



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

FINAL REPORT:

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

MAY 1, 2003 THROUGH DECEMBER 31, 2006

**Report No.
E-HP-KY-02-07
AUGUST 2007**

This report contained information that was redacted pursuant to 5 U.S.C. §§ 552(b)(6) of the Freedom of Information Act.



U.S. ELECTION ASSISTANCE COMMISSION
OFFICE OF INSPECTOR GENERAL
1225 New York Ave. NW - Suite 1100
Washington, DC 20005

August 24, 2007

Memorandum

To: Thomas Wilkey
Executive Director

From: Curtis W. Crider
Inspector General

Subject: Final Audit Report - Administration of Payments Received Under the Help America Vote Act by the Commonwealth of Kentucky State Board of Elections
(Assignment Number E-HP-KY-02-07)

We contracted with the independent certified public accounting firm of Clifton Gunderson LLP (Clifton Gunderson) to audit the administration of payments received under the Help America Vote Act (HAVA) by the Commonwealth of Kentucky State Board of Elections (Board of Elections). The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards. Clifton Gunderson is responsible for the attached auditor's report and the conclusions expressed therein.

Except for a need for the Board of Elections to provide for its shortfall in state matching funds and to demonstrate how it complied with the maintenance of effort requirements, Clifton Gunderson's audit concluded that the Board of Elections generally accounted for and expended HAVA funds in accordance with the HAVA requirements and complied with the financial management requirements established by the U.S. Election Assistance Commission. The Board of Elections also complied with section 251 requirement for an election fund.

In a June 22, 2007 response to the draft report (Appendix A), the Board of Elections agreed with the report's finding and recommendation related to the provision of additional state matching funds and related interest earnings; however, they disagreed with the finding that they had not met the maintenance of effort requirement. The response indicated that the state had provided the necessary funds to cover the state matching shortfall, including the interest earned. The response also included details on how the Board of Elections complied with the maintenance of effort regulations.

Please provide us with your written response to the recommendations included in this report by October 24, 2007. Your response should contain information on actions taken or planned, including target dates and titles of EAC officials responsible for implementing the recommendations.

The legislation, as amended, creating the Office of Inspector General (5 U.S.C. § App.3) requires semiannual reporting to Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report to Congress.

If you have any questions regarding this report, please call me at (202) 566-3125.

PERFORMANCE AUDIT REPORT

**ADMINISTRATION OF PAYMENTS
RECEIVED UNDER THE
HELP AMERICA VOTE ACT BY THE
COMMONWEALTH OF KENTUCKY**

May 1, 2003 Through December 31, 2006

**UNITED STATES ELECTION
ASSISTANCE COMMISSION**

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**U.S. Elections Assistance Commission
Performance Audit of the Administration of Payments Received Under the
Help America Vote Act by the Commonwealth of Kentucky**

EXECUTIVE SUMMARY

Clifton Gunderson LLP was engaged by the U.S. Election Assistance Commission (EAC or the Commission) Office of Inspector General to conduct a performance audit of the Commonwealth of Kentucky State Board of Elections (SBE) for the period May 1, 2003 through December 31, 2006 to determine whether the SBE used payments authorized by Sections 101, 102, and 251 of the Help America Vote Act of 2002 (HAVA or the Act) in accordance with HAVA and applicable requirements; accurately and properly accounted for property purchased with HAVA payments and for program income, and met HAVA requirements for Section 251 funds for an election fund, for a matching contribution, and for maintenance of a base level of state outlays. In addition, the Commission requires states to comply with certain financial management requirements, specifically:

- Comply with the *Uniform Administrative Requirements For Grants And Cooperative Agreements With State And Local Governments* (also known as the “Common Rule”) as published in the Code of Federal Regulations 41 CFR 105-71.
- Expend payments in accordance with cost principles for establishing the allowance or disallowance of certain items of cost for federal participation issued by the Office of Management and Budget (OMB) in Circular A-87.
- Submit detailed annual financial reports on the use of Title I and Title II payments.

