

OFFICE OF INSPECTOR GENERAL

U.S. Election Assistance Commission

AUDIT OF THE HELP AMERICA VOTE ACT

GRANTS AWARDED TO THE STATE OF INDIANA

Report No. G22IN0011-22-03
September 2, 2022



HIGHLIGHTS

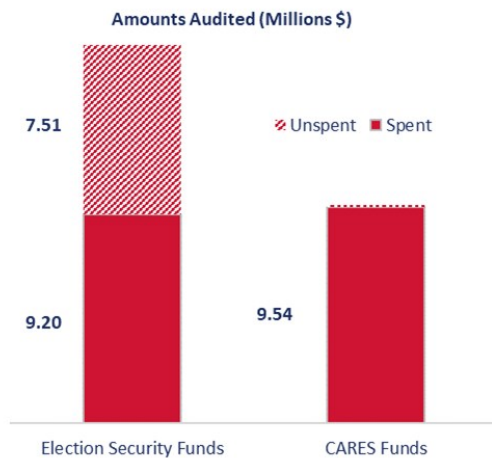
AUDIT OF THE HELP AMERICA VOTE ACT GRANTS AWARDED TO THE STATE OF INDIANA

Report No. G22IN0011-22-03

September 2, 2022

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 Indiana under the Help America Vote Act (HAVA), including state matching funds and program income, totaling \$26.3 million.



Indiana's Section 251 grant had not been closed out as of the audit period and therefore was not included in the scope of the audit.

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

- (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 the HAVA payments; and
- (3) used funds in a manner consistent with the informational plans provided to EAC.

What OIG Found

The Office of Inspector General found that the Indiana Secretary of State generally accounted for HAVA funds in accordance with applicable requirements and used the funds in a manner consistent with the informational plans that they had submitted.

However, there were two exceptions (1) procedures did not allow for timely allocation of interest earned on grant funds; and (2) subrecipient inventory listings for three counties did not include all required elements.

What OIG Recommended

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

- 1 Determine the proper amount of program income to be reported for the Election Security grant through September 30, 2020, and revise the financial reports as necessary.
- 2 Ensure procedures and training are in place to ensure timely allocation of interest earned on HAVA funds.
- 3 Implement procedures and training to ensure that property purchased with federal funds by or on behalf of subrecipients is maintained in an inventory listing that is compliant with the Uniform Guidance requirements.



OFFICE OF INSPECTOR GENERAL

U.S. Election Assistance Commission

DATE: September 2, 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 Indiana
(Report No. G22IN0011-22-03)

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

Please keep us informed of the actions taken on the report's three 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 Indiana Secretary of State**

Prepared for

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

By

McBride, Lock & Associates, LLC

July 2022

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**Performance Audit Report
Administration of Payments Received Under the Help America Vote Act by
the Indiana 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 Indiana 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 Indiana Secretary of State's Office (Office). The payments received by the Office are identified as Election Security and the CARES Act. The scope of the audit includes: Election Security administration from inception on September 14, 2018 through September 30, 2020; CARES Act administration from inception on April 30, 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. The Office's Section 251 grant had not been closed out as of the audit period and therefore was not included in the scope of our audit.

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 Office generally accounted for and expended the Grant funds in accordance with the requirements mentioned above and for the periods mentioned above. The exceptions are as follows:

1. Interest earned on HAVA grant funds had not been fully allocated to the Secretary of State's election fund as of September 30, 2020. The Office reported \$190,781 of Program Income earned on Election Security grant funds on the September 30, 2020 Federal Financial Report (FFR) based on information provided by the State Treasurer's office. The PeopleSoft fund used to account for the Election Security grants reflected only \$3,385 of interest income earned on Election Security grant funds. The Office subsequently received an analysis from the State Treasurer's office showing actual interest earned of \$209,311 through September 30, 2020.
2. The equipment inventory listings for three counties who received election equipment purchased with 2020 Election Security grant funds did not contain the information required by the Uniform Guidance. The Office purchased \$968,175 of election equipment on behalf of Fulton, Cass, and Gibson Counties. The Office made the payments to the vendor but the equipment was delivered directly to the counties, therefore, the items were not recorded in the Office's equipment inventory. The property records provided by each of the three counties did not include all information required by 2 CFR 200. The listings were limited to description and serial number. A sample of items purchased were physically viewed and were determined to exist.

