



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

FINAL REPORT:

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

APRIL 28, 2003 THROUGH JANUARY 31, 2011

**Report No.
E-HP-AZ-04-11
August 2011**



U.S. ELECTION ASSISTANCE COMMISSION
OFFICE OF INSPECTOR GENERAL
1201 New York Ave. NW - Suite 300
Washington, DC 20005

August 22, 2011

Memorandum

To: Thomas Wilkey
Executive Director

From: Curtis W. Crider *Curtis W. Crider*
Inspector General

Subject: Final Audit Report - Administration of Payments Received Under the Help America Vote Act by the Arizona Secretary of State (Assignment Number E-HP-AZ-04-11)

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 Arizona Secretary of State (SOS). 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.

In its audit of the SOS, Clifton Gunderson concluded that, except for the questionable use of HAVA funds for promotional activities, the lack of personnel certifications, and the maintenance of adequate property records, our audit concluded that the SOS 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 SOS also complied with section 251 requirements.

In his May 10, 2011 response (Appendix A-2), the SOS generally agreed with the findings and recommendations, except for the questioned costs for Kids Voting Arizona. In his July 6, 2011 response to the draft report (Appendix A-1), the SOS confirmed his initial responses to the audit results.

Also, we have included in the report the EAC response to the draft report (Appendix A-3), dated July 15, 2011, which stated the action proposed to assist the SOS in resolving the findings and recommendations. We would appreciate being kept informed of the actions taken on our recommendations as we will track the status of their implementation. Please respond in writing to the finding and recommendation included in this report by October 24, 2011. Your response should include information on actions taken or planned, targeted completion dates, and titles of officials responsible for implementation.

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
STATE OF ARIZONA

APRIL 28, 2003 Through January 31, 2011

UNITED STATES
ELECTION ASSISTANCE COMMISSION

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**U.S. Election Assistance Commission
Performance Audit of the Administration of Payments Received Under the
Help America Vote Act by the State of Arizona**

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 Arizona Secretary of State (SOS) for the period April 28, 2003 through January 31, 2011 to determine whether the SOS 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 program income and property purchased with HAVA payments, and met HAVA requirements for Section 251 funds for an election fund and for a matching contribution. Our audit did not include a determination that the SOS and its subgrantees met the requirements for maintenance of a base level of state outlays, commonly referred to as Maintenance of Expenditures (MOE).

On June 28, 2010, the Commission issued a revised definitive policy on the requirements for the MOE. The policy included a provision that the states will have 12 months from the date of the revised policy to voluntarily submit a revised MOE plan to the EAC. Accordingly, our scope of audit did not include a determination of whether the SOS and its subgrantees met the requirements for MOE.

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 questionable use of HAVA funds for promotional activities, the lack of personnel certifications, and the maintenance of adequate property records, as discussed below, our audit concluded that the SOS generally accounted for and expended HAVA funds in accordance with the requirements mentioned above for the period from April 28, 2003 through January 31, 2011. The exceptions needing SOS’s management attention are as follows:

1. SOS incurred unallowable HAVA expenses of \$20,000 for the Kids Voting Arizona program.
2. SOS did not prepare the semi-annual certifications as required by OMB Circular A-87 for the salary and expenses of \$147,141 from April 1, 2004 through March 31, 2007. .
3. Records for HAVA funded equipment for one of the six counties we visited did not conform to 41 C.F.R. 105-71.132 (f) (the Common Rule). There were errors in the information listed for some of the equipment.

We have included in this report as Appendix A-2 the SOS management's formal response on May 10, 2011 to our notice of findings and recommendations (NFRs). We have also included as Appendix A-1 the SOS management's response on July 6, 2001 to the draft report in which they confirmed their initial responses to the audit results. Although we have included management's written responses to our NFRs, such responses have not been subjected to the audit procedures and, accordingly, we do not provide any form of assurance on the appropriateness of the responses or the effectiveness of the corrective actions described therein. The SOS generally agreed with the findings and recommendations except for the questioned costs for Kids Voting Arizona. The SOS believes these expenditures are in line with the intent of Section 295 of HAVA, the National Student and Parent Mock Elections section, and meet the goals of the programs to educate high school age students on the voting process and to encourage participation in elections.