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. Because of inherent limitations, a study and evaluation made for the limited purposes of our review would not necessarily disclose all weaknesses in administering HAVA payments.

Except for the state’s matching of funds and maintenance of effort, which are discussed below, our audit concluded that SBE generally accounted for and expended HAVA funds in accordance with the requirements mentioned above. This includes compliance with section 251 requirements for an election fund. The exceptions noted above in two areas needing SBE’s management attention are as follows:

- As of December 31, 2006, there was a shortfall in the amount of funds provided by the state as matching funds, as well as lost interest earnings because of a delay in providing the matching funds.

- The state did not provide sufficient detail regarding its maintenance of a base level of state outlays to determine it was meeting this requirement.

We have included in this report the SBE's formal responses to the findings and recommendations dated June 22, 2007. The SBE agreed with the recommendation related to the shortfall in state matching funds. The SBE disagreed with the recommendation regarding the maintenance of effort.

BACKGROUND

The Help America Vote Act of 2002 created the U.S. Election Assistance Commission to assist states and insular areas with the improvement of the administration of Federal elections and to provide funds to states to help implement these improvements. HAVA authorizes payments to states under Titles I and 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, and developing a state plan for requirements payments.
- Title I, Section 102 payments are available only for the replacement of punch card and lever action voting systems.
- Title II, Section 251 requirements payments are for complying with Title III requirements for voting system equipment; and for addressing provisional voting, voting information, statewide voter registration lists, and voters who register by mail.

Title II also requires that states must:

- Have appropriated funds "equal to 5 percent of the total amount to be spent for such activities [activities for which requirements payments are made]." (Section 253)(5)).
- "Maintain the expenditures of the State for activities funded by the [requirements] payment at a level that is not less than the level of such expenditures maintained by the State for the fiscal year ending prior to November 2000." (Section 254 (a) (7)).
- Establish an election fund for amounts appropriated by the state "for carrying out the activities for which the requirements payment is made," for the Federal requirements payments received, for "such other amounts as may be appropriated under law," and for "interest earned on deposits of the fund." (Section 254)(1)).

AUDIT OBJECTIVES

The objectives of our audit were to determine whether the Commonwealth of Kentucky:

1. Used payments authorized by Sections 101, 102, and 251 of the Help America Vote Act (HAVA) in accordance with HAVA and applicable requirements;
2. Accurately and properly accounted for property purchased with HAVA payments and for program income;

3. Met HAVA requirements for Section 251 funds for an election fund, for a matching contribution, and for maintenance of a base level of state outlays.

In addition, to account for HAVA payments, the Act 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 HAVA funds to comply with certain financial management requirements, specifically:

4. Comply with the *Uniform Administrative Requirements For Grants And Cooperative Agreements With State and Local Governments* (also known as the “Common Rule”) as published in the Code of Federal Regulations at 41 CFR 105-71.
5. Expend payments in accordance with cost principles for establishing the allowance or disallowance of certain items of cost for federal participation issued by the Office of Management and Budget (OMB) in Circular A-87.
6. Submit detailed annual financial reports on the use of Title I and Title II payments.¹

SCOPE AND METHODOLOGY

We audited the HAVA funds received and disbursed by the SBE from May 1, 2003 through December 31, 2006.

Funds received and disbursed from May 1, 2003 (program initiation date) to December 31, 2006 (45-month period) are shown below:

TYPE OF PAYMENT	FUNDS RECEIVED				FUNDS DISBURSED	DATA AS OF
	EAC PAYMENT	STATE MATCH	INTEREST EARNED	TOTAL AVAILABLE		
101	\$ 4,699,196	\$0	\$471,704	\$5,170,900	\$ 325,730	12/31/06
102	469,256	0	17,523	486,779	469,229	12/31/06
251	32,899,292	1,575,200	1,812,229	36,286,721	19,554,337	12/31/06
	<u>\$38,067,744</u>	<u>\$1,575,200</u>	<u>\$2,301,456</u>	<u>\$41,944,400</u>	<u>\$20,349,296</u>	

Note: The above table does not include auditor’s adjustments for the state matching shortfall (\$156,341) and estimated additional interest earned on the shortfall through December 31, 2006 (\$4,700).

