

## **EAC Top Ten Audit Issues (And Related Standards)**

This list is based on Inspector General Audits of state agencies, usually Secretary of State Offices, implementing the HAVA requirements payments. The audits are typically performed under contract by qualified CPA firms and reviewed, approved and issued by the Office of Inspector General. The significant findings may change with time as audit focus may change; for example, audits may include in the future reviews of Maintenance of Expenditure (MOE) documentation.

The following does not necessarily reflect the most number of occurrences of a finding but attempts to capture the most significant occurring findings from the perspective of the EAC's Division of Grants.

### **1. EMPLOYEE SALARIES:**

**Issue:** No or inadequate time and activity reports for full or part-time staff working on and being charged to the HAVA funding. As a result, all employee charges are questioned in the audit.

**Standard:** OMB Circular A-87 (2 CFR 225 - Cost Principles for State & Local Government) establishes in Appendix B, Selected Items of Cost, 8. Compensation for Personnel the requirements for time and activity record-keeping:

**h. Support of salaries and wages.** These standards regarding time distribution:

3) Where *employees are expected to work solely on a single Federal award or cost objective*, charges for their salaries and wages will be supported by *periodic certifications* that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least *semi-annually* and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where *employees work on multiple activities or cost objectives*, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which:

(a) They must reflect an *after-the-fact distribution of the actual activity of each employee*,

(b) They must *account for the total activity for which each employee is compensated*,

(c) They must be prepared *at least monthly and must coincide with one or more pay periods*, and

(d) They must be *signed by the employee*

(e) *Budget estimates* or other distribution percentages determined before the services are performed *do not qualify* as support for charges to Federal awards

**NOTE:** The above is an extrapolation of the pertinent points related to this issue from the OMB referenced section. There are more details in the section which also addresses alternative sampling techniques and other information in more detail.

## **2. *PROPERTY INVENTORY***

**Issue:** A comprehensive inventory of equipment purchased with HAVA funds was not maintained. Audit finding addresses requirement to establish and maintain such information.

**Standard:** Uniform Administrative Requirements for Grants (OMB Circular A-102), 41 CFR § 105-71.132

(d) *Management requirements.* Procedures for managing equipment (including replacement equipment), whether *acquired in whole or in part with grant funds*, until disposition takes place will, as a minimum, meet the following requirements:

(1) *Property records* must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds the title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the data of disposal and sale price of the property.

(2) *A physical inventory* of the property must be taken and the results reconciled with the property records at least once *every two years*.

(3) *A control system* must be developed to ensure adequate safeguards to prevent loss, damage or theft of the property. *Any loss, damage or theft shall be investigated.*

(4) *Adequate maintenance procedures* must be developed to keep the property in good condition

**3. *SHORT-FALL IN PRINCIPAL OR INTEREST DEPOSITED IN HAVA ELECTION FUND***

**Issue:** State did not appropriate and/or deposit sufficient amount to satisfy the 5% match requirement or did not credit appropriate interest to the election fund. Audit findings recommend that the state provide appropriate funding to the HAVA Election Fund.

**Standard:** The HAVA statute, 42 USC 15401/4 establish the 5% matching requirement and the establishment of the Election Fund for deposit of HAVA requiremnts payments, 5% state appropriated match and interest thereon:

5) the state has appropriated funds for carrying out the activities for which the requirements payment is made in an amount equal to 5% of the total amount to be spent for such activities (Note; match is 5% of total which includes requirements payments and match. Calculation: Requirements Payment / .95 = Total Funds; Total funds X 5% = match (state 5%))

**4. *FUNDS TRANSFERRED TO LOCAL GOVERNMENTS (COUNTIES, MUNICIPALITIES) NOT EXPENDED IN A TIMELY MANNER AND INTEREST NOT CREDITED TO HAVA ELECTION FUND***

**Issue:** Local government deposited state funds received for HAVA purpose in the local account, earned interest, spent the principal and did not credit the HAVA election fund. Audits recommend that the state recoup interest earned from local entities.

