



STATE OF NORTH CAROLINA

NORTH CAROLINA STATE BOARD OF ELECTIONS

STATEWIDE FINANCIAL AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR



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March 21, 2007

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, 2006. 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

Help America Vote Act Requirements Payments (CFDA# 90.401)

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 Board 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 Board 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 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 AUDIT REPORTS NOT REVIEWED

The State Board of Elections did not review subrecipient audit reports to identify audit findings applicable to the Help America Vote Act Requirements Payments program. As a result, subrecipients may not correct deficiencies that might have been identified in audits.

OMB Circular A-133 requires pass-through entities to ensure that required audits are completed within nine months of the end of the subrecipient's audit period, issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. Since all of the subrecipients were local governments, the Department of State Treasurer's State and Local Government Finance Division monitored to ensure that required audits were performed timely. However, the Board should have reviewed the reports for findings related to its program.

Recommendation: The State Board of Elections should review subrecipient audit reports and ensure deficiencies applicable to its program are corrected.

Response: We have reviewed the local finance unit audits and will continue to notify the Treasurer's Office, the Local Government Commission and the county directors of elections of any inaccuracies in reporting we identify in the future. We understand from your office and the office of the Treasurer that in the absence of local financial audits with HAVA findings that no action is needed on our part.

2. MAINTENANCE OF EFFORT REQUIREMENT NOT MET

The State Board of Elections did not meet the maintenance of effort requirement for the Help America Vote Act Requirements Payments program. However, sufficient funds were appropriated to meet the requirement, and the funds continue to be available for future expenditure in the program.

The Help America Vote Act requires the Board to continue to expend State funds on activities covered by the Act at the same level as the amount expended for those activities during the 2000 fiscal year. The Board was appropriated \$3,457,586 for the 2006 fiscal year, an amount sufficient to meet the requirement, but only charged \$1,870,255 of expenditures to the State funds. The requirement could have been met by charging additional expenditures to State rather than federal funds since more than

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

enough total expenditures were incurred. Because both federal and State moneys carry over to future years and are restricted for use in the program, the required maintenance of effort would have been met over a period of several years. However, failing to charge the proper amount in the 2006 fiscal year was a technical violation of the Act.

Recommendation: The State Board of Elections should implement procedures to ensure that the required level of State expenditures are charged each year.

Response: The State Board of Elections is unwilling to accept that this was a technical violation of HAVA because we have not been informed by the Elections Assistance Commission, despite repeated requests, that this is a violation. Rather we believe it would be imprudent to spend all the maintenance of effort funds every year they are appropriated when significant funds will be needed to complete the costly task of updating and modernizing the Statewide Election Information Management System (SEIMS). Discussions with Legislative leaders regarding this issue indicate that guidance may be provided for the expenditure of the Maintenance of Effort funds.

3. REQUIRED PROCUREMENT PROCEDURES NOT FOLLOWED

The State Board of Elections did not follow proper procurement procedures for a purchase of equipment paid for with Help America Vote Act Requirements Payments program funds. As a result, there was a risk that the selected vendor should not have been used; however, we did not determine that another vendor should have been chosen.

The Board notified subrecipients that they could purchase selected items of equipment from a particular vendor. However, the vendor was selected without following State procurement polices or checking to see if the vendor was on the excluded parties list maintained by the General Services Administration as required in the *OMB Circular A-133 Compliance Supplement*. We determined during our audit that the vendor was not actually on the excluded parties list. The Board reimbursed subrecipients \$415,708 for items purchased from the vendor.

Recommendation: The State Board of Elections should implement controls to ensure that procurement requirements are met.

Response: In implementing a new State law to comply with recent federal laws, the State Board worked under an extremely compressed time schedule for the procurement and deployment of HAVA compliant voting equipment to the 100 counties in order to have them in place for the May 2, 2006 primary, as required by the federal law. An arguably ambiguous email has been cited as directing county boards of elections to purchase from a single vendor when in fact the intended message was for counties to follow individual county purchasing requirements and ensure that equipment purchases met HAVA standards.

The State Board will continue to notify county boards of elections to check the barred vendor list for themselves before making purchases.

ORDERING INFORMATION

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