

OFFICE OF INSPECTOR GENERAL

U.S. Election Assistance Commission

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

Report No. G22CA0009-23-01
October 4, 2022



HIGHLIGHTS

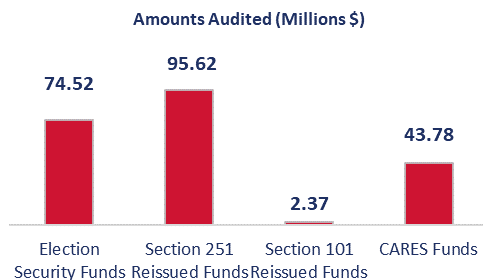
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What OIG Audited

The Office of Inspector General, through the independent public accounting firm of McBride, Lock & Associates, LLC, audited funds received by the State of California under the Help America Vote Act (HAVA), including state matching funds and interest earned, totaling \$216.3 million.



As described in the audit's first finding, there were variances between California's reported expenditures and those recorded in the state's accounting system for each grant. This limited the auditors' ability to conduct a complete analysis.

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

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

California's contract with SKD Knickerbocker was also evaluated, in response to Congressional interest.

What OIG Found

The OIG found that the California Secretary of State Office generally used funds for authorized purposes, properly accounted for and controlled property purchased, and used funds in a manner consistent with the informational plans provided to EAC. The audit noted no exceptions related to the SKD Knickerbocker contract.

However, the Office did not account for funds in accordance with grant requirements and (1) reported expenditures that were not supported in total by accounting records; (2) charged \$51,012 in salary costs that lacked appropriate documentation and did not provide detail on additional costs until after the completion of the audit; and (3) did not initially provide adequate support for services and subaward costs, with \$1.1 million remaining unresolved.

What OIG Recommended

The OIG made eight recommendations to address the noted deficiencies:

- 1 Reconcile grant reporting with the accounting records and amend the financial reports, as applicable.
- 2 Implement procedures and training to ensure proper financial reporting.
- 3 Transfer unsupported payroll costs to the election fund.
- 4 Implement procedures or training to ensure that payroll costs are adequately supported.
- 5 Determine any amount of additional payroll costs that remain unsupported.
- 6 Resolve the remaining unsupported county reimbursement.
- 7 Transfer any additional unsupported costs identified to the election fund.
- 8 Implement policies and procedures and provide training to ensure contract costs are supported.



OFFICE OF INSPECTOR GENERAL
U.S. Election Assistance Commission

DATE: October 4, 2022
TO: U.S. Election Assistance Commission, Interim Executive Director, Mark Robbins
FROM: U.S. Election Assistance Commission, Inspector General, Brianna Schletz
SUBJECT: Audit of the Help America Vote Act Grants Awarded to the State of California
(Report No. G22CA0009-23-01)

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

Additional information on the SKD Knickerbocker contract can be found in the letter transmitted to Congress on February 9, 2022.

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

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

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

McBRIDE, LOCK & ASSOCIATES, LLC

Certified Public Accountants

Established 1980

Performance Audit Report

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

Prepared for

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

By

McBride, Lock & Associates, LLC

August 2022

4151 N. Mulberry Drive, Suite 275 p. 816-221-4559
Kansas City, Missouri 64116 f. 816-221-4563

admin@mbridelock.com
www.mbridelock.com

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

EXECUTIVE SUMMARY

McBride, Lock & Associates, LLC was engaged by the United States Election Assistance Commission (EAC) Office of the Inspector General to conduct a performance audit of the of the administration of payments received under the Help America Vote Act (HAVA or the Act) by the California Secretary of State’s Office (Office). The payments received by the Office are identified as Election Security, Section 251 Reissued, and the CARES Act. The scope of the audit includes: Election Security administration from inception on October 15, 2018 through September 30, 2020; Section 251 Reissued administration from inception on October 1, 2017 through September 30, 2020; Section 101 Reissued administration from inception on October 1, 2018 through September 30, 2020; CARES Act administration from inception on July 15, 2020 through December 31, 2020, including matching fund expenditures made after December 31, 2020. The objective of the audit was to determine whether the Office used payments authorized by Sections 101 and 251 of the Help America Vote Act of 2002 (the HAVA) in accordance with HAVA and applicable requirements; properly accounted for and controlled the funds and property purchased with HAVA payments; and, used the funds in a manner consistent with the budget plan provided to EAC.

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

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

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

Based on the audit procedures performed, we concluded that the Office generally used funds for authorized purposes, properly accounted for and controlled property purchased, and used the funds in a manner consistent with informational plans submitted during the audit period. However, the Office did not account for the Grant funds in accordance with Grant requirements. The exceptions to applicable compliance requirements are described as follows:

1. Federal expenditures reported on the Federal Financial Reports (FFRs) was not supported in total by the accounting records provided by the Office.
2. Ten of the 16 charges for salary costs selected for testing (\$51,012) were determined to lack appropriate documentation. Documentation provided did not assure that charges were accurate, allowable, and properly allocated. For the 16 charges, six of the employee time sheets provided did not have all appropriate signatures, four of the charges did not recalculate to the employee's approved pay rates, and three of the charges had discrepancies between the payroll register and the time sheet.