Our audit methodology is set forth in Appendix B.

¹ EAC requires states to submit annual reports on the expenditure of HAVA Sections 101, 102, and 251 funds. For Sections 101 and 102, reports are due on February 28 for the activities of the previous calendar year. For Section 251, reports are due by March 31 for the activities of the previous fiscal year ending on September 30.

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. Because of inherent limitations, a study and evaluation made for the limited purposes of our review would not necessarily disclose all weaknesses in administering HAVA payments.

Except for the state matching funds and maintenance of effort, our audit concluded that SBE generally accounted for and expended HAVA funds in accordance with the requirements mentioned above. This includes compliance with section 251 requirements for an election fund and for maintenance of a base level of state outlays. The exceptions in two areas needing SBE's management attention are described below:

I. State Matching Funds

As of December 31, 2006, there is a \$156,341 shortfall in the amount of state matching funds required to augment Section 251 HAVA funds received, because the requirement to provide an additional amount equal to 5% of the state matching funds was not considered. The method of computing the amount of the state matching funds, as set forth in HAVA Section 253(b)(5), is to divide the requirements payments to be received from the federal government by 95%, and then multiply the grossed up number by 5%. For Kentucky, the \$32,899,292 Section 251 proceeds, divided by 95%, equals \$34,630,834. The difference of \$156,341 is from the state matching requirement of \$1,731,542, compared to the amount provided by the state totaling \$1,575,200.

In addition, 100% of the state matching funds transferred to the HAVA accounts were not deposited in advance of receiving the Sec. 251 requirements payments. They were paid in installments in July 2005 and June 2006. Although interest earned on the funds was recomputed by the State to ensure that earnings were not lost, there is lost interest on the shortfall, estimated to be \$4,700, computed retroactively to the date the funds should have been deposited. The basis for the estimated interest computation was lower than the actual shortfall, since the recomputation by the state was based on a higher amount than was actually deposited.

Recommendations:

1. Ensure that the state matching funds shortfall of \$156,341 is transferred to the HAVA election fund.
2. Determine the actual amount of lost interest income, which we estimated at \$4,700 based on the required state matching funds total from the date of receipt of the Section 251 requirements payment from the federal government, and transfer the earnings to the HAVA election fund.

SBE's Response:

In its response to the draft finding, the SBE agreed with the recommendation and contacted the Controller of the Finance and Administration Cabinet of Kentucky, and informed him of the findings of the auditor and requested that he determine what actions would be necessary to rectify the situation.

On March 30, 2007, the Controller informed the State Board of Elections that the Finance and Administration Cabinet ("The Cabinet") took the following actions to address the conditions identified in the recommendation concerning Kentucky's State Matching Funds:

- 1) The Cabinet appropriated, allotted, and transferred \$156,341 to the Election Fund account;
- 2) The Cabinet credited interest earnings in the actual amount of \$9,238.01 to the Election Fund account.

II. Maintenance of Effort

1. The State did not identify the amount of its expenditures in fiscal year 2000 for HAVA Section 251-type activities. Thus, the auditors were unable to determine if the State met its requirement to maintain the expenditures of the State for activities funded by the HAVA Section 251 requirements payment in FYs 2004, 2005, and 2006.