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, 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 HAVA Election Security 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 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 Indiana Secretary of State

The HAVA funds were awarded to the Indiana Secretary of State (SOS), whose mission statement is as follows: “It is the mission of the office of Secretary of State Holli Sullivan to deliver to the people of Indiana government-as-a-service that focuses on unqualified integrity and accuracy in our elections, consistent and principled regulatory methods, ceaseless protection of Hoosier investors, and the most efficient use of taxpayer resources.”

The Elections Division of the Secretary of State’s office is a bipartisan commission comprised of an equal number of Democrats and Republicans, with the SOS serving as a tie-breaking vote if the two co-directors of the bipartisan commission are unable to resolve issues dealing with the budget or expenditures of contracts. The Commission is charged with administering statewide elections, with the responsibility for actual conduct of elections vesting with county election boards. Administrative responsibilities of the bipartisan commission include overseeing the candidate declaration process, certifying election results, maintaining campaign finance reports and supervising local elections officials.

Additionally, the SOS maintains a database of all approved voting systems, reviews reports concerning these systems, performs audits, reviews contracts and leases for the systems and performs random, public tests of election machines.

Help America Vote Act State of Indiana State Plans

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

Election Security 2018 and 2020

The main objectives of the 2018 Election Security grant were to modernize and maximize security through implementation of cybersecurity projects across the Statewide Voter Registration System (SVRS), including an assessment of risk and vulnerabilities, establishment of a strategic framework for the state’s cybersecurity initiatives, and mandatory public testing of voting equipment, hardware and software. This includes expansion of a multifactor authentication pilot project to all 92 counties, in addition to a partnership with the Department of Homeland Security (DHS) and the Multi-State Information and Analysis Center (MS-ISAC) to install Albert Sensors, which are a network monitoring solution that provides automated alerts of network threats.

There were two primary objectives for the 2020 Election Security grant as follows:

1. Purchase of new voter-verifiable paper audit trail voting equipment for counties with the greatest need to upgrade voting systems. Estimated cost of \$7,681,919.
2. Purchase of voter-verifiable paper audit trail (VVPAT) equipment.

CARES Act

The objective of the 2020 CARES Act was to prevent, prepare for, and respond to coronavirus, domestically or internationally, for the 2020 Federal election cycle. To address the impacts of coronavirus on the election, the State implemented a no-excuse absentee by mail voting for the June primary election and purchased sanitization products and personal protective equipment (PPE), which were distributed among elections staff and poll workers. Media costs were incurred to advertise the new election dates and voting guidelines. Additionally, funds were passed through to counties to use for additional staffing, facility rental, equipment needs, and personal protection equipment supplies to protect election workers against the virus.

AUDIT OBJECTIVES

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

1. Used funds for authorized purposes in accordance with Section 101 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 payments.
- Maintain documents and records subject to audit to determine whether payments were used in compliance with HAVA.

SCOPE AND METHODOLOGY

We audited the Election Security grant funds received and disbursed by the Office from September 14, 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 CARES Act grant funds received and disbursed by the Office from April 30, 2020 through December 31, 2020. These funds are related to the \$400

million authorized by the U.S. Congress under the Coronavirus Aid, Relief and Economic Security Act (P.L. 116-136). The scope of activity audited is shown in the following table:

| Description | Election Security Funds | CARES Act Funds |
|-------------------------|----------------------------|--------------------|
| Funds Received from EAC | \$ 16,140,537 | \$ 8,013,610 |
| State Matching Funds | 379,754 | 1,602,722 |
| Program Income | 190,781 | 6,445 |
| Total Funds | \$ 16,711,072 | \$ 9,622,777 |
| Less Disbursements | (9,196,547) | (9,542,876) |
| Fund Balance | <u>\$ 7,514,525</u> | <u>\$ 79,901</u> |

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

The Office’s Election Security expenditures detailed by budget and program category are included as Appendix C-1, and the CARES Act expenditures detailed by cost category are included as Appendix C-2. The Office did not provide a detail of subgrant spending by program category, so that detail is not presented.

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 Office’s ability to use funds for authorized

purposes, and properly account for and control property. The internal control deficiencies we found are discussed in the Audit Results section of this report.

