

OFFICE OF INSPECTOR GENERAL

U.S. Election Assistance Commission

AUDIT OF THE HELP AMERICA VOTE ACT GRANTS AWARDED TO THE STATE OF NORTH CAROLINA

Report No. G22NC0004-24-06
February 22, 2024



HIGHLIGHTS

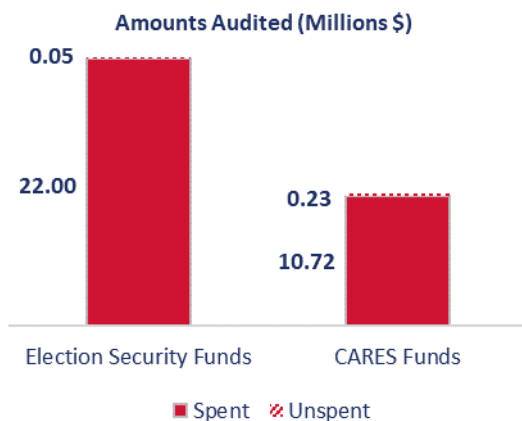
AUDIT OF THE HELP AMERICA VOTE ACT GRANTS AWARDED TO THE STATE OF NORTH CAROLINA

Report No. G22NC0004-24-06

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What OIG Audited

The Office of the Inspector General (OIG) audited funds received by the State of North Carolina under the Help America Vote Act (HAVA), totaling \$33 million. This included Election Security and Coronavirus Aid, Relief, and Economic Security (CARES) Act grants.



The **objectives** of the audit were to determine whether the State of North Carolina:

- (1) used funds for authorized purposes in accordance with applicable requirements;
- (2) complied with the requirements for state matching;
- (3) properly accounted for and controlled property purchased with EAC funds; and
- (4) used funds for intended purposes.

What OIG Found

OIG found that the North Carolina State Board of Elections (NCSBE) generally accounted for HAVA funds in accordance with applicable requirements, complied with the requirements for state matching, accounted for and controlled property purchased, and used funds for intended purposes.

However, there were four exceptions (1) NCSBE did not meet grant reporting requirements, (2) NCSBE did not record interest in accordance with applicable requirements, (3) Subaward expenses of \$725,449 were either unsupported or ineligible, and (4) NCSBE did not always properly control purchased equipment. During the audit, NCSBE worked with EAC to address exceptions 1 and 2 and the associated recommendations are closed upon report issuance.

What OIG Recommended

OIG made six recommendations to improve grant administration:

- 1 Require NCSBE to implement procedures and training to ensure proper and timely reporting.
- 2 Require NCSBE to implement procedures and training to ensure interest earned is reported.
- 3 Determine the allowability of \$400,696 in questioned costs under the CARES Act Award.
- 4 Determine the allowability of \$324,753 in questioned costs under the Election Security Award.
- 5 Require NCSBE strengthen policies and procedures for subawardee monitoring.
- 6 Require NCSBE to implement procedures and training to ensure assets are completely documented in the system and tagged.



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

DATE: February 22, 2024

TO: U.S. Election Assistance Commission, Acting Executive Director, Jessica Bowers

FROM: U.S. Election Assistance Commission, Deputy Inspector General, Sarah Dreyer

SUBJECT: Audit of the Help America Vote Act Grants Awarded to the State of North Carolina
(Report No. G22NC0004-24-06)

This memorandum transmits the final report on the Audit of the Help America Vote Act Grants Awarded to the State of North Carolina. Our audit objectives were to determine whether the North Carolina State Board of Elections (1) used funds for authorized purposes in accordance with applicable requirements; (2) complied with the requirements for state matching; (3) properly accounted for and controlled property purchased with EAC funds; and (4) used funds for intended purposes. In finalizing the report, we considered your comments on the draft and included them in their entirety in Appendix C.

The report contains six recommendations. After reviewing information that you provided in response to the draft report, we acknowledge management's decisions on all six recommendations and consider two of the recommendations closed upon report issuance. Please keep us informed on progress to address Recommendations 3, 4, 5, and 6, as we will track the status of their implementation.