An additional sample of wages in the amount of \$180,350 was selected for additional substantive testing. Initial detail provided by the Office for those charges had an unexplained variance. After fieldwork, we were provided with documentation to explain the variance, but we were not able to perform further audit procedures on the sample. The \$180,350 was determined to be wages charged to the grant for both July and August. The original documentation provided was only for August.

3. During fieldwork, the Office did not provide adequate documentation to support two of the 26 contractual service transactions sampled. For the two transactions, the contract detailed that billing was to be based on hourly rates, but the invoice does not include timesheets to support the dollar amounts billed to the Office. The total of the two unsupported transactions was \$177,124. After fieldwork was completed, the Office provided documentation to support the two contractual service exceptions.

For one of twelve subaward transactions sampled, the Office reimbursed the County based on a typewritten statement with no further price support for three amounts totaling \$1,284,611. After fieldwork was completed, the Office provided documentation to support two of the three exceptions, leaving a remaining unsupported amount of \$1,081,220. The \$1,081,220 was related to payroll charges reimbursed to one of the counties. The support provided was password protected and as of the date of the report, the password has not been provided.

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

BACKGROUND

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

- Title I, Section 101 payments are for activities such as complying with Title III of HAVA for uniform and nondiscriminatory election technology and administration requirements; improving the administration of elections for Federal office; educating voters; training election officials and poll workers; developing a state plan for requirements payments; improving, acquiring, leasing, modifying, or replacing voting systems, and methods for casting and counting votes; improving the accessibility and quantity of polling places; and establishing toll-free telephone hotlines that voters may use.
- Title II, Section 251 requirements payments are for complying with Title III requirements for voting system equipment; and addressing provisional voting, voting information, Statewide voter registration lists, and voters who register by mail.

The HAVA Election Security, Section 251 Reissued, Section 101 Reissued and CARES Act grants also require that states must:

- Maintain funds in a state election fund (as described in Section 104 (d) of HAVA).
- Expend payments in accordance with Federal cost principles established by the Office of Management and Budget (OMB) – (2 C.F.R. § 200).
- Submit detailed annual financial reports on the use of Title I and Title II payments. Reports must include a summary of expenditures aligned with budget categories in the grantee’s plan, a list of equipment obtained with the funds, and a description of how the funded activities met the goals of the plan.
- Provide matching funds of the Federal funds within a period stipulated by the award to be documented on the annual SF-425 submission
- Maintain documents and records subject to audit to determine whether payments were used in compliance with HAVA.

The Awardee – The California Secretary of State

The HAVA funds were awarded to the California Secretary of State’s Office. The Secretary of State's office comprises nearly 500 people who are dedicated to making government more transparent and accessible in the areas of elections, business, political campaigning, legislative advocacy, and historical records.

The Elections Division oversees all federal and state elections within California. In every statewide election, California prepares voter information pamphlets in 10 languages for over 20 million registered voters. As the chief elections officer for the largest state in the nation, the California Secretary of State tests and approves all voting equipment for security, accuracy, reliability and accessibility in order to ensure that every vote is counted as it was cast. The Secretary also ensures election laws and campaign disclosure requirements are enforced, maintains a statewide database of all registered voters, certifies the official lists of candidates for elections, tracks and certifies ballot initiatives, compiles election returns and certifies election results, educates California citizens about their voting rights, and promotes voter registration and participation.

Help America Vote Act State of California State Plans

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

Election Security 2018 and 2020

The objective of the 2018 project funded by HAVA, as set forth in the budget letter, were to provide county support for cyber security risks and the associated infrastructure needs, county support for polling place accessibility and election administration improvements, county support for vote center implementation, county support for cyber security, security enhancements, cyber security training, election auditing, and personnel costs.

The objective of the 2020 project funded by HAVA, as set forth in the budget letter, was to use the funds for county and state support for technical and security enhancements, security training, infrastructure needs, equipment costs, polling place administration, auditing, and improving the administration of elections.

Section 251 Reissued

On July 15, 2019, the Office was informed of an interim administrative closeout of the HAVA Section 251 grant through September 30, 2017. On that date, the unexpended federal share and program income was carried forward and reissued as a new grant. The funds were to be spent in accordance with Section 251.

Section 101 Reissued

On July 15, 2019, the Office was informed of an interim administrative closeout of the HAVA Section 101 grant through September 30, 2018. On that date, the unexpended program income was carried forward and reissued as a new grant. The funds were to be spent in accordance with Section 101.

CARES Act

The objective of the 2020 CARES Act project funded by HAVA, as set forth in the budget letter, was to use the funds to prevent, prepare for, and respond to coronavirus domestically or internationally, for the 2020 Federal election cycle. The funds were to be used throughout the state for the additional costs associated with coronavirus including expanding vote by mail, expanding early voting in-person opportunities, maximizing curbside access, increasing ballot drop boxes, encouraging voters to verify their registration status, encouraging online registration and re-registration, expanding the use of vote by mail tracking, and providing voter assistance while maintain social distancing. The costs were to include but were not limited to increases in costs for: mailing, printing, postage, staffing, equipment, outreach, connectivity, and facilities.