BACKGROUND

HAVA created the 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(b)(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)(b)(1)].

AUDIT OBJECTIVES

The objectives of our audit were to determine whether the Arizona SOS:

1. Used payments authorized by Sections 101, 102, and 251 of 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 and for a matching contribution except for the requirements for maintenance of a base level of state outlays, commonly referred to as Maintenance of Expenditures (MOE). On June 28, 2010, the Commission issued a revised definitive policy on the requirements for the MOE. The policy included a provision that the states will have 12 months from the date of the revised policy to voluntarily submit a revised MOE plan to the EAC. Accordingly, our scope of audit did not include a determination of whether the SOS and its subgrantees met the requirements for MOE.

In addition to accounting 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:

1. 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.
2. Expend payments in accordance with cost principles for establishing the allowance or disallowance of certain items of cost for federal participation issued by the OMB.
3. Submit detailed annual financial reports on the use of Title I and Title II payments.¹

¹ EAC requires states to submit annual reports on the expenditure of HAVA Sections 101, 102, and 251 funds. Through December 31, 2008, for Sections 101 and 102, reports were due on February 28 for the activities of the previous calendar year, and, for Section 251, reports were due by March 30 for the activities of the previous fiscal year ending on September 30. Beginning in calendar year 2009, all reports will be effective as of September 30, 20XX for the fiscal year ended that date and will be due by December 31, 20XX.

SCOPE AND METHODOLOGY

We audited the HAVA funds received and disbursed by the SOS from April 28, 2003 through January 31, 2011 (93-month period) as shown in the following table:

TYPE OF PAYMENT	FUNDS RECEIVED					FUNDS DISBURSED	DATA AS OF
	EAC PAYMENT	PROGRAM INCOME	STATE MATCH	INTEREST EARNED	TOTAL AVAILABLE		
Section 101	\$ 5,451,369	\$ 0	\$ 0	\$ 763,966	\$ 6,215,335	\$ 2,095,600	1/31/2011
Section 102	1,564,188	0	0	0	1,564,188	1,564,188	1/31/2011
Section 251	45,516,688	0	2,396,588	5,406,754	53,320,030	43,095,027	1/31/2011
Total	<u>\$52,532,245</u>	<u>\$ 0</u>	<u>\$2,396,588</u>	<u>\$6,170,720</u>	<u>\$61,099,553</u>	<u>\$46,754,815</u>	1/31/2011

Our audit methodology is set forth in Appendix C.

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 questionable use of HAVA funds for promotional activities, the lack of personnel certifications, and the maintenance of adequate property records, our audit concluded that the SOS generally accounted for and expended HAVA funds in accordance with the requirements mentioned above. The SOS has taken action on or is working to resolve the exceptions described below as set forth in Appendix A-2:

I. Unallowable Expenses

The State of Arizona Office of the Secretary of State (SOS) used Section 251 Help America Vote Act (HAVA) funds totaling \$20,000 that may not be allowable since the program was not related to direct voter education. The HAVA requires that funds be used for educating voters. The SOS used the funds for the Kids Voting Arizona (KVA) program. The payment included \$8,000 for the High School Civics Connection Program, \$7,000 for the Tribal Election Connection Program and \$5,000 for the Destination Democracy after School Program. The purpose of the program was to inform school age children about the voting process and to increase voter turnout since the parents would be involved in assisting the children with the program.

HAVA Section 101(b) Use of Payment describes the qualifying expenditures and includes, in part:

(1)(B) Improving the administration of elections for federal office

(1)(C) Educating voters concerning voting procedures, voting rights, and voting technology

Recommendation:

1. We recommend that the EAC work with the SOS to decide whether to allow or disallow the costs associated with the KVA program.

SOS Response:

The SOS disagreed with the finding that providing funds to Kids Voting Arizona would fall outside the scope of voter education. The SOS believes that all three programs were targeted to high school students, ages 16 to 18, who would be eligible to vote in the next general election. He also believes that the programs were in line with the intent of HAVA Section 295, the National Student and Parent Mock Elections section, the goals of which were to educate high school age students on the voting process and to also encourage participation in elections.