We appreciate the courtesies and assistance provided by your staff during the audit.

cc: Commissioner Christy McCormick, Chair
Commissioner Benjamin W. Hovland, Vice Chair
Commissioner Donald L. Palmer
Commissioner Thomas Hicks

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Background

The Help America Vote Act of 2002 (HAVA)¹ was passed to modernize state voting systems and it authorizes federal funding for states to improve the administration of federal elections. The U.S. Election Assistance Commission (EAC) distributes and oversees funding appropriated under HAVA.

The State of North Carolina received HAVA funding in fiscal years (FYs) 2018 and 2020 totaling \$10.4 million and \$11.6 million, respectively. In August 2020, EAC combined these awards through an amendment given that both awards were authorized under Title I, Section 101 of HAVA and were made for the same authorized purpose. North Carolina also received \$10.9 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act funds, which included \$49,844 in funds that EAC redistributed to them after other states returned CARES Act funds that they were unable to utilize. In total, the state received \$32.9 million, as described in Figure 1.

Figure 1. Notice of Grant Award Summaries

	Election Security Funds	CARES Act Funds
Award	NC20101001-01 ^a	NC20101CARES-01
Amount	\$22,050,678	\$10,947,139
Project Period	03/28/2018 – Until funds are expended	3/28/2020 – 3/27/2022
Purpose	To improve the administration of elections for federal office, including to enhance election technology and make election security improvements.	To prevent, prepare for, and respond to coronavirus, domestically or internationally, for the 2020 federal election cycle.
Major Requirements	<ul style="list-style-type: none"> Adhere to federal cost principles (2 CFR Part 200). Submit semi-annual narrative and financial reports. Maintain funds, including interest earned and any net program income, in an election fund (Section 104(d) of HAVA). 	<ul style="list-style-type: none"> Adhere to federal cost principles (2 CFR Part 200). Submit semi-annual narrative and financial reports. Maintain funds, including interest earned and any net program income, in an election fund (Section 104(d) of HAVA).

^a This amendment combines the FY 2018 (NC18101001) and FY 2020 (NC20101001) awards into a single Election Security grant.

EAC awarded these funds to the North Carolina State Board of Elections (NCSBE), whose function is to administer the elections process in the state. NCSBE intended to use the FY 2018 Election Security grant to modernize its Statewide Elections Information Management System, expand and enhance its post-election audit program, and improve cybersecurity. With the FY 2020 Election Security grant, NCSBE intended to address cyber vulnerabilities and improve voting registration systems, voting system certification and management, election auditing, voting equipment, and communication. The CARES Act funds were used to address pandemic-related issues, including the shortage of election workers,

¹ Pub. L. No.107-252 (October 29, 2002).

printing and postage cost increases, and the need for personal protective equipment for elections workers and in-person voters.

Audit Objectives

The objectives of the audit were to determine whether NCSBE:

1. Used funds for authorized purposes in accordance with applicable requirements.
2. Complied with the requirements for state matching.
3. Properly accounted for and controlled property purchased with EAC funds.
4. Used funds for intended purposes.

Based on the audit procedures performed, except for the matters discussed below, we concluded that NCSBE generally accounted for and expended the grant funds in accordance with applicable requirements, complied with the requirements for state matching, accounted for and controlled property purchased, and used funds for intended purposes. The exceptions are described below.

NCSBE Did Not Meet Grant Reporting Requirements

In accordance with 2 CFR §§ 200.328 and 200.329, EAC requires grantees to submit periodic financial reports using the EAC Federal Financial Report form, which is adapted from Standard Form 425. Grantees are also required to submit periodic progress reports that report on program performance and describe how funds were used to meet the grant’s objectives. The various awards include the reporting requirements for each grant, as shown in Figure 2 below.

Figure 2. Financial and Progress Reporting Requirements

	Election Security Funds ^a		CARES Act Funds
Award(s)	NC18101001 NC20101001	NC20101001-01	NC20101CARES-01
Reporting Requirements	Program and financial reports were due by December 31 for the period October 1 to September 30.	Program and financial reports were due by April 30 for the period October 1 to March 31 and by December 31 for the period April 1 to September 30.	<ol style="list-style-type: none"> 1. Within 20 days of each election in the 2020 federal election cycle, grantee was required to send a report accounting of the state’s uses of funds. 2. Financial and progress reports for the period ending 12/31/2020 were due February 28, 2021. 3. Financial and progress reports for subsequent periods ending June 30 and December 31 of each year were due based on EAC reporting instructions.

