



STATE OF NORTH CAROLINA

RESULTS OF STATEWIDE FINANCIAL AUDIT PROCEDURES AT THE NORTH CAROLINA STATE BOARD OF ELECTIONS

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

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March 6, 2006

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Mr. Gary O. Bartlett, Executive Director
North Carolina State Board of Elections

We have completed certain audit procedures at the North Carolina State Board of Elections related to the State of North Carolina reporting entity as presented in the *Comprehensive Annual Financial Report (CAFR)* and *Single Audit Report* for the year ended June 30, 2005. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor presents the results of tests of internal control and compliance with laws, regulations, contracts and grants applicable to the State's financial statements and to its federal financial assistance programs. Our audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States and the Single Audit Act as applicable. Our audit scope at the North Carolina State Board of Elections included the following:

State of North Carolina's Financial Statements

None

State of North Carolina's Administration of Federal Financial Assistance Programs

Election Reform Payments (CFDA # 39.011)

Our audit procedures at the North Carolina State Board of Elections were less in scope than would be necessary to report on the financial statements that relate solely to the North Carolina State Board of Elections or its administration of federal programs. Therefore, we do not express such conclusions.

The results of our audit procedures yielded audit findings and recommendations for the North Carolina State Board of Elections related to the State's federal financial assistance programs that may require disclosure in the aforementioned reports. These findings are included in the audit findings and recommendations section contained herein. Our recommendations for improvement and management's response follow each finding.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings and recommendations were identified during the current audit and discuss conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts or grants.

1. SUBRECIPIENT MONITORING PROCEDURES INCOMPLETE

The State Board of Elections' monitoring procedures were not sufficient to provide reasonable assurance that grant awards made under the Help America Vote Act were used in compliance with grant requirements. As a result, there is an increased risk that funds were spent for improper purposes, although reports filed by the county boards of elections do not indicate any misuse of the funds.

The Board did not adequately identify the federal awarding agency or Catalog of Federal Domestic Assistance title and number in the subrecipient award agreements. In addition, the subrecipients were not advised of all requirements imposed on them by federal laws and regulations other than the Help America Vote Act, such as OMB Circulars A-87 and A-102. Monitoring procedures during the award also did not address some of these compliance requirements. Lastly, the Board did not prepare documents describing standards of compliance and suggested audit procedures sufficient to give adequate direction to independent auditors performing audits of the grants.

OMB Circular A-133 requires pass-through entities to inform each subrecipient of the Catalog of Federal Domestic Assistance title and number, award name and number, the name of the federal funding agency and the requirements imposed on them by federal laws and regulations. Pass-through entities must monitor subrecipient activities to ensure that federal awards are used in accordance with federal laws and regulations. *North Carolina General Statute 159-34* requires all State agencies that provide funds to local governments to develop compliance supplements for the recipients' auditors.

Recommendation: The Board should implement procedures to provide reasonable assurance that recipients use grant funds for the intended purposes. The nature and extent of the necessary procedures will depend on factors such as the complexity of the grant restrictions and the degree to which the grants are expected to be audited by the recipient's auditors.

Agency Response: With regards to HAVA expenditures, this agency has relied upon county documentation of purchases. Although your audit findings indicate that there was no misuse of funds, this agency recognizes the need for on site verification and will work towards that goal. Prior to your audit, resources have not been made available to this agency to conduct a county by county audit. You will be pleased to note that our agency is in the process of finalizing the hiring of eight District Elections Technicians. These time-limited positions will be geographically dispersed throughout the State and act a resources for all 100 NC counties. An additional responsibility for these positions will be to assist our office in on-site county audits.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Counties were notified of HAVA Section 902 audit requirements when receiving HAVA funds.

Notification of those requirements has been expanded to include all the federal statutes, rules, regulations and guidelines as recommended by your office. Current voting system grants and purchases now have the extensive reference to those statutes, rules, and regulation.

All counties have been notified of current CFDA numbers that apply to HAVA funds. This information was provided to the counties in the past when available and requested. Please note that the CFDA number for Title II HAVA funds was not declared by the federal government until September 2005, past the time frame of the current audit. Recently all counties have been e-mailed these CFDA numbers.

Compliance supplements are being developed to aid in future audits of HAVA Funds and subsequent expenditures. We expect the Election Assistance Commission, who provides this agency the HAVA funds and has just appointed an acting Inspector General, will give us guidance in this endeavor. Our agency was represented at the only HAVA audit program offered by the Election Assistance Commission in February, 2005, and shared the information received with your field auditors with agency staff.

2. REQUIRED CONTRACTING PROCEDURES NOT FOLLOWED

The State Board of Elections does not have procedures in place to ensure that it does not contract with prohibited parties in administering federal funds. As a result, there is an increased risk of federal funds being spent in violation of grant requirements.

The Board did not check the *Excluded Parties List System* maintained by the General Services Administration to verify that parties it contracted with were not on the prohibited list. However, we did not note any instances where the Board actually contracted with prohibited parties.

The OMB Circular A-133 Compliance Supplement and 41 CFR 105-71.135 prohibit entities from contracting with parties that are on the prohibited list.

Recommendation: The Board should implement procedures to ensure that parties they contract with are not on the prohibited list.

Agency Response: As you are aware, the purchasing responsibilities for our agency are shared with the Department of Administration (DOA). Prior to HAVA, that agency checked any appropriate Excluded Vendor Lists regarding our purchases. Your acknowledgement that no HAVA related purchases were made with any federally excluded vendors is appreciated.

We have established a link to the Excluded Parties List System. For future purchases, our policy shall be to ensure that only approved vendors are used when making purchases using HAVA funds.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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March 8, 2006

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