent to each location. Therefore, the e-pollbooks were not recorded in the Board's fixed asset inventory listing nor were they part of an annual physical inventory.

Proper tracking of property purchased with federal funds ensures that equipment is being used and disposed of in accordance with federal regulations and state laws and procedures.

Recommendation

We recommend that the EAC require the Board to:

4. Include all items purchased with federal funds on an inventory listing that is compliant with state laws and procedures.
5. Implement policies and procedures to ensure items shipped directly to the Counties are included in the eMARS accounting system and included in an annual physical inventory as required by state laws and procedures.

Board of Elections' Response:

The Kentucky State Board of Elections does not contest this finding and agrees to work with the Election Assistance Commission to resolve this issue and establish procedures to prevent these actions in the future.

Auditor's Response:

The resolution of the findings and the appropriateness of procedures to resolve future findings will be determined during the resolution process between the Board and EAC.

Finding No. 3 – Financial Management

The 2019 Schedule of Expenditures of Federal Awards (SEFA) reported \$5,014,207 of expenditures, for the year ended June 30, 2019 under Catalog of Federal Domestic Assistance (CFDA) 39.011, Election Reform Payments. The correct CFDA for the \$3,232,874 of Election Security Grant expenditures for the year ended June 30, 2019 is 90.404.

The Uniform Guidance at 2 CFR 200.302(a) states that, "Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award." FAP120-07-00.4.c of the Commonwealth of Kentucky Finance and Administration Cabinet Manual of Policies and Procedures states that it is the agency's fiscal officer's responsibility to provide "assurances that agency financial reports accurately reflect underlying activity."

The Section 101 and Election Security grant funds were kept in the same state fund, and no distinction was made for the differing CFDA numbers leading to the financial reports not accurately reflecting the underlying activity.

The improper identification of a federal program increases the likelihood that the entity would have instances of noncompliance with the requirements of that program.

Recommendation

6. We recommend that the EAC require the Board to implement a policy or procedure to ensure amounts reported by the Fiscal Officer for inclusion on the Statewide SEFA are accurate and are properly identified by CFDA title and number.

Board of Elections' Response:

The Kentucky State Board of Elections does not contest this finding and agrees to work with the Election Assistance Commission to resolve this issue and establish procedures to prevent these actions in the future.

Auditor's Response:

The resolution of the findings and the appropriateness of procedures to resolve future findings will be determined during the resolution process between the Board and EAC.

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

The Board responded on February 16, 2021 and generally agreed with the report's findings and recommendations. The EAC responded on March 2, 2021 and stated they are working with Kentucky state staff to review the recommendations and implement appropriate corrective action. The Board'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 December 13, 2019 and February 16, 2021.



McBride, Lock & Associates, LLC
Kansas City, Missouri
February 16, 2021

APPENDIX A-1
Response of the
Kentucky State Board of Elections
to the Draft Report



COMMONWEALTH OF KENTUCKY
STATE BOARD OF ELECTIONS

February 16, 2021

McBride, Lock & Associates, LLC
4151 N. Mulberry Drive, Suite 275
Kansas City, Missouri 64116

Performance Audit Report for the Kentucky State Board of Elections

To Whom It May Concern,

Included in this letter please find the responses from the Kentucky State Board of Elections to the findings provided by McBride, Lock & Associates, LLC.

Finding No. 1 – Allocation of Program Income and Federal Expenditures

The interest income reported on the Federal Financial Reports (FFR's) for the years ended September 30, 2019 and 2018 was not allocated between Election Security grant funds and previously awarded HAVA Section 101 funds using an allocation method.

Election Security grant funds were received in July 2018, and were recorded in the same fund as the remaining unspent HAVA Section 101 funds. The \$35,487 of interest allocated to the fund for the months of August, September, and October 2018 was reported entirely as program income of the Election Security grant on the FFR's, while the \$94,138 of interest for all other months was reported as program income of the prior Section 101 grant. Our analysis determined that the Election Security grant comprised 63% to 76% of the fund balance between July 2018 and September 2019, however, only 27% of the total interest earned in the fund over that time was reported as program income of the Election Security grant on the FFR's. The Board did not provide an explanation for how the allocation was determined.