^a EAC changed the grant reporting requirements as part of the August 2020 grant amendment.

The CARES Act post-election report was submitted by the due date. However, all other reports were submitted after the due date, as shown in Figures 3 and 4 below.² The Election Security financial and progress reports were submitted between 128 and 1,565 days late. The CARES Act financial and progress reports were submitted between 270 and 603 days late.

Figure 3. Number of Days Late Election Security Financial and Progress Reports Were Submitted

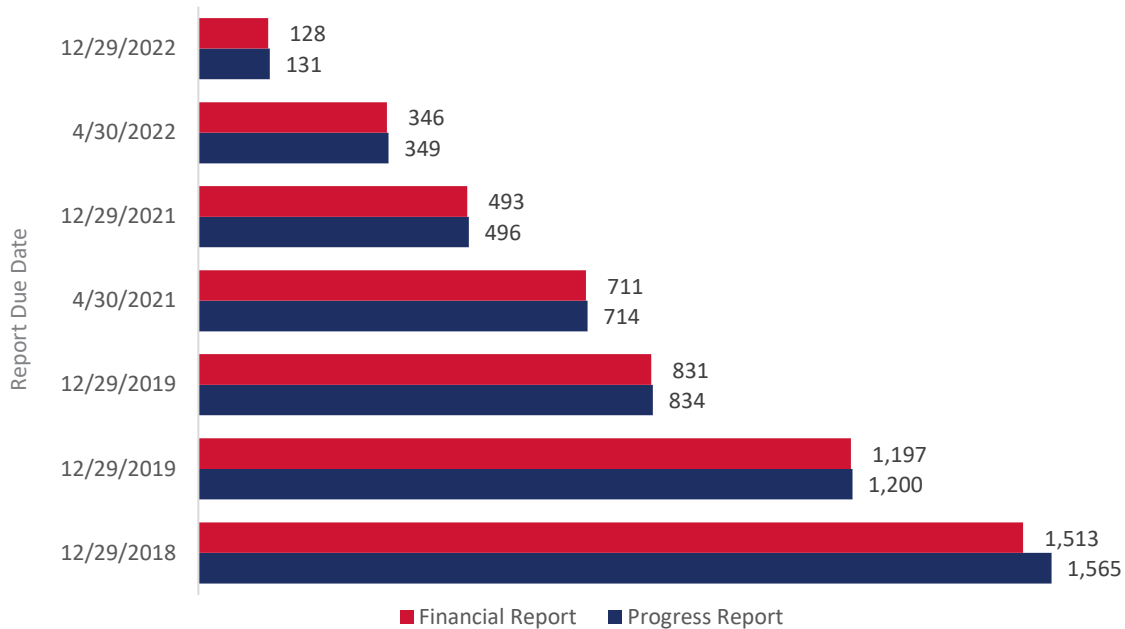
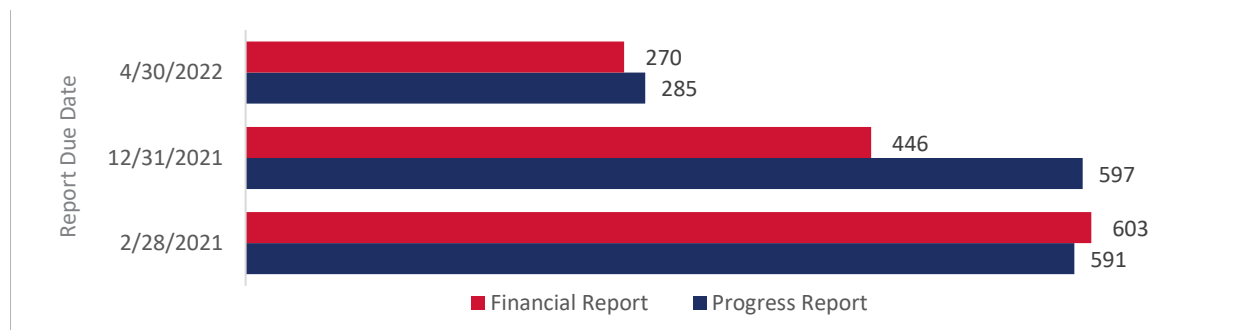