AUDIT OBJECTIVES

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

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

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

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

SCOPE AND METHODOLOGY

Election Security, Section 251 Reissued, Section 101 Reissued, CARES Act

We audited the Election Security grant funds received and disbursed by the Office from October 15, 2018 through September 30, 2020. These funds are related to the appropriation of \$380 million under the Consolidated Appropriations Act (CAA), 2018 (P.L. 115-151) and \$425 million under the CAA, 2020 (P.L. 115-141). We audited the Section 251 grant funds reissued to and disbursed by the Office from October 1, 2017, through September 30, 2020. We audited the Section 101 grant funds reissued to and disbursed by the Office from October 1, 2018, through September 30, 2020. We audited the CARES Act grant funds received and disbursed by the Office from July 15, 2020, through December 31, 2020 including matching fund expenditures made after December 31, 2020. These funds are related to the \$400 million authorized by the U.S. Congress under the Coronavirus Aid, Relief and Economic Security Act (P.L. 116-136). The California Secretary of State reported Grant Fund receipts as follows:

Description	Election Security Funds	Section 251 Reissued Funds	Section 101 Reissued Funds	CARES Act Funds
Funds Received from EAC	\$ 73,502,386	\$ 48,041,612	\$ -	\$ 36,485,465
State Matching Funds	-	-	-	7,297,093
Program Income	1,016,738	47,576,265	2,373,469	-
Total Funds	\$ 74,519,124	\$ 95,617,877	\$ 2,373,469	\$ 43,782,558

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

Based upon the accounting system records provided by the California Secretary of State, total expenditures of grant funds during the periods outlined above were \$4,631,559, \$28,179,799, \$1,204,220 and \$13,892,938 for the Election Security, Section 251 Reissued, Section 101 Reissued, and CARES Act grants, respectively. As noted in Finding No. 1, the FFR submissions were not supported by the accounting records reviewed. Therefore, a complete representation of

expenditures incurred or claimed by the Office for these grants cannot be ensured or effectively audited.

The Office’s Election Security, Section 251 Reissued, Section 101 Reissued and CARES Act expenditures could not be detailed by project and cost category due to the limitations noted in Finding No. 1.

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

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

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

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

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

SKDK Special Requirement

McBride, Lock & Associates, LLC was engaged by the United States Election Assistance Commission (EAC) Office of the Inspector General to specifically evaluate the procurement and test invoices related to the Office's contract with SKD Knickerbocker (SKDK) that was the subject of a complaint filed by three Members of Congress.

SKD Knickerbocker submitted 24 invoices between September 30, 2020 and January 20, 2021. The total dollar amount of those invoices was \$34,687,299 of which \$9,921,668 was paid with CARES Act funds and \$1,945,773 was paid with Election Security funds. McBride, Lock & Associates, LLC tested all 24 invoices. In addition to the tests needed to satisfy the overall objectives of the audit previously described, the audit tested the invoices from the SKDK contract to determine whether the State of California funded any get-out-the-vote (GOTV) activities using Federal or State matching funds.

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.

Election Security, Section 251 Reissued, Section 101 Reissued, CARES Act

Based on the audit procedures performed, we concluded that the Office generally used funds for authorized purposes, properly accounted for and controlled property purchased, and used the funds in a manner consistent with informational plans submitted during the audit period. However, as mentioned above, the Office did not account for the Grant funds in accordance with Grant requirements. The exceptions to applicable compliance requirements are described below.

Finding No. 1 – Financial Reporting

Federal expenditures reported on the Federal Financial Reports (FFRs) was not supported in total by the accounting records provided by the Office. Federal expenditures of the Election Security, Section 251 reissued, Section 101 reissued and CARES Act grants had the following variances between the FFR and the general ledger (GL):

	<u>Election Security</u>	<u>Section 251 Reissued</u>	<u>Section 101 Reissued</u>	<u>CARES Act</u>
Expenditures per FFR	\$ 5,535,493	\$ 39,515,012	\$ 477,145	\$ 5,070,078
Expenditures per GL (A)	<u>4,634,960</u>	<u>28,179,799</u>	<u>1,204,220</u>	<u>6,595,845</u>
Variance	<u>\$ 900,533</u>	<u>\$ 11,335,213</u>	<u>\$ (727,075)</u>	<u>\$ (1,525,767)</u>

Note (A): Expenditures per accounting records provided by California in December 2021.

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

As a result of the Office transitioning from one state accounting system to another during the reporting period, the Office used an estimate drawn from the State Controller’s Office report to determine the federal expenditure amount. The activities associated with transitioning from one accounting to another meant the Office did not close its accounting fiscal year until November 2021. Per the Office, this caused the reconciliation of each individual grant to not be performed prior to submission. The Office is currently taking steps to reconcile the expenditure activity to ensure that the reporting is accurate going forward.