**Standard:** HAVA statute, 42 USC 15404, describes the Election Fund as including: (D) Interest earned on deposits of the fund. Either the state should pay current expenses of localities or require that interest on advance deposits credited to the Election Fund.

**5. *LACK OF SUPPORTING DOCUMENTATION***

**Issue:** No or inadequate documents to support charges to the HAVA fund. (e.g. Lack of travel authorizations, invoices, receipts, etc. ) As a result, auditors question all expenses not documented.

**Standard:** Uniform Administrative Requirements for Grants (OMB Circular A-102), 41 CFR 105-120 § 105-71.120 - Standards for financial management systems.

(a) A state must expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as its subgrantees and cost-type contractors, must be sufficient to—

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the *tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.*

## **6. FINANCIAL REPORTING**

**Issue:** The cumulative data reported to the EAC on the Financial Status Report, FSR (now the Federal Financial Report, FFR) does not reflect the detailed state records or; there is missing data from the state records or on the FFR; or reporting on wrong HAVA grants and accounts. As a result, the auditors report that the state lacks necessary controls and oversight and cannot track HAVA grant funds.

**Standard:** Uniform Administrative Requirements for Grants (OMB Circular A-102), 41 CFR § 105-71.141, Financial Reporting (b)(2) 2) *Accounting basis.*

Each grantee will *report program outlays and program income* on a cash or accrual basis... for all non-construction grants. These cumulative reports by individual grant should tie into and be consistent with the grantee's accounting system and records.

## **7. PROCUREMENT**

**Issue:** Contracts awarded without competition and justification. Basis for selection or prices not documented. Auditors question all contract expenditures and allowability.

**Standard:** Uniform Administrative Requirements for Grants (OMB Circular A-102), 41 CFR § 105-71.136 Procurement:

*Procurement standards.* (1) Grantees and subgrantees will use their own procurement procedures which reflect *applicable state and local laws* and regulations, provided that the procurements *conform to applicable federal law* and the standards identified in this section.

A few of the pertinent required components:

- Written code of conduct including Conflict of Interest
- Maintenance of sufficient records to detail the significant history of the procurement
- Protest procedures
- Competition
- Adequate contract administration systems
- Perform cost and price analysis

## **8. VOTER REGISTRATION**

**Issue:** States use HAVA funds to promote voter registration campaigns and register voters. All costs related to these activities are questioned in audit.

**Standard:** In accordance with Section 303(a) of HAVA (42 U.S.C. 15483(a)), requirements payments may be used to develop required statewide voter registration system but not specifically to support voter registration activities. In addition, Section 101 HAVA funds are limited to 'educating voters concerning voting procedures, voting rights, and voting'.

## **9. MARKETING AND PROMOTIONAL EXPENSES**

**Issue:** HAVA funds used to promote election voting, purchase promotional items with no clear connection to HAVA purposes; used for contests and events for ineligible voting populations. Auditor recommends disallowance.

**Standard:** In the Cost Principles for State & Local Government (OMB A-87 Appendix B- Selected Items of Cost), costs of selling or marketing products or services are not allowable. In addition, the costs primarily do not meet the purposes of the grant nor the HAVA statute because they are for activities or populations not specifically allowed or addressed in the statute as supportable.

## **10. CAPITAL EXPENDITURES**

**Issue:** HAVA funds used for capital improvements to buildings and property without specific authorization from EAC. All costs questioned by auditors.

**Standard:** Cost Principles for State & Local Government (OMB A-87 Appendix B- Selected Items of Cost 15. *Equipment and other capital expenditures:*

Capital expenditures for improvements to land, buildings, or equipment which *materially increase their value or useful life* are unallowable as a direct cost except with the prior approval of the awarding agency.

If the improvements materially increase the value of the asset or useful life, then they are capital expenditures needing specific EAC prior approval. Such determinations are made by the state within state guidelines or on a case-by-case basis.