Figure 4. Number of Days Late CARES Act Financial and Progress Reports Were Submitted



As described below, the delays in reporting were caused by certain administrative burdens imposed on NCSBE staff who were administering subawards and delays in NCSBE staff receiving information from CARES Act subawardees.

Administrative Burden. The North Carolina Office of the State Controller incorrectly combined multiple HAVA grants into one account. Correcting the comingling of grant funds required time to determine the amount of the correction and to make journal entries impacting multiple years. This also required NCSBE

² OIG reviewed final reports. Some reports may have initially been submitted earlier but required subsequent correction.

to recalculate years of interest earned on grants funds and then prorate the amount between grants and further by funding source (i.e., federal or state matching funds). During this same time period, EAC changed grant reporting systems while NCSBE was administering subawards to counties for the first time, during a pandemic. In hindsight, NCSBE officials acknowledge that they should have tried harder to add additional staff, especially given the administrative burden posed by the subawards.

Subawards. NCSBE used HAVA and CARES Act funds for subawards to all 100 North Carolina counties in 2020. That year was the first time that NCSBE awarded and administered subawards. The North Carolina General Assembly required the HAVA subawards to be made on the reimbursement basis and required counties to submit documentation for expenditures prior to the disbursement of funds. The CARES Act subawards were advances of funds and required the counties to submit support for expenditures as well as return unused funds to the state. In addition to the significant administrative effort required from NCSBE staff to administer subawards in compliance with the CARES Act, delays in receiving information from the counties further hampered the state’s ability to compile financial and program reports.

Delays in reporting hindered the EAC grants team’s ability to monitor and oversee the grants. During our audit, EAC grants team staff provided on-site technical assistance to assist NCSBE with the preparation of reports. Afterward, NCSBE was able to submit reports—some of which were over 1,500 days late. As of October 2023, NCSBE is compliant with its reporting requirements.

NCSBE Did Not Record Interest in Accordance with Requirements

The awards for the Election Security grants and the CARES Act grant state that federal funds and state cash matching funds must be deposited in the state election fund as described in Section 104(d) of HAVA, and interest earned on the award’s funds shall be retained in the election fund and used for allowable activities described in Section 101 of HAVA. Additionally, North Carolina General Statute § 147-86.10 instructs its government entities to maximize interest-bearing investment of cash, and to minimize idle and nonproductive cash balances. This is accomplished through the statewide cash management plan administered by the State Treasurer and described in North Carolina General Statute § 147-86.11.

Election Security Grants

While NCSBE placed funds in an interest-bearing account, it did not consistently record and report interest on its Election Security grant funds, with no interest reported on federal financial reports from September 30, 2018, through September 30, 2021.³

In April and May 2023, NCSBE filed amended federal financial reports that included interest earned for the periods ending September 30, 2020, through March 31, 2022. The reports for periods ending September 30, 2018, and 2019, were not amended and continue to report no interest earned. In May 2023, NCSBE filed a report for the period ended September 30, 2022, which included interest earned. The amount of interest reported was within the acceptable variance of the amount that OIG expected.

³ NCSBE originally included interest on the report for the period ended September 30, 2020, but subsequently filed an amended report that included no interest earned.

This occurred because NCSBE, as part of its participation in the statewide cash management plan, used one short-term investment fund (STIF) account for all federal awards, without pro-rating the interest earned between funds. The funds earn interest on the last day of the month based on that month's average daily balance. As a result, interest was earned on Election Security funds, but that interest was not recorded on the general ledger nor available to be "used for allowable activities described in Section 101 of HAVA" as required by the grant. Per the State Treasurer's *Banking Services Handbook*, "each agency generally maintains only one STIF account...but, where appropriate, additional STIF accounts may be opened. The pro-rata distribution of earnings, in cases of multiple funds, is the responsibility of the participating agency."