Proper and timely reporting of uses of award funds and the interest and program income generated by federal funds ensures that the funds are tracked and spent in accordance with federal regulations. The lack of financial accountability and reporting of grant funding causes significant concern with the capability of the audit to ensure the review of all expenditures incurred by the State of California during the audit period. This circumstance creates concerns with the selection of expenditures considered for testing since there is no representation of the Federal expenditures claimed by the Office for the period. Given the magnitude of the exceptions of reporting compared to the representations made to the audit of costs incurred, no assurance that appropriate consideration of all costs incurred by the grants can be made.

Recommendation

We recommend that the EAC require the Office:

1. Perform a reconciliation of the grant activity for the Election Security, Section 251 reissued, Section 101 reissued, and CARES Act funds and ensure that all expenditures are fully disclosed, and file amended FFRs, as applicable. If the Office determines that it is

unable to perform the reconciliation of the grant activity, obtain financial services to support the completion of the reconciliation.

2. Implement procedures and training to properly fill out the required Federal Financial Reports, which reflect the uses of award funds and the interest and program income generated from those funds for all HAVA grants.

Secretary of State's Response:

Finding #1 identified that federal expenditures reported on the Federal Financial Reports (FFRs) were not supported in total by the accounting records provided by the SOS. The finding indicated that Federal expenditures of the Election Security, Section 251 reissued, Section 101 reissued and CARES Act grants had variances between the FFR and the General Ledger (GL).

The SOS began transitioning from a legacy statewide accounting system (CalSTARS) to a new mandated statewide system (FI\$Cal) in 2018. The FI\$Cal system modernized how the state of California manages its finances and is one of the largest and most dynamic IT and business transformation undertakings in California's history.

During this transition, the SOS used both CalSTARS and FI\$Cal simultaneously as the book of record and after FI\$Cal full implementation, the new system became the book of record. However, entering all the prior transactions into the FI\$Cal system caused a temporary delay in the reconciliation process and producing the year-end financial statements by the following:

- FY2018 Financials were closed and submitted in September 2020
- FY2019 Financials were closed and submitted in May 2021
- FY2020 Financials were closed and submitted in November 2021

Reconciliation of Election Security Funds, CARES Act, Section 251 Reissued, and Section 101 Reissued are now complete, and the SOS is able to report that the:

- Election Security and CARES Act funds are fully reconciled between the current FFR and GL
- Section 101 Reissued has a non-material variance
- Section 251 Reissued has a non-material variance

As of March 31, 2022, the California SOS has submitted to the EAC complete, accurate, and fully reconciled FFRs of the CARES Act and Election Security Grant expenditures.

Regarding Section 251 Reissued and Section 101 Reissued funds, the SOS is currently taking the appropriate measures to fully provide the EAC Elections Grants Management team with a full accounting of the funds by September 30, 2022.

Also, the SOS is taking the necessary steps to fully implement the Auditor's recommendations to ensure Section 251 Reissued and Section 101 Reissued funds comply with the terms and conditions of the Federal Form 425. This includes the review and revision of policies and procedures as it

relates to the day-to-day transaction level and the monthly reconciliation process. This should provide the EAC with confidence the SOS is ensuring that accountability is a central tenant being promoted enterprise wide. The SOS will continue with its due-diligence and ensure all future FFRs are accurate, fully represent expenditures, and comply with the relevant section(s) of the HAVA Recordkeeping Requirements.

Auditor's Response:

The resolution process should ensure that the revised FFRs are accurate and in agreement with the records from the Office's accounting system and that procedures have been implemented to ensure accurate financial reports going forward.

Finding No. 2 – Payroll Documentation

Ten of the 16 charges for salary costs selected for testing (\$51,012) were determined to lack appropriate documentation. Documentation provided did not assure that charges were accurate, allowable, and properly allocated. For the 16 charges, six of the employee time sheets provided did not have all appropriate signatures, four of the charges did not recalculate to the employee's approved pay rates, and three of the charges had discrepancies between the payroll register and the time sheet.

An additional sample of wages in the amount of \$180,350 was selected for additional substantive testing. Initial detail provided by the Office for those charges had an unexplained variance. After fieldwork, we were provided with documentation to explain the variance, but we were not able to perform further audit procedures on the sample. The \$180,350 was determined to be wages charged to the grant for both July and August. The original documentation provided was only for August.

The Uniform Guidance at 2 CFR 200.430(i)(1) states that, "Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; (v) Comply with the established accounting policies and practices of the non-Federal entity." The Office's Secretary of State Help America Vote Act (HAVA) Desk Manual requires "individuals will log time as appropriate to HAVA, the supervisors will review and approve/disapprove as appropriate, and the Deputy Secretary, HAVA Activities will review and approve/disapprove as appropriate."

In response to the ten charges, the Office stated that the time keeping system only allows approvals for up to three days after the close of the pay period, and if the approvals are not made during that time, then the system will not allow the Office to make the approval. A cause has not been provided for the difference between the time sheet and the payroll register nor the difference between the calculated salary and the approved salary.

During fieldwork, the Office stated that due to how the charges to the grant were recorded in the financial system, a reconciliation to the \$180,350 was not possible. However, after fieldwork a reconciliation was provided.

Proper documentation of payroll ensures that charges to the grant are accurate, allowable, and properly allocated.