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

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

AUDIT RESULTS

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

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

Finding No. 1 – Program Income

Interest earned by the state on HAVA funds had not been fully allocated to the Secretary of State’s election fund as of September 30, 2020. HAVA funds were pooled with other federal grant funds and invested by the State Treasurer’s office. The Office reported \$190,781 of Program Income earned on Election Security grant funds on the September 30, 2020 FFR based on information provided by the State Treasurer’s office at the time of the filing of the report. The PeopleSoft fund used to account for the Election Security grants reflected only \$3,385 of earned interest income on Election Security grant funds. The Office subsequently received an analysis from the State Treasurer’s office showing actual interest earned of \$209,311 through September 30, 2020.

The Notice of Grant Award for the 2018 and 2020 Election Security grant funds states, “Interest earned on this award’s funds and any net program income shall be retained in the election fund and used for allowable activities in Section 101 of HAVA.”

In researching the issue, the Office determined that the standard operating procedure of prior grant administrators had been to calculate daily grant fund balances and coordinate the calculation and transfer of interest to the Secretary of State’s funds with the State Treasurer on a quarterly basis. In late 2017, the Office’s remaining long-term grant administrator retired and between 2018 and the present the Office has employed two grant administrators in training mode. Due to staff inexperience, COVID remote working arrangements and pressures of an unusually demanding election cycle, Office staff did not continue to follow the quarterly grant interest calculation and

transfer procedure. On January 3, 2022, \$209,311 of interest earned was transferred to the Office's HAVA grant funds.

Program income earned on federal funds which is required to be used in furtherance of the grants may not be able to be expended and may not be properly reported if not allocated to the Office's Election fund in accordance with the terms of the grant.

Recommendation

We recommend that the EAC work with the Office to:

1. Determine the proper amount of program income to be reported on the Election Security grant FFR's through September 30, 2020 and revise this FFR and any subsequent FFR's as necessary.
2. Ensure that proper procedures and training are in place to ensure timely allocation of interest earned on HAVA funds to the Office's election funds.

Secretary of State's Response:

With respect to Finding No. 1 (timely calculation and transfer of grant interest income to program funds) as of January 3, 2022, grant interest for the audit term was allocated to the state Election Program Fund. As of August 12, 2022, audit term and subsequent FFRs were revised and filed with the EAC. As of April 2022, the Indiana Treasurer's office implemented procedures for automatic monthly calculation and allocation of grant interest to the state Election Program Fund. Since receipt of the Draft Report in July 2022, the office has developed Uniform Guidance compliant grant interest income allocation tracking procedures for our grant administration staff to follow. Training and implementation of the procedures will be complete by August 31, 2022.

Auditor's Response:

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

Finding No. 2 – Subrecipient Inventory Listings

The equipment inventory listings for three counties who received election equipment purchased with 2020 Election Security grant funds did not contain the information required by the Uniform Guidance. The Office purchased \$968,175 of election equipment on behalf of Fulton, Cass, and Gibson Counties. The Office made the payments to the vendor but the equipment was delivered directly to the counties, therefore, the items were not recorded in the Office's equipment inventory. The property records provided by each of the three counties did not include all information required by 2 CFR 200. The listings were limited to description and serial number. A sample of items purchased were physically viewed and were determined to exist.

The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) at 2 CFR 200.331 (d) states that all pass-through entities must: "Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for

authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.” 2 CFR 200.313(d)(1) requires that “property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.”

The Office did not perform activity monitoring sufficient to ensure that subrecipients were maintaining property records in compliance with Federal statutes and the terms and conditions of the awards. The Office relied on the requirements that counties follow the accounting policies prescribed for units of local government by the Indiana State Board of Accounts. These policies only require that counties include a “Schedule of Capital Assets” as supplementary information in their audited financial statements and do not state requirements for maintaining inventory listings. The Office also operates the Voting System Technical Oversight Program (VSTOP) which requires county election boards to report all election equipment in a database by January 31 each year. However, the VSTOP inventory database also does not contain all of the information required by the Uniform Guidance.

Proper monitoring of subrecipients ensures that equipment purchased with federal funds is being used and disposed of in accordance with federal regulations.

Recommendation

3. We recommend that the EAC work with the Office to implement procedures and training to ensure that all property purchased with federal funds by or on behalf of subrecipients is maintained in an inventory listing that is compliant with the Uniform Guidance requirements.