CARES Act Grants

OIG expected that NCSBE would have earned over \$50,000 in interest on CARES Act funds, based on the number of days funds were held at U.S. Treasury rates. However, financial reports filed by NCSBE for March 31, 2021, and September 30, 2021, included no interest earned. NCSBE reported only \$1,276 for interest earned on CARES Act funds in its financial reports. And, at the time of grant closeout, NCSBE reported only \$1,467 of interest earned.

EAC accepted the low amount of interest reported at grant closeout because the agency had provided conflicting guidance on whether grantees were required to earn interest on CARES Act funds, which had a limited period of availability. In total, EAC waived the interest requirement for 12 CARES Act grantees. This matter is discussed further in OIG's *Risk Assessment of EAC's Grant Closeout Procedures*.⁴

Subaward Expenses Were Unsupported and Ineligible

2 CFR Part 200 requires that costs under federal awards be adequately documented⁵ and that applicable credits such as purchase discounts, rebates, or allowances be utilized.⁶ In addition, states are permitted to use grant funds to pay taxes that they are legally required to pay.⁷

The North Carolina General Assembly appropriated Election Security and CARES Act funds for subawards to North Carolina counties with NCSBE serving as the administrator of the subawards. The Election Security subawards were for reimbursement-eligible expenditures, with each county eligible for a minimum award of \$10,000 and a maximum award of \$250,000. CARES Act subawards were awarded based on a formula prescribed by the North Carolina General Assembly⁸ and were advance payments. Counties that did not expend the full CARES Act subaward were required to refund the remainder to NCSBE.

OIG judgmentally selected a sample of ten North Carolina counties and requested and reviewed the documentation supporting their subaward expenditures. For subawards of Election Security funds, the

⁴ EAC OIG, Risk Assessment of the U.S. Election Assistance Commission's Grant Closeout Procedures, September 2023 ([O23HQ0046-23-10](#)).

⁵ 2 CFR § 200.403(g).

⁶ 2 CFR § 200.406(a).

⁷ 2 CFR § 200.470(a)(1).

⁸ S.L. 2020-17 § 11.1(b).

ten counties expended \$888,730 over 99 transactions. We found that NCSBE reimbursed the following costs to counties:

- forty-four expenditures, totaling \$255,259, without a detailed invoice.
- eleven expenditures, totaling \$61,294, based on a quote or estimate, without evidence that an actual related order had been placed.
- five instances of sales tax, totaling \$3,791, without confirmation that the tax payments were legally required.⁹
- a \$4,409 duplicate expenditure for an invoice previously reimbursed with CARES Act funds.

For subawards of CARES Act funds, the ten counties expended \$1,857,211 over 90 transactions. We found that the following NCSBE subawards were not adequately documented or were ineligible:

- twenty-five expenditures, totaling \$382,124, without a detailed invoice.
- three duplicate invoices, totaling \$18,051.
- an extra, unexplained \$245 payment to one county.
- the payment of \$191 in sales tax, without confirmation that the tax payment was legally required.¹⁰
- two discounts totaling \$85 were applied to the invoice but not to the grant expenditure.

These unsupported and ineligible questioned costs are summarized in Figure 5.

Figure 5. Unsupported and Ineligible Subaward Costs

	Unsupported Costs	Ineligible Costs	Total
Election Security Grant	\$320,344	\$4,409	\$324,753
CARES Act Grant	\$382,645	\$18,051	\$400,696

NCSBE had controls in place for reviewing subawardee costs. The questioned costs occurred because controls were weakened due to incomplete review of subawardee documentation, failure to maintain subawardee documentation, and inconsistent use of vendor names by subawardees. Without adequate controls and staffing, this could result in NCSBE making improper payments to subawardees and reimbursing subawardees for non-allowable expenditures.