Recommendation

We recommend that the EAC require the Office:

3. Transfer into the election fund \$51,012 and any related fringe benefits and indirect costs for the unsupported payroll costs cited above.
4. Implement procedures or provide additional training to ensure that payroll costs are adequately supported with appropriate signature approvals, pay rates, and timesheets when being allocated to the HAVA grants.

We recommend that the EAC:

5. Perform detailed testing on the \$180,350 of additional wages selected for substantive testing to determine what amount, if any, remains unsupported.

Secretary of State's Response:

Finding #2 identified charges for salary costs that were determined by the Auditor to lack appropriate documentation. Specifically, SOS time sheets sometimes lacked all relevant signatures, charges did not recalculate to the employee's approved pay rates, and charges had discrepancies between the payroll register and the time sheet.

The SOS uses an online timesheet system that provides for the electronic tracking and approval of employees' time. All HAVA charged time is entered, reviewed, and approved by the employee, the employee's supervisor and the SOS HAVA Director. These timesheets have been reviewed and hours worked have been confirmed both at the time of creation and subsequently. The missing signatures are noted, and the SOS is requesting that all costs associated with the timesheets identified as missing signatures be allowed, as the HAVA Director has subsequently given assurance that those employees accurately accounted for all work performed on HAVA approved activities for the time periods in question. The SOS currently has internal controls in place to ensure all time charged to HAVA is accurate, allowable, and properly allocated. Furthermore, to ensure strict accountability, the SOS will review policies and procedures to allow two signatures in the case of employee separation prior to payroll period ending and allow for backup approvals in the case where an approver is out of office and perform periodic internal audits of HAVA expenditures.

With regard to payroll charges, the SOS disagrees that the payroll charges did not recalculate to the employee's approved pay rate. Payroll charges did recalculate to the employee's approved monthly pay rate when the appropriate hours were used as a basis in the calculation. MLA applied an analysis that would not allow for the correct recalculation of the employees pay rate based on the differences in the hours noted in the state's accounting system instead of the hours displayed in the SOS internal timekeeping system. The internal timekeeping system reflects all hours

allowable on a monthly basis, including time off, overtime, etc. whereas the state's accounting system only reflects time worked. Accordingly, this SOS deems this to be fully supported, a nonissue, with no corrective action required.

In addition, likewise, the payroll charges do not appear to have discrepancies between the payroll register and the time sheet. It appears MLA was again applying the state's accounting system record instead of the SOS' internal timekeeping system. All employee hours worked for each program are accounted for and the total salary shown. In this manner, the differences between the payroll charges and the time sheets are fully reconciled. Accordingly, this should be deemed fully supported and the SOS does not anticipate any corrective action required at this time.

Auditor's Response:

The resolution process should determine the allowability of the \$51,012 that was deemed by the audit to be unsupported and the \$180,350 sample that was unable to be tested during the audit. The personnel testing was performed with the documentation provided by the Office and the discrepancies were provided to the Office for explanation during the audit.

Finding No. 3 – Unsupported Costs

During fieldwork, the Office did not provide adequate documentation to support two of the 26 contractual service transactions sampled. For the two transactions, the contract detailed that billing was to be based on hourly rates, but the invoice does not include timesheets to support the dollar amounts billed to the Office. The total of the two unsupported transactions was \$177,124. After fieldwork was completed, the Office provided documentation to support the two contractual service exceptions.

For one of twelve subaward transactions sampled, the Office reimbursed the County based on a typewritten statement with no further price support for three amounts totaling \$1,284,611. After fieldwork was completed, the Office provided documentation to support two of the three exceptions, leaving a remaining unsupported amount of \$1,081,220. The \$1,081,220 was related to payroll charges reimbursed to one of the counties. The support provided was password protected and as of the date of the report, the password has not been provided.

The Uniform Guidance at 2 CFR 200.403 states that, "Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards: (g) Be adequately documented."

The Office has not provided adequate documentation to support the allowability of expenditures charged to the HAVA grant.

Proper documentation of purchases ensures that expenses charged to Federal awards are allowable, allocable and reasonable.

Recommendation

6. We recommend that the EAC work with the Office to resolve the one remaining unsupported County reimbursement.
7. We recommend that the EAC require the Office to transfer into the election fund any amount which remains unsupported.
8. We recommend that the EAC require the Office to develop and implement policies and procedures and provide training to ensure adequate documentation is maintained to support the allowability of expenditures charged to the HAVA grant.

Secretary of State's Response:

Finding # 3 identified a documentation deficiency where a contractual reimbursement was made to a County related to payroll charges without full payroll documentation.

The County reimbursement documentation was provided in summary format by the County. As a general practice, the SOS does not request payroll documentation as it often contains Personal Identifiable Information (PII) and is required to be redacted prior to providing the requested support. Furthermore, the information technology system employed at the County demands a great deal of time and effort to produce large quantities of data that still require a thoughtful and careful review for PII. The SOS has provided MLA with the supporting documentation and asks that this expenditure be determined to be fully supported, thus, this finding be deemed a non-issue with no corrective action required.

Auditor's Response:

The resolution process should determine the allowability of the remaining unsupported amount. As of the date of the report, the password has not been provided to us to allow us to evaluate the documentation provided.