The State Board of Elections (SBE) received \$4,699,196 in HAVA Section 101 funds and \$32,899,292 in HAVA Section 251 funds. Kentucky's state plan states that it would use its HAVA funds for the following:

- Ensuring compliance with Voting System Standards as set forth in HAVA
- Establish Provisional Voting and Voting Information Requirements
- The Statewide interactive voter registration system
- Voting Rights of Military and Overseas Citizens
- Purchasing one HAVA compliant voting machine with software per polling place
- Voter education programs
- Polling place improvements/increased accessibility
- Training

The State, in its Preliminary 2006 Amended State Plan, described the activities for which the Section 101 funds would be used. However, it did not identify whether it had incurred any costs in fiscal year 2000 for similar activities. Thus, there was no benchmark or subsequent years' state expenditures with which to evaluate compliance with maintenance of effort requirement.

2. The State Plan only provides that the Governor's Office of Policy and Management (GOPM) will ensure that the Maintenance of Effort (MOE) requirement will be met, but there is no information in the Plan on what level of MOE is required or how it will be met.

Recommendations:

1. Determine the level of state expenditures in fiscal year 2000 and fiscal years 2004, 2005, and 2006 for activities for which it received requirements payments. These amounts should be classified as expenditures which were funded by the State through annual appropriations.
2. Compare the level of expenditures in Fiscal Year 2000 with the level of expenditures in fiscal years 2004, 2005, and 2006 funded by the State's annual appropriations and determine if the State met its maintenance of effort requirements.
3. If, the level of state expenditures for 251-type activities in fiscal years 2004, 2005, and 2006 were less than in 2000, require the state to obtain supplemental funding to meet its maintenance of effort requirements and adjust its accounts and annual financial status reports to the Election Assistance Commission accordingly.
4. Amend the State Plan to provide more specific information on the required level of MOE, based on Title III category expenditures in FY2000.

SBE's Response:

The SBE disagreed with the recommendation, and in its response to the draft finding stated that:

Pursuant to HAVA §254(a)(7), all states were required to answer the following in each state's State Plan: "How the State, in using the requirements payment, will maintain the expenditures of the State for **activities funded by the payment** at the level that is not less than the level of such expenditures maintained by the State for the fiscal year ending prior to November 2000. Kentucky's State Plan provided that "The Governor's Office of Policy and Management evaluated the budget of the Kentucky State Board of Elections to ensure that the Maintenance of Effort has been met." (2003 Kentucky State Plan, p. 18).

Since the Election Assistance Commission was not in existence in 2002 when the States were left alone to decipher the language and requirements of HAVA in drafting their State Plans, Kentucky, as well as other states, developed an understanding concerning Maintenance of Effort based on advice gathered from The Election Center's HR 3295 Special Workshop in December of 2002, which included panel discussions with the HAVA bill drafters and other pertinent election officials. Considering Kentucky's unique position of having its Voter Registration Database used as a model for HAVA, Maintenance of Effort does not apply in the same manner to Kentucky as it would to other states that did not have HAVA-compliant databases in 2002. Thus, Kentucky was left in the dark as to how to address Maintenance of Effort in its 2003 State Plan. Furthermore, as of the date of this Response, the Election Assistance Commission, which has been in existence since 2004, has failed to provide any guidance to Kentucky as to how to address this issue.

With heretofore limited guidance from the EAC on this matter, it is the State Board of Elections' understanding that "activities funded by the payment" include activities required under Title III, which are limited to the purchasing of voting systems, voter education, and computerized statewide voter registration systems. During the fiscal year ending prior to November 2000,

- (1) Kentucky did not expend any funds to purchase voting systems as such systems are purchased and owned on the local level pursuant to Kentucky state law contained in KRS 117.105, 117.115, and 117.135;
- (2) Kentucky did not expend any funds on conducting voter education; and
- (3) Kentucky's Statewide Voter Registration Database was in existence and HAVA-compliant in the year 2000, as Kentucky's system was used as a basis for the language in HAVA. Kentucky is not and has not used federal funds to set up or maintain its Statewide Voter Registration Database.