Secretary of State’s Response:

With respect to Finding No. 2 (monitoring subrecipient compliance with equipment recordkeeping) as of this date, our Director of Election Modernization has outlined plans to establish a routine monitoring system for subrecipient equipment recordkeeping within the office, and a program to provide equipment recordkeeping training and assistance to subrecipients. Our Director of Election Modernization has been charged with finalizing the subrecipient equipment recordkeeping monitoring, training, and assistance plan no later than October 31, 2022. In recognition of the significant responsibilities the current election cycle poses on subrecipient counties, the equipment recordkeeping monitoring, training, and assistance program will be implemented in phases starting January 1, 2024 with completion no later than December 31, 2024.

Auditor’s Response:

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

The Office responded on August 19, 2022, and generally agreed with the report's findings and recommendations. The EAC responded on August 11, 2022, and stated they will work with the Indiana Secretary of State to implement and complete appropriate corrective action on the findings. The Office's complete response is included as Appendix A-1 and the EAC's complete response as Appendix A-2.

McBride, Lock & Associates, LLC performed the related audit procedures between July 7, 2021 and July 20, 2022.

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

McBride, Lock & Associates, LLC
Kansas City, Missouri
July 20, 2022

APPENDIX A-1

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

SECRETARY OF STATE
STATE OF INDIANA
200 W. WASHINGTON STREET, INDIANAPOLIS, IN 46204

(by email in Microsoft Word and accessible .pdf format)

August 19, 2022

Brianna Schletz, Inspector General
Office of the Inspector General
U.S. Election Assistance Commission
633 3rd Street, NW Suite 200
Washington, DC 20001

Dear Inspector General Schletz,

On behalf of Indiana Secretary of State Holli Sullivan, our agency would like to extend compliments to the staff of the U.S. Election Assistance Commission, McBride, Lock & Associates, LLC, as well as Indiana's state and local election administrators, for professionalism and dedication to effective utilization of HAVA Election Security and CARES Act grants, especially under recent unusual and demanding circumstances.

The Office has reviewed the *July 2022 Draft Report: Audit of the Help America Vote Act Grants Awarded to the State of Indiana* and concurs with the audit findings and proposed recommendations.

With respect to **Finding No. 1** (timely calculation and transfer of grant interest income to program funds) as of January 3, 2022, grant interest for the audit term was allocated to the state Election Program Fund. As of August 12, 2022, audit term and subsequent FFRs were revised and filed with the EAC. As of April 2022, the Indiana Treasurer's office implemented procedures for automatic monthly calculation and allocation of grant interest to the state Election Program Fund. Since receipt of the Draft Report in July 2022, the office has developed Uniform Guidance compliant grant interest income allocation tracking procedures for our grant administration staff to follow. Training and implementation of the procedures will be complete by August 31, 2022.

With respect of **Finding No. 2** (monitoring subrecipient compliance with equipment recordkeeping) as of this date, our Director of Election Modernization has outlined plans to establish a routine monitoring system for subrecipient equipment recordkeeping within the office, and a program to provide equipment recordkeeping training and assistance to subrecipients. Our Director of Election Modernization has been charged with finalizing the subrecipient equipment recordkeeping monitoring, training, and assistance plan no later than October 31, 2021. In recognition of the significant responsibilities the current election cycle poses on subrecipient counties, the equipment recordkeeping monitoring,

training, and assistance program will be implemented in phases starting January 1, 2024 with completion no later than December 31, 2024.

Our Election Modernization Coordinator has been directed to report completion of these resolution activities to the Secretary of State and the EAC Grants Office.

Truly yours,

A handwritten signature in black ink that reads "Rachel Hoffmeyer". The signature is written in a cursive style with a large initial "R".

Rachel Hoffmeyer, Deputy Secretary of State
Office of Indiana Secretary of State Holli Sullivan

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: August 11, 2022

RE: Response to Draft Audit Report of Grants Awarded to the Indiana Office of the Secretary of State, OIG Report G22IN0011-22-0X

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

Finding #1 and Recommendations #1 and #2, Interest Earned: The auditors noted that interest earned on the Election Security, as reported in the Program Income section of the 2020 FFR, was not fully allocated. The auditors recommended that the EAC work with the Office to:

1. Determine the proper amount of interest earned to be reported on the Election Security grant FFRs through September 30, 2020 and revise this FFR and any subsequent FFRs as necessary.
2. Ensure that proper procedures and training are in place to ensure timely allocation of interest earned on HAVA funds to the Office's election funds.