The Office responded on September 6, 2022, and generally agreed with the report's findings and recommendations regarding financial reporting and generally disagreed with the findings regarding unsupported costs. The EAC responded on September 6, 2022, and stated they will work with the California Secretary of State to implement and complete appropriate corrective action on the findings. The Office's complete response is included as Appendix A-1 and the EAC's complete response as Appendix A-2.

McBride, Lock & Associates, LLC performed the related audit procedures between July 20, 2021, and August 23, 2022.

SKDK Special Requirement

Based on the audit procedures performed, we took no exceptions to the Office's procurement of the SKDK contract and did not note any instances in which Federal or State matching funds were used for ineligible GOTV or voter registration activities.



McBride, Lock & Associates, LLC
Kansas City, Missouri
August 23, 2022

APPENDIX A-1

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

Ms. Brianna Schletz
September 6, 2022
Page 2

Elections Code section 1604 and the California Budget Act for 2020-2021, for the SOS' Vote Safe California education and outreach effort that helped millions of Californians – voters, election officials and their staff -- safely navigate numerous changes to the election process during a global pandemic. As you indicated in your February 9, 2022, correspondence:

After receiving EAC funding authorized to prevent, prepare for, and respond to coronavirus for the 2020 Federal election, SOS executed the SKDK contract using state regulations for administering contracts during an emergency. The contract was not a sole source acquisition.

Based on sampled testing, the funds spent on the SKDK education campaign were allowable, no instances of lobbying were found, and SKDK did not receive inappropriate access to voter information. The Vote Safe California messaging was intended to help voters understand the vote by mail and registration processes and did not meet the definition of a registration drive or Get-Out-the-Vote activity. As a result, we have no recommendations related to the SKDK contract for the California Secretary of State Office at this time.

Additionally, as indicated in your July Report:

Based on the audit procedures performed, we took no exceptions to the Office's procurement of the SKDK contract and did not note any instances in which Federal or State matching funds were used for ineligible GOTV or voter registration activities.

The Office of the SOS appreciates the level of scrutiny these expenditures were subjected to and will continue to remain diligent on the application of these funds.

Report Findings

As the July 2022 Report indicates, there are three findings. The findings and the California Secretary of State's explanation and response to those findings are detailed below.

Finding #1 – Financial Reporting

Finding #1 identified that federal expenditures reported on the Federal Financial Reports (FFRs) were not supported in total by the accounting records provided by the SOS. The finding indicated that Federal expenditures of the Election Security, Section 251 reissued, Section 101 reissued and CARES Act grants had variances between the FFR and the General Ledger (GL).

The SOS began transitioning from a legacy statewide accounting system (CalSTARS) to a new mandated statewide system (FI\$Cal) in 2018. The FI\$Cal system modernized how the state of California manages its finances and is one of the largest and most dynamic IT and business-transformation undertakings in California's history.

During this transition, the SOS used both CalSTARS and FI\$Cal simultaneously as the book of record and after FI\$Cal full implementation, the new system became the book of record. However, entering all the prior transactions into the FI\$Cal system caused a temporary delay in the reconciliation process and producing the year-end financial statements by the following:

- FY2018 Financials were closed and submitted in September 2020
- FY2019 Financials were closed and submitted in May 2021
- FY2020 Financials were closed and submitted in November 2021

Reconciliation of Election Security Funds, CARES Act, Section 251 Reissued, and Section 101 Reissued are now complete, and the SOS is able to report that the:

- Election Security and CARES Act funds are fully reconciled between the current FFR and GL
- Section 101 Reissued has a non-material variance
- Section 251 Reissued has a non-material variance

As of March 31, 2022, the California SOS has submitted to the EAC complete, accurate, and fully reconciled FFRs of the CARES Act and Election Security Grant expenditures.

Regarding Section 251 Reissued and Section 101 Reissued funds, the SOS is currently taking the appropriate measures to fully provide the EAC Elections Grants Management team with a full accounting of the funds by September 30, 2022.

Also, the SOS is taking the necessary steps to fully implement the Auditor's recommendations to ensure Section 251 Reissued and Section 101 Reissued funds comply with the terms and conditions of the Federal Form 425. This includes the review and revision of policies and procedures as it relates to the day-to-day transaction level and the monthly reconciliation process. This should provide the EAC with confidence the SOS is ensuring that accountability is a central tenant being promoted enterprise wide. The SOS will continue with its due-diligence and ensure all future FFRs are accurate, fully represent expenditures, and comply with the relevant section(s) of the HAVA Recordkeeping Requirements.

Finding #2 – Payroll Documentation

Finding #2 identified charges for salary costs that were determined by the Auditor to lack appropriate documentation. Specifically, SOS time sheets sometimes lacked all relevant signatures, charges did not recalculate to the employee's approved pay rates, and charges had discrepancies between the payroll register and the time sheet.