Pursuant to the EAC's Guidelines for conducting an audit listed on its website, on page 19 under Maintenance of Effort, Number 8(a), the auditor must "obtain from the state its total expenditures in fiscal year 2000 related to **activities currently funded by requirements payments.**" This language, which derives from HAVA §254(a)(7), states specifically that the activities that are covered under Maintenance of Effort are those that are "currently funded" with HAVA funds. "Currently funded" does not mean activities that are eligible, but not funded by federal dollars, but must be defined as activities funded during FYs 2004, 2005 and 2006 (the periods covered by the audit) with HAVA funds. Any other interpretation would mean that Kentucky will be penalized for having an existing, HAVA-compliant voter registration database prior to HAVA's enactment—a database that was used as a model for HAVA. This interpretation was not contemplated by the drafters of HAVA and is an anathema of the clear intent of the HAVA legislation.

Kentucky contends that HAVA §254(a)(7), clearly states that Maintenance of Effort shall be determined by "the expenditures of the State for **activities funded by the payment** at the level that is not less than the level of such expenditures maintained by the State for the fiscal year ending prior to November 2000." Activities currently funded by the payment include activities required under Title III, which are limited to the purchasing of voting systems, voter education, and computerized statewide voter registration systems that are being funded by Kentucky during FYs 2004, 2005 and 2006, the time periods that were reviewed pursuant to the audit. As stated by the State Board of Elections, Kentucky expended zero funds to support activities for voter education and purchase of voting equipment during FY 2000.

As for funds expended during FY 2000 for the maintenance of the voter registration database, Kentucky has not and will not expend federal funds to maintain the Kentucky Voter Registration Database because this system was and has been HAVA-compliant since the inception of HAVA. Therefore, Kentucky contends that the only proper interpretation of the language in HAVA §254(a)(7) is that maintenance of effort applies only to activities currently funded during FYs 2004, 2005 and 2006 with HAVA funds.

The SBE, in its response to the draft audit report, Appendix A, included a schedule of the amounts they have determined comprise the state's Maintenance of Effort in compliance with HAVA.

Auditor's Response:

Although we have not audited the amounts included in the Maintenance of Effort schedule prepared by the SBE, as set forth in Appendix A, and cannot attest to their accuracy, the amounts as shown support the state's compliance with the HAVA requirements.

We provided a draft of our report to the appropriate individuals of the Commonwealth of Kentucky State Board of Elections, and the United States Election Assistance Commission. We considered any comments received prior to finalizing this report.

CG performed its work between January 22, 2007 and May 21, 2007.

Clifton Henderson LLP

Calverton, Maryland



STATE BOARD OF ELECTIONS

Trey Grayson
Chairman
Secretary of State

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Sarah Ball Johnson
Executive Director

Sandy Milburn
Assistant Director

June 22, 2007

VIA FACSIMILE (202) 566-0957 & FEDEX

Curtis Crider
US Election Assistance Commission
Office of the Inspector General
1225 New York Ave., N.W., Suite 1100
Washington, D.C.

Dear Mr. Crider:

Please allow this letter to serve as the Kentucky State Board of Elections' (the Board) response to the draft report entitled "*Performance Audit Report – Administration of Payments Received Under the Help America Vote Act by the Kentucky State Board of Elections*" that we received on May 21, 2007. You requested that we provide a response to the draft findings by June 25, 2007, before the final report is submitted to the Election Assistance Commission.

Your report offers two areas of concern. The first area regards Kentucky's computation of the state matching funds. As stated in your draft report, Kentucky has recalculated the amounts and interest required for the state match and has adjusted the election fund accounts accordingly. This matter requires no further attention and Kentucky will ensure that the state match is calculated correctly henceforth.

The second area of concern regards Kentucky's maintenance of effort. The State Board of Elections provided a response to the Notice of Finding on this issue to you on April 5, 2007, a portion of which was included in your draft report. Noticeably missing from the draft report is the timeline provided in response to the NRF accounting for the Board's repeated attempts to cooperate with the auditors and provide the information requested. To ensure that the record is accurate on this matter, the Board has attached the Timeline originally provided in response to the NRF as Exhibit #1 to this letter.