Management Decision: The Office worked with the state treasury department to calculate the correct amount of interest earned on the 2018 funds for the period ending September 30, 2020. The total amount, \$209,311, was deposited into the State Election Fund, and the relevant FFRs were revised. Grant staff reviewed and approved the calculations and corrected FFRs. The Treasury department developed an automated procedure to calculate interest earned going forward. Based on this automated process, the Office will revise its procedures to include regular review of the calculations prior to reporting the interest earned on FFRs. The Office expects to have the procedures updated and implemented by August 31.

Finding #2 and Recommendation #3, Subrecipient Inventory Listings: The auditors determined that equipment inventory listings for three counties that received election equipment purchased with 2020 Election Security grant funds did not contain the information required by the Uniform Guidance. The auditors recommended that the EAC require the Office to implement procedures and training to ensure that all property purchased with federal funds by, or on behalf of subrecipients, is maintained in an inventory listing that is compliant with the Uniform Guidance requirements.

Management Decision: The state government supports a statewide inventory program for certified election equipment which is maintained for all counties. The Office is evaluating that system to determine if it can be updated to include all elements required to be included on inventories when purchases are supported with federal grant funds and if the property listings can be expanded to include certified and non-certified equipment. Alternatively, they are considering developing inventory procedures for their subrecipients outside of the statewide program and training them on the new system once the November election cycle is completed. They will make the decision on which approach to take by August 31, 2022.

The EAC expects to review the actions and documentation provided by the state by September 30, 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 | 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 counties where the equipment is located as part of the control system for accounting and controlling equipment purchased with HAVA funds.

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

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

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

**ELECTION SECURITY EXPENDITURES BY BUDGET CATEGORY AND PROGRAM CATEGORY
SEPTEMBER 14, 2018 TO SEPTEMBER 30, 2020**

| Budget Categories | Program Categories | | | | | | Total |
|-----------------------------------|---------------------------|----------------------|----------------------------------|---------------------|-------------------|-------------|---------------------|
| | Voting Equipment | Election Auditing | Voter Registration Systems | Cyber Security | Communications | Other | |
| Personnel (Including Fringe) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Equipment | - | - | - | 35,134 | - | - | 35,134 |
| Subgrants | 250,765 | - | - | 1,201,932 | - | - | 1,452,697 |
| Training | - | - | - | 2,074 | - | - | 2,074 |
| All Other Costs | - | - | - | 7,101,888 | 225,000 | - | 7,326,888 |
| Total Direct Costs | \$ 250,765 | \$ - | \$ - | \$ 8,341,028 | \$ 225,000 | \$ - | \$ 8,816,793 |
| Indirect Costs (if applied) | - | - | - | - | - | - | - |
| Total Federal Expenditures | \$ 250,765 | \$ - | \$ - | \$ 8,341,028 | \$ 225,000 | \$ - | \$ 8,816,793 |
| Non-Federal Match | - | 149,739 | 230,015 | - | - | - | 379,754 |
| Total Program Expenditures | \$ 250,765 | \$ 149,739 | \$ 230,015 | \$ 8,341,028 | \$ 225,000 | \$ - | \$ 9,196,547 |

**CARES ACT EXPENDITURES BY COST CATEGORY
APRIL 30, 2020 TO DECEMBER 31, 2020**

| Cost Category | Expenditure Type | | Total |
|--------------------------|-------------------------|--------------------|--------------------|
| | Federal | Match | |
| Voting Processes | \$ 2,273,900 | \$ 555,429 | \$2,829,329 |
| Security and Training | 6,968 | 1,044,488 | 1,051,456 |
| Communications | 2,643,598 | 2,805.00 | 2,646,403 |
| Supplies (including PPE) | 3,089,144 | - | 3,089,144 |
| Total CARES Expenditures | <u>\$ 8,013,610</u> | <u>\$1,602,722</u> | <u>\$9,616,332</u> |

NOTE: Amounts as reported by state in EAC Progress Report included with December 31, 2020 FFR. Federal expenditures include \$73,456 of unliquidated obligations.

MONETARY IMPACT AS OF SEPTEMBER 30, 2020 FOR ELECTION SECURITY AND AS OF DECEMBER 31, 2020 FOR CARES ACT GRANT

| Description | Questioned Costs | Unsupported Costs | Additional Funds for Program |
|----------------|---------------------|----------------------|------------------------------------|
| Program Income | \$ - | \$ - | \$ 187,396 |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 187,396</u> |



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