The SOS uses an online timesheet system that provides for the electronic tracking and approval of employees' time. All HAVA charged time is entered, reviewed, and approved by the employee, the employee's supervisor and the SOS HAVA Director. These timesheets have been reviewed

and hours worked have been confirmed both at the time of creation and subsequently. The missing signatures are noted, and the SOS is requesting that all costs associated with the timesheets identified as missing signatures be allowed, as the HAVA Director has subsequently given assurance that those employees accurately accounted for all work performed on HAVA approved activities for the time periods in question. The SOS currently has internal controls in place to ensure all time charged to HAVA is accurate, allowable, and properly allocated. Furthermore, to ensure strict accountability, the SOS will review policies and procedures to allow two signatures in the case of employee separation prior to payroll period ending and allow for backup approvals in the case where an approver is out of office and perform periodic internal audits of HAVA expenditures.

With regard to payroll charges, the SOS disagrees that the payroll charges did not recalculate to the employee's approved pay rate. Payroll charges did recalculate to the employee's approved monthly pay rate when the appropriate hours were used as a basis in the calculation. MLA applied an analysis that would not allow for the correct recalculation of the employees pay rate based on the differences in the hours noted in the state's accounting system instead of the hours displayed in the SOS internal timekeeping system. The internal timekeeping system reflects all hours allowable on a monthly basis, including time off, overtime, etc. whereas the state's accounting system only reflects time worked. Accordingly, this SOS deems this to be fully supported, a non-issue, with no corrective action required.

In addition, likewise, the payroll charges do not appear to have discrepancies between the payroll register and the time sheet. It appears MLA was again applying the state's accounting system record instead of the SOS' internal timekeeping system. All employee hours worked for each program are accounted for and the total salary shown. In this manner, the differences between the payroll charges and the time sheets are fully reconciled. Accordingly, this should be deemed fully supported and the SOS does not anticipate any corrective action required at this time.

Finding #3 – Unsupported Costs

Finding # 3 identified a documentation deficiency where a contractual reimbursement was made to a County related to payroll charges without full payroll documentation.

The County reimbursement documentation was provided in summary format by the County. As a general practice, the SOS does not request payroll documentation as it often contains Personal Identifiable Information (PII) and is required to be redacted prior to providing the requested support. Furthermore, the information technology system employed at the County demands a great deal of time and effort to produce large quantities of data that still require a thoughtful and carefully review for PII. The SOS has provided MLA with the supporting documentation and asks that this expenditure be determined to be fully supported, thus, this finding be deemed a non-issue with no corrective action required.

Ms. Brianna Schletz
September 6, 2022
Page 5

We appreciate the opportunity to review and comment on the draft audit report. Please contact Susan Lapsley, Deputy Secretary of State, Help America Vote Act Director and Counsel, at (916) 695-1662 if there is a need to discuss this response.

Sincerely,

A handwritten signature in blue ink, appearing to read "Shirley N. Weber". The signature is stylized with a large, circular flourish at the end.

Shirley N. Weber, Ph.D.
California Secretary of State

APPENDIX A-2

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



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

TO: Brianna Schletz, Inspector General

FROM: Kinza Ghaznavi, Grants Director
Kinza Ghaznavi

DATE: September 6, 2022

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

This is the EAC's response to the OIG draft audit of HAVA funds awarded to the California Office of the Secretary of State (Office) and serves as the EAC's management decision. The scope of the audit included HAVA Sections 251, 101, 101 Election Security and 101 CARES grants. The EAC agrees with the recommendations and describes our management decisions related to each one below. The auditors also conducted a specific evaluation of the procurement contract with SKD Knickerbocker (SKDK) that was the subject of a complaint filed with the EAC. The EAC notes that their testing of the SKDK contract found no evidence the procurement was inappropriate and did not find any instances in which federal or state matching funds were used for ineligible "Get Out the Vote" or voter registration activities.

Finding #1 and Recommendations #1 and #2, Financial Reporting: The auditors found that federal expenditures and earned interest as reported on the Federal Financial Reports (FFRs) were not supported in total by the accounting records provided by the Office. They also found that earned interest per the general ledger did not agree to the FFR for the Section 251 reissued funds. The auditors recommend that the EAC require the Department to:

1. Perform a reconciliation of the grant activity for the Election Security, Section 251 reissued, Section 101 reissued, and CARES Act funds and ensure that all expenditures and program income are fully disclosed, and file amended FFRs, as applicable. If the Office determines that it is unable to perform the reconciliation of the grant activity, obtain financial services to support the completion of the reconciliation.
2. Implement procedures and training to properly fill out the required Federal Financial Reports, which reflect the uses of award funds and the interest and program income generated from those funds for all HAVA grants.

Management Decision: As noted in the audit report, the 2020 FFR was prepared from estimates because the Office was transitioning to a new accounting system as the fiscal year ended. The Office provided cumulative spreadsheets for the period ending 9/30/21 which reconcile the CARES and Election Security grants through that date and agree with the FFRs submitted to the EAC. The EAC Grants staff reviewed the reconciliation reports and confirmed they are inclusive of previous periods and cumulative through 9/30/21. The state is continuing to work on the reconciliation of the 251 and 101 grants and expects to complete the process by October 31. If they cannot complete the reconciliation, the EAC is recommending the Office obtain financial services to support the completion of the reconciliation. Concerning Recommendation #2, the EAC also expects to review the Office's procedures by October 31, 2022.