There was one expense in the amount of \$67,180 for Election auditing services that was allocated between Election Security grant funds and the previously awarded Section 101 funds for reporting on the FFR's. Of the total amount expended, \$28,174 was allocated to the Election Security grant. The Board did not provide an explanation for how the allocation was determined, therefore the \$28,174 is considered unsupported.



COMMONWEALTH OF KENTUCKY
STATE BOARD OF ELECTIONS

Uniform Guidance, 2 CFR 200.405(d) states that, “If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.”

The Board did not establish and apply a consistent, logical method or document the reasonable basis for allocating interest earned and expenses incurred in the election fund between the two HAVA grants. HAVA activity may not be accurately reported or accounted for which may increase the potential of misuse of federal funds.

The recommendation from McBride, Lock & Associates is as follows:

1. Transfer to the Election Security grant \$28,174 for the unsupported cited above.
2. Provide either an allocation of the program income based on the proportional benefit, or based on a documented basis for the allocation.
3. Implement procedures to ensure that for items which benefit multiple projects or activities, the allocation of program income earned or expenditures incurred is based on the proportional benefit, or on a reasonable documented basis.

The Kentucky State Board of Elections does not contest this finding and agrees to work with the Election Assistance Commission to resolve this issue and establish procedures to prevent these actions in the future.

Finding No. 2 – Property Records and Annual Physical Inventory

The Board purchased 5,226 e-pollbooks at \$570 per item, which exceeded the state threshold of \$500 for tagging and recording in an inventory listing. However, the e-pollbooks were not tagged and recorded in the Board’s fixed asset inventory listing on the eMARS accounting system. The Board provided a listing of e-pollbooks deployed at each county. 150 e-pollbooks were selected to be viewed and were determined to exist. To the extent that the items were not included in the Board’s official inventory listing, they would not be included in any annual physical inventory that is performed.

The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) at 2 CFR 200.313(b) states that, “A state must use, manage



COMMONWEALTH OF KENTUCKY
STATE BOARD OF ELECTIONS

and dispose of equipment acquired under a Federal award by the state in accordance with state laws and procedures.” FAP120-20-01 of the Commonwealth of Kentucky Finance and Administration Cabinet Manual of Policies and Procedures states that, “All non-expendable property valued at \$500 or more shall be recorded as a line item. This record shall include agency number, state property identification tag number, make, description, model number, serial number, quantity, location by building and cost.” Further FAP120-20-01 states that, “The administrative head of an agency shall be responsible and accountable for the custody and safekeeping of all personal property assigned to, purchased, or otherwise acquired by the agency. Each agency head shall either serve as, or appoint an employee of the agency to serve as, agency property officer with responsibility for both maintaining the agency’s fixed asset records and taking the annual physical inventory.”

The items were shipped directly to the Counties, and the Board relied on the vendor to provide a listing of equipment sent to each location. Therefore, the e-pollbooks were not recorded in the Board’s fixed asset inventory listing nor were they part of an annual physical inventory. Proper tracking of property purchased with federal funds ensures that equipment is being used and disposed of in accordance with federal regulations and state laws and procedures.

The recommendation from McBride, Lock & Associates is as follows:

4. Include all items purchased with federal funds on an inventory listing that is compliant with state laws and procedures.
5. Implement policies and procedures to ensure items shipped directly to the Counties are included in the eMARS accounting system and included in an annual physical inventory as required by state laws and procedures.

The Kentucky State Board of Elections does not contest this finding and agrees to work with the Election Assistance Commission to resolve this issue and establish procedures to prevent these actions in the future.

Finding No. 3 – Financial Management

The 2019 Schedule of Expenditures of Federal Awards (SEFA) reported \$5,014,207 of expenditures, for the year ended June 30, 2019 under Catalog of Federal Domestic Assistance (CFDA) 39.011, Election Reform Payments. The correct CFDA for the \$3,232,874 of Election Security Grant expenditures for the year ended June 30, 2019 is 90.404.



COMMONWEALTH OF KENTUCKY
STATE BOARD OF ELECTIONS

The Uniform Guidance at 2 CFR 200.302(a) states that, “Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.” FAP120-07-00.4.c of the Commonwealth of Kentucky Finance and Administration Cabinet Manual of Policies and Procedures states that it is the agency’s fiscal officer’s responsibility to provide “assurances that agency financial reports accurately reflect underlying activity.”