Auditor's Response:

EAC has determined in FAQ-08-005 that the use of HAVA funds to educate non-voters and to increase voter turnout is not allowed under HAVA.

II. Uncertified Personnel Expenditures

The SOS did not complete semi-annual certifications for the one full-time employee that worked on HAVA activities for the period of April 1, 2004 through March 31, 2007, and the EAC has no assurance that the salaries and fringe benefit costs of \$147,141 expended from the HAVA fund during this period were incurred for work done solely on HAVA activities. However, the SOS did obtain the appropriate semi-annual certifications for the one full-time employee for the period of April 1, 2007 through the audit period end date of January 31, 2011.

OMB Circular A-87, in Attachment B Section 8(h)(3) requires that:

- (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 firsthand knowledge of the work performed by the employee.

Recommendation:

2. We recommend that the EAC work with the SOS to determine the appropriate corrective action regarding the lack of periodic payroll certifications.

SOS Response:

The SOS acknowledged that the personnel certifications were missing for the period April 1, 2004 through March 31, 2007, and assured the EAC that the salaries and employee related expenses during the period were spent solely for HAVA related work. The SOS included retroactive certifications with this response to correct the deficiencies.

III. Property Records

The HAVA voting equipment listing we received from one of the six counties we visited did not conform to the requirements of 41 CFR 105-71.132, (the Common Rule). We identified the following discrepancies:

- The county's accounting records showed that the county purchased 106 machines, and we counted 106 machines on site. However, an Automark TSX voting machine could not be located amongst the voting machines because the county had not properly tagged all of the equipment.
- A duplex printer was listed on the inventory records, but in fact was not an asset owned by the county. The county's property records erroneously included the printer.
- A Dell personal computer was listed on the inventory records for the county recorder's office, but was located at the county elections office.

The *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* 41 CFR § 105-71.132 (f), ("the Common Rule") states that in the event a grantee or subgrantee is provided federally-owned equipment:

- (2) Grantees or subgrantees will manage the equipment in accordance with Federal agency rules and procedures, and submit an annual inventory listing.

Recommendation:

3. We recommend that the SOS require the staff of both the county elections office and the recorder's office to conduct a physical inventory of all HAVA-funded equipment to ensure that the property records reflect the correct information.

SOS Response:

The SOS concurred with the finding and stated that they were requiring the staff at the county to conduct a full physical inventory of all HAVA funded equipment to ensure that the property records reflect the correct information. In addition, they are requiring that property tags be secured to the proper equipment and cross-referenced to the manufacturer's serial numbers. The SOS also stated that a follow-up audit will be conducted with the county to ensure compliance.

We provided a draft of our report to the appropriate individuals of the Arizona SOS and the Commission. We considered any comments received prior to finalizing this report.

The EAC responded on July 15, 2011 and generally agreed with the report's findings and recommendations. The EAC stated that, while they generally agreed with the findings, they would work with the SOS to gather additional information about the Kids Voting Arizona program to determine whether the costs should be allowed or disallowed. The EAC's complete response is included as Appendix A-3

CG performed its work between February 22, 2011 and March 10, 2011.

Clifton Henderson LLP

Calverton, Maryland
March 23, 2011



KEN BENNETT
SECRETARY OF STATE
STATE OF ARIZONA



July 6, 2011

Curtis Crider
Office of the Inspector General
Election Assistance Commission
1201 New York Avenue NW Suite 300
Washington, DC 20005

Dear Curtis:

The draft report entitled "Performance Audit Report – Administration of Payments Received Under the Help America Vote Act by the State of Arizona" dated March 23, 2011 accurately reflects our responses to the findings. We had hoped that our responses to the Unallowable Expenses Finding and the Uncertified Personnel Expenditures would have adequately addressed each finding. Since those two findings are still in the draft audit report, we will wait to address those points with the Election Assistance Commission.

Sincerely,

A handwritten signature in black ink that reads "Ken Bennett".