Finding #2 and Recommendations #3, #4 and #5, Payroll Documentation: The auditors found that ten of the sixteen charges for salary costs selected for testing (\$51,012) lacked appropriate documentation. Documentation provided did not assure that charges were accurate, allowable, and properly allocated. For the sixteen charges, six of the employee time sheets provided did not have all appropriate signatures, four of the charges did not recalculate to the employee's approved pay rates, and three of the charges had different hours charged per the payroll register than hours worked per the time sheet. An additional sample of wages in the amount of \$180,350 was selected for additional substantive testing. The detail provided by the Office to support those charges totaled \$88,937, an unexplained variance of \$91,413. The auditors recommended the EAC require the Office to:

3. Transfer into the election fund \$231,362 and any related fringe benefits and indirect costs for the unsupported payroll costs cited above.
4. Implement procedures or provide additional training to ensure that payroll costs are adequately supported when being allocated to the HAVA grants.
5. The auditors also recommended that EAC perform detailed testing on the \$180,350 of additional wages selected for substantive testing to determine what amount, if any, remains unsupported.

Management Decision: The Office provided extensive data related to the timekeeping system and the procedures used to calculate payroll amounts to charge to the grants. Initial review by EAC Grants staff indicates that, with the exception of the approval process, the procedures are appropriate and the amounts charged are accurate. Procedures are in place in the on-line system that support amounts allocated to HAVA grants. However, the payroll system allocates time both by funding source and by specific activity within the funding source that may appear not to be related. In addition, the approval process is very time-limited and subject to missed approvals if supervisors or the HAVA coordinator are not available within the window for approval before the payroll system is closed for the month. We are recommending the Office establish exceptions policies and procedures to maintain certification exception documentation when all three approvals are not completed within the required three-day window. We expect to complete our review of the data provided by the state by September 30, 2022 and anticipate many of the costs questioned as unsupported will be allowed.

Concerning Recommendation #5, based on Grants staff review of the payroll system and its functions, we will require the Office to sample an additional 20 payroll transactions from fiscal year 2020. We expect that sampling to confirm the exception related to the approval process which will be addressed through development of exceptions policies. We expect the state to complete that process by November 30, 2022.

Finding #3 and Recommendations #6, #7 and #8, Unsupported Costs: The auditors found that the Office did not provide adequate documentation to support one of the 26 contractual service transactions sampled. For one of the sampled subaward transactions, the Office reimbursed the County based on a typewritten statement with no further price support for one three amount totaling \$1,081,220. The auditors recommend that the EAC require the Department to:

6. Resolve the one remaining the one remaining unsupported County reimbursement.
7. Transfer into the election fund any amount which remains unsupported.
8. Develop and implement policies and procedures and provide training to ensure adequate documentation is maintained to support the allowability of expenditures charged to the HAVA grant.

Management Decision: The Office is working with the County to provide the appropriate documentation and expects to complete that process by September 30. The EAC will review the supporting documentation and determine amounts that are supported after we do so. Concerning Recommendation #8, we will work with the Office to review existing policies and procedures and determine if training or updates to procedures are needed.

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

AUDIT SCOPE AND METHODOLOGY

Our audit methodology included:

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

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

We made the following determination as to the significance of the underlying internal control principles:

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

The significance was determined as follows:

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

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

compile the data necessary to meet the state’s reporting objectives and the external communication processes used to inform the counties about grant requirements.

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

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

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

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

- Interviewed appropriate Office employees about the organization and operations of the HAVA program.
- Reviewed prior single audit reports and other reviews related to the Office’s financial management systems and the HAVA program for the period under review.
- Reviewed policies, procedures and regulations for the Office management and accounting systems as they relate to the administration of the HAVA program.
- Tested major purchases and the supporting documentation.
- Tested randomly sampled payments made with HAVA funds.
- Evaluated compliance with the requirements for accumulating financial information reported to the Commission on the financial status reports and progress reports, accounting for property, purchasing HAVA related goods and services, and using funds in a manner consistent with the budget plan provided to EAC.
- Verified the establishment and maintenance of an election fund.
- Observed the physical security/safeguards of selected equipment purchased with HAVA funds and ensure compliance with federal regulation.
- Verified whether the matching requirement was met and, if so, that matching expenditures met the prescribed criteria and allowability requirements of HAVA.

- Verified program income and interest income was properly accounted for and not remitted to the State's general fund.

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

Description	Questioned Costs	Unsupported Costs	Additional Funds for Program
Payroll Costs	\$ -	\$ 231,362	\$ -
Unsupported Costs	-	1,081,220	-
Total	<u>\$ -</u>	<u>\$ 1,312,582</u>	<u>\$ -</u>

Note - The lack of adequate financial reporting and expenditure tracking as discussed in Finding No. 1 limits the capability of the audit to ensure that a complete analysis of expenditures claimed under the grants has been considered. The monetary impact is therefore limited to those items made available for audit.



Visit our website at eac.gov/inspector-general

U.S. Election Assistance Commission
Office of Inspector General
633 3rd Street, NW, Second Floor
Washington, DC 20001

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