As of the date of the Board's response to the NRF, the EAC had not provided any guidance on the calculation of maintenance of effort. On May 1, 2007, the EAC issued *EAC Advisory 07-003 – Maintenance of Effort Funding*. Your draft report makes no mention of this Advisory. The EAC's Advisory specifically addresses how states should document that they have maintained their effort. However, the EAC did not address Kentucky's unique position of having a HAVA-compliant voter registration database

Curtis Crider
June 22, 2007
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prior to the enactment of HAVA and Kentucky's contention that the Maintenance of Effort requirement does not apply in the same manner to Kentucky as it would to other states that did not have HAVA-compliant databases. Kentucky maintains its position on this issue and contends that activities currently funded by requirements payments, pursuant to HAVA §254(a)(7), should not be interpreted to mean activities that are merely eligible, but not funded by federal dollars, but must be defined as activities actually funded by a state during FYs 2004, 2005 and 2006 (the periods covered by the audit) with HAVA funds.

However, in the interest of full cooperation, and using the EACs Advisory as a guide, Kentucky has calculated its Maintenance of Effort in the attached chart, Exhibit #2. As you can see from the chart, Kentucky has maintained its effort above and beyond base year level for FYs 2004, 2005, and 2006.

Please feel free to contact me if you have any further questions or concerns. Thank you for allowing Kentucky the opportunity to address these issues and we look forward to receiving your final report.

Sincerely,

A handwritten signature in black ink, appearing to read 'TnGz', written over the printed name 'Trey Grayson'.

Trey Grayson
Secretary of State
Chairman, State Board of Elections

EXHIBIT #1**Timeline for Audit**
Provided in Response to NFR #2: Maintenance of Effort

Prior to the arrival of the auditors in the state of Kentucky, Kentucky's office of GOPM provided information to Mr. Raines on January 22, 2007, concerning the Maintenance of Effort. This information was concerning the State Board of Elections' general budget. It was not until the next to last day of the audit on February 8, 2007, Mr. Raines informed Katie Dunnigan, General Counsel for the SBE, that the information provided by GOPM through Janice Tomes, was insufficient to adequately inform Mr. Raines concerning the basis and status of the Maintenance of Effort for Kentucky. Mr. Raines spoke with Janice Tomes on or about January 31, 2007, concerning the status of the Maintenance of Effort. Ms. Tomes informed Mr. Raines that she had provided "everything he needed" through the email sent prior to January 22, 2007. Mr. Raines and Ms. Tomes agreed that a face-to-face meeting was not necessary and, according to Ms. Tomes, Mr. Raines never attempted to contact Ms. Tomes after this conversation.

On Thursday, February 8, 2007, Mr. Raines informed the State Board of Elections' staff that he was going to prepare an NFR concerning the Maintenance of Effort relating to the insufficient information provided by the GOPM. Mr. Raines informed Ms. Dunnigan on February 9, 2007, that he had not reviewed the information provided by Ms. Tomes until Wednesday, February 7, 2007. Therefore, Mr. Raines waited until two days before he left Kentucky, and well after he talked to Ms. Tomes, to actually review the Maintenance of Effort information provided by Kentucky. Mr. Raines failed to contact Ms. Tomes to ask further questions or gain clarification on the information he had reviewed and decided to complete an NFR concerning the "insufficient information", rather than ensure he had the information he needed prior to leaving Kentucky.

On February 14, 2007, Sarah Ball Johnson, the Executive Director of the SBE, contacted Curtis Crider by telephone with the question of how to fulfill the Maintenance of Effort requirement. Mr. Crider agreed that the issue was "tricky" and that the EAC is struggling with an answer on exactly what the Maintenance of Effort language actually means. He said there are many unanswered questions on this issue and it had affected other HAVA audits. He also mentioned that he, too, would like a definitive answer on the issue. He suggested that Kentucky pose the question in writing through an email that he would submit to the EAC. He suggested a conference call with all parties would be the best solution to address the questions posed in the email.