NCSBE Did Not Always Properly Control Purchased Equipment

2 CFR § 200.313(b) states: “A state must use, manage and dispose of equipment acquired under a Federal award by the state in accordance with state laws and procedures.” North Carolina Office of the State Controller Statewide Accounting Policy 102.6 states: “All inventoried/capitalized assets acquired with federal funds, regardless of whether the state holds title or not, must be flagged to ensure that

⁹ It could not be determined from the information provided if this was allowable. 2 CFR § 200.470(a)(1) states that taxes a government unit is legally required to pay are allowable in some circumstances. While some counties included documentation of their tax exemption, other counties did not.

¹⁰ It could not be determined from the information provided if this was allowable. 2 CFR § 200.470(a)(1) states that taxes a government unit is legally required to pay are allowable in some circumstances. While some counties included documentation of their tax exemption, other counties did not.

federally funded assets will not be sold or transferred without following federal property disposition guidelines.”

NCSBE used Election Security and CARES Act funds to purchase assets. We judgmentally selected a sample of twenty of these assets to verify compliance with award requirements. Of the twenty assets sampled, there were three instances where an asset tag was not affixed to the asset, and three instances where the serial number was visible on the asset but was not entered into the Fixed Asset System. This could result in NCSBE losing track of assets purchased with federal funds or disposing of assets purchased with federal funds in a non-compliant manner.

The three assets referenced above were not tagged because NCSBE did not have tags on-hand when the assets were placed in service in May 2021. NCSBE noted that asset tags were on order. According to NCSBE, the failure to enter the serial number for the three assets, also acquired in May 2021, was due to an increase in pandemic-related teleworking. Like other states, North Carolina implemented policies and procedures in response to the pandemic including an increase in teleworking. In May 2020, the North Carolina Office of State Human Resources began publishing guidance on state agency employees safely returning to in-person work. However, the North Carolina Administrative Code states that teleworking is available to every agency for full time and part time classified, temporary, and time-limited employees.¹¹

Recommendations

To address the described issues, OIG recommends that EAC:

1. Require the North Carolina State Board of Elections to implement procedures and training to help ensure that required progress and financial reports are properly and timely submitted.
2. Require the North Carolina State Board of Elections to implement procedures and training to help ensure that interest earned from grant funds is reported on its financial reports.
3. Determine the allowability of \$400,696 in questioned costs (\$382,645 unsupported; \$18,051 ineligible) under CARES Act Award NC20101CARES-01 and recover any amount that is unallowable.
4. Determine the allowability of \$324,753 in questioned costs (\$320,344 unsupported; \$4,409 ineligible) under Election Security Award NC20101001-01 and recover any amount that is unallowable.
5. Require the North Carolina State Board of Elections to strengthen its policies and procedures for subawardee monitoring, including the procedures for reviewing invoices and supporting information submitted by subawardees.
6. Require the North Carolina State Board of Elections to implement procedures and training to ensure assets purchased with HAVA funds are completely documented in the Fixed Asset System and asset tags are affixed to the asset in a visible location.

¹¹ 25 NCAC 01C.0802.

Evaluation of Management Comments

We provided our draft report to EAC and NCSBE officials on November 20, 2023. On December 19, 2023, we received a response from NCSBE officials, which is included in Appendix B of this report. On December 19, 2023, we received a response from EAC officials, which is included in Appendix C of this report. Additional discussions were held with EAC and NCSBE officials to clarify their responses. We also reviewed additional information that they provided.

The draft report included eight recommendations. Two recommendations were removed following the additional discussion and review of documentation. We acknowledge EAC's management decisions on the remaining six recommendations. Recommendations 1 and 2 are closed upon report issuance. Recommendations 3, 4, 5, and 6 are open pending completion of planned activities.

Our detailed evaluation of management comments follows.

Recommendation 1. NCSBE implemented a policy and procedure for FFRs in January 2024 and trained new staff on it. Therefore, final action has been taken on Recommendation 1.

Recommendation 2. NCSBE implemented an interest allocation policy in January 2024 and trained new staff on it. Therefore, final action has been taken on Recommendation 2.

Recommendations 3 and 4. EAC agrees and is in the process of reviewing supporting documentation provided by NCSBE subrecipients. The target date for completion is May 31, 2024. OIG will review the actions taken once the documentation is provided by EAC.