The Section 101 and Election Security grant funds were kept in the same state fund, and no distinction was made for the differing CFDA numbers leading to the financial reports not accurately reflecting the underlying activity.

The improper identification of a federal program increases the likelihood that the entity would have instances of noncompliance with the requirements of that program.

The recommendation from McBride, Lock & Associates is as follows:

6. We recommend that the EAC require the Board to implement a policy or procedure to ensure amounts reported by the Fiscal Officer for inclusion on the Statewide SEFA are accurate and are properly identified by CFDA title and number.

The Kentucky State Board of Elections does not contest this finding and agrees to work with the Election Assistance Commission to resolve this issue and establish procedures to prevent these actions in the future.

Please accept our responses and contact Rachel Poynter at (502) 782-9501 or rachel.poynter@ky.gov for any additional information.

Handwritten signature of Rachel Poynter in blue ink.

Rachel Poynter, Executive Staff Advisor

02/16/2021

Date

APPENDIX A-2
Response of the
U.S. Election Assistance Commission
to the Draft Report



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

TO: Patricia Layfield
Inspector General

FROM: Mona Harrington
Executive Director
Mona Harrington

DATE: March 2, 2021

RE: Response to the Draft Performance Audit Report, *Administration of Payments Received under the Help America Vote Act by the Kentucky State Board of Elections*

Thank you for the opportunity to respond to the draft performance audit report of EAC's grant funds to Kentucky.

We appreciate the auditor's findings and recommendations and note the state agreed with the findings in their response. We are working with Kentucky state staff to review the recommendations and implement appropriate corrective action. We expect to provide our final management decision to the OIG soon after the audit report is issued as final.

AUDIT SCOPE AND METHODOLOGY

Our audit methodology included:

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

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

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

The significance was determined as follows:

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

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

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

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

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

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

- Interviewed appropriate Board 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 Board management and accounting systems as they relate to the administration of the HAVA program.
- Tested major purchases and the supporting documentation.
- Tested randomly sampled payments made with HAVA funds.
- Evaluated compliance with the requirements for accumulating financial information reported to the Commission on the financial status reports and progress reports, accounting for property, purchasing HAVA related goods and services, and using funds in a manner consistent with the budget plan provided to EAC.
- Verified the establishment and maintenance of an election fund.
- Observed the physical security/safeguards of selected equipment purchased with HAVA funds and ensure compliance with federal regulation.
- Verified whether the matching requirement was met and, if so, that matching expenditures met the prescribed criteria and allowability requirements of HAVA.
- Verified program income was properly accounted for and not remitted to the State's general fund.

**EXPENDITURES BY BUDGET CATEGORY AND PROGRAM CATEGORY
JULY 13, 2018 TO SEPTEMBER 30, 2019**

Budget Categories	Program Categories						Total
	Voting Equipment	Election Auditing	Voter Registration Systems	Cyber Security	Communications	Other	
Personnel (Including Fringe)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equipment	3,584,700	-	-	-	-	-	3,584,700
Subgrants	-	-	-	-	-	-	-
Training	-	-	-	-	-	-	-
All Other Costs	-	-	-	28,174	-	-	28,174
Total Direct Costs	\$ 3,584,700	\$ -	\$ -	\$ 28,174	\$ -	\$ -	\$ 3,612,874
Indirect Costs (if applied)	-	-	-	-	-	-	-
Total Federal Expenditures	\$ 3,584,700	\$ -	\$ -	\$ 28,174	\$ -	\$ -	\$ 3,612,874
Non-Federal Match	-	-	-	-	-	-	-
Total Program Expenditures	\$ 3,584,700	\$ -	\$ -	\$ 28,174	\$ -	\$ -	\$ 3,612,874

MONETARY IMPACT AS OF SEPTEMBER 30, 2019

<u>Description</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>	<u>Additional Funds for Program</u>
Election Auditing Services	<u>\$ 28,174</u>	<u>\$ 28,174</u>	<u>\$ -</u>
Total	<u><u>\$ 28,174</u></u>	<u><u>\$ 28,174</u></u>	<u><u>\$ -</u></u>

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