On February 14, 2007, Ms. Johnson sent an email containing the following questions to Mr. Crider:

How does §254(a)(7), the maintenance of effort language, pertain to Kentucky? How can Kentucky provide information during a federal audit about the maintenance of effort when the FY 2000 figure would be \$0 for "activities funded by the payment" and Kentucky is not and has not used

federal HAVA funds to maintain its Statewide Voter Registration Database?

Mr. Crider informed Ms. Johnson that he would organize a conference call as soon as possible between the EAC executive director, the EAC general counsel, the SBE and himself on this issue. Later in the day on February 14, 2007, and after this telephone conversation, Mr. Crider emailed Ms. Johnson stating that it was taking longer to organize the call than he expected, but he would keep in touch with the State Board of Elections about a future conference call on the issue or a decision from the EAC on the issue. *The State Board of Elections did not receive any further contact from Mr. Crider until it received the NFR on March 26, 2007.*

EXHIBIT #2
Maintenance of Effort
FY 2000 through FY 2006

	FY 2000	FY 2004	FY 2005	FY 2006
Expenditure				
State Share to LEOs for Voters Registration Expenses	\$1,236,013.41	\$1,327,821.92	\$1,357,503.45	\$1,397,787.44
COT Expenditures for Maintaining VR Database	\$349,718.13	\$288,201.22	\$285,866.04	\$363,588.39
List Maintenance Costs for Maintaining Voter Rolls	\$31,146.83	\$11,577.32	\$226,488.80	\$58,837.82
SBE Personnel Costs for Maintaining Voter Rolls	\$615,061.00	\$723,862.00	\$791,076.00	\$930,109.00
Totals	\$2,231,939.37	\$2,351,462.46	\$2,660,934.29	\$2,750,322.65
 Maintenance of Effort				
Base Year		\$119,523.09	\$428,994.92	\$518,383.28

AUDIT METHODOLOGY

Our audit methodology included:

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

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

- Interviewed appropriate SBE employees about the organization and operations of the HAVA program.
- Reviewed prior single audit report and other reviews related to the state's financial management systems and the HAVA program for the last 2 years.
- Reviewed policies, procedures and regulations for the SBE's management and accounting systems as they relate to the administration of HAVA programs.
- Analyzed the inventory lists of equipment purchased with HAVA funds.
- Tested major purchases and supporting documentation.
- Tested randomly sampled payments made with the HAVA funds.
- Verified support for reimbursements to local governments (counties, cities, and municipalities).
- Reviewed certain state laws that impacted the election fund.
- Examined appropriations and expenditure reports for state funds used to maintain the level of expenses for elections at least equal to the amount expended in fiscal year 2000 and to meet the five percent matching requirement for section 251 requirements payments.
- Reviewed/examined information regarding source/supporting documents kept for maintenance of effort and matching contributions.

- Evaluated compliance with the requirements for accumulating financial information reported to the Commission on the Financial Status Reports, Form SF 269, accounting for property, purchasing HAVA related goods and services, and accounting for salaries.
- Verified the establishment and maintenance of an election fund.
- Verified whether the state has sustained the state's level of expenditures for Elections.

MONETARY IMPACT AS OF DECEMBER 31, 2006

<i>Description</i>	<i>Questioned Costs</i>	<i>Additional Funds for Program</i>
State Match Delayed Deposit Interest Shortfall		\$ 4,700
State Match Shortfall		156,341
Totals	<u>0</u>	<u>\$161,041</u>

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Office of Inspector General
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Washington, DC 20005

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To Report Fraud, Waste and Abuse Involving the U.S. Election Assistance Commission or Help America Vote Act Funds

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OIG Hotline: 866-552-0004 (toll free)

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