Ken Bennett
Arizona Secretary of State



KEN BENNETT
SECRETARY OF STATE
STATE OF ARIZONA



Mr. Curtis Crider
 U.S. ELECTION ASSISTANCE COMMISSION
 OFFICE OF INSPECTOR GENERAL
 1201 New York Ave. NW - Suite 300
 Washington, DC 20005

Dear Curtis:

Thank you for the opportunity to respond to the three Notice of Findings and Recommendations. We appreciated having Nick and Dottie on site to perform the audit. Please find our responses to the three Notice of Findings and Recommendations (NFR) for Arizona.

NFR #1 – Questioned Costs

The first comment we have on NFR #1 is that we do not agree with the finding. The comments from the Audit Personnel stated that we agreed with it. This most likely got confused since we did state that after we read other state audits, we anticipated the Kid's Voting expense being a possible finding.

We do not agree with the finding since all three of the programs of Kid's Voting that the Arizona Secretary of State funded were targeted at high school students. In Arizona, a registrant can be a person who will be 18 years of age by the next General Election. This can include registrations of ages 16 to 18 years old. All three of the programs funded with HAVA monies targeted a group of students of whom many were of an age to properly register to vote for the next General Election. All the programs funded with HAVA monies were much in line with the intent of Section 295 of HAVA, the National Student and Parent Mock Elections section. The goals of the programs were to educate high school age students on the voting process and to also encourage participation in elections.

NFR #2 – Personnel Certifications

The Arizona Secretary of State's office had one full time HAVA position for the period of April 1, 2004 through March 31, 2007. Once we determined that a certification was required, we added the statement to the bi-weekly timesheet in 2007. While we acknowledge that we did not have the semi-annual form filled out for the period in question, the job description for that position clearly indicates this was a full time HAVA resource. We have recently gone back and received certifications from the employees that filled that position in order to remedy the situation. Those certifications are included with our response. We feel strongly that the EAC can rest assured that the salaries and

employee related expenses spent from the HAVA fund during this period were solely incurred for HAVA related work.

NFR #3 – Property

The Arizona Secretary of State's office has no disagreement with this finding. We are requiring the staff at Pinal County to conduct a full physical inventory of all HAVA funded equipment to ensure that the property records reflect the correct information. In addition we are requiring that property tags be secured to the proper equipment and are cross referenced to the manufacturer's serial numbers. The Arizona Secretary of State's office will conduct a follow-up audit with Pinal County to ensure Pinal County is in compliance.

Sincerely,

A handwritten signature in cursive script that reads "Amy Bjelland". The signature is written in black ink and is positioned above the printed name and title.

Amy Bjelland
Arizona State Election Director

Note: The payroll certifications provided with the SOS response are not included in this report, but are available to the EAC upon request.




EAC RESPONSE TO THE DRAFT AUDIT:

OIG Performance Audit Report on the Administration of Payments Received Under the Help America Vote Act by the State of Arizona, for the Period April 28, 2003 Through January 31, 2011

July 15, 2011

MEMORANDUM

To: Curtis Crider
Inspector General

From:  Thomas Wilkey
Executive Director

Subject: Draft Performance Audit Report – “Administration of Payments Received Under the Help America Vote Act by the State of Arizona”.

Thank you for this opportunity to review and respond to the draft audit report for Arizona.

The Election Assistance Commission (EAC) has reviewed the preliminary audit results and recommendations. While we generally concur with the findings, we will work with the Arizona Secretary of State to gather additional information about funds used for the Kids Voting Arizona program to determine whether costs should be allowed or disallowed.

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 SOS 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 last four (4) years.
- Reviewed policies, procedures and regulations for the SOS'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, and 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 meet the five percent matching requirement for section 251 requirements payments.
- Evaluated compliance with the requirements for accumulating financial information reported to the Commission on the financial status reports, Form SF-269 and 425, accounting for property, purchasing HAVA related goods and services, and accounting for salaries.
- Verified the establishment and maintenance of an election fund.
- Conducted site visits of selected counties to observe physical security/safeguard of equipment purchased with HAVA funds and to test for proper accounting and documentation.

MONETARY IMPACT AS OF JANUARY 31, 2011

<i>Description</i>	<i>Questioned Costs</i>	<i>Additional Funds for Program</i>
Kids Voting Arizona	\$20,000	\$0
Personnel expenditures	\$147,141	\$0
Totals	<u>\$167,141</u>	<u>\$0</u>

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