Recommendation 5. Subsequent to the draft report and pursuant to discussion with EAC, OIG changed Recommendation 5 to acknowledge that EAC cannot require NCSBE to assess its staffing needs. EAC agrees that NCSBE needs to strengthen its policies and procedures for subawardee monitoring and provide training. The target date for completion is November 1, 2024.

Recommendation 6. EAC disagrees that additional procedures or training is necessary to ensure that assets purchased with HAVA funds are completely documented in the Fixed Asset System and asset tags are affixed to the asset in a visible location, attributing the discrepancies to the COVID pandemic. EAC intends to review a larger sample than was included in the audit to ensure that the discrepancies were isolated and do not persist. The target date for completion is December 31, 2024.

Recommendations 7 and 8. Subsequent to the draft report, NCSBE provided additional documentation that led OIG to remove a finding titled "HAVA-funded Positions May Have Performed Non-federal Election Duties" from the report. With the removal of that finding, Recommendations 7 and 8 were also eliminated.

Appendix A. Scope and Methodology

This audit was primarily conducted from February 2022 to August 2023, though we received and considered information received through February 2024. The audit was conducted 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 in accordance with our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit objectives were to determine whether NCSBE (1) used funds for authorized purposes in accordance with applicable requirements; (2) complied with the requirements for state matching; (3) properly accounted for and controlled property purchased with EAC funds; and (4) used funds for intended purposes.

For Election Security funds, the audit covered awards NC18101001 and NC20101001, subsequently combined with award NC20101001-01, from the date of award through September 30, 2022. For CARES Act funds, the audit covered award NC20101CARES and amendment NC20101CARES-01 from the date of award through March 31, 2022. Figure A-1 details grant financials reported through that date.

Figure A-1. Grant Financials Reported by NCSBE

	Election Security Funds (\$) ^a	CARES Act Funds (\$) ^b
Federal cash		
Total federal funds authorized	22,050,678	10,947,139
Federal share of expenditures	21,998,047	10,721,298
Federal share of unliquidated obligations	-	-
Total federal share	21,998,047	10,721,298
Unobligated balance of federal funds	52,631	225,841 ^c

^a As of September 30, 2022.

^b As of March 31, 2022.

^c NCSBE returned \$225,841 to EAC in March 2023.

We initially reviewed applicable laws and regulations to answer the audit objectives. Specifically, we reviewed HAVA and the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR Part 200). We reviewed the grant awards and applications, available financial reports, and related audit reports. We also conducted interviews and corresponded with representatives from NCSBE and the EAC grants team. We performed work in Raleigh, NC during February 2023. Otherwise, work was performed remotely.

The described procedures provided us with an understanding of the grantees’ internal controls and helped us to assess risk. Based on this, we selected significant controls for testing. This included controls in the financial management, property management, and procurement processes. We also designed procedures to test compliance with the award requirements. Specifically, we:

- Reconciled the submitted financial reports to EAC’s and NCSBE’s accounting records as of September 30, 2022.
- Verified that NCSBE’s state match for each grant complied with the award requirements.

- Reviewed support for a sample of direct costs, including expenditures, such as salaries, equipment, travel, and supplies, to determine whether the goods or services were allowable.
- Reviewed records and correspondence to determine whether funds had been deposited in an election fund that earns interest.
- Determined the adequacy of NCSBE's procedures for property management and procurement and tested their effectiveness.



NORTH CAROLINA

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December 19, 2023

Brianna Schletz, Inspector General
U.S. Election Assistance Commission
Office of Inspector General
633 3rd Street NW, Suite 200
Washington, DC 20001
Submitted electronically via e-mail

RE: Response to EAC OIG Draft Report: Audit of Help America Vote Act Security Grants and CARES Act Grants Awarded to the State of North Carolina.

Dear Inspector General Schletz:

The North Carolina State Board of Elections appreciates the work of the U.S. Election Assistance Commission and Office of Inspector General to ensure that federal grant funds were properly administered. We are grateful for the technical assistance received from Arielle Augustyn, Peg Rosenberry, and Summer Hirschfeld of the EAC as well as Sarah Dreyer and Joshua Shoemaker of the OIG.

We appreciate the opportunity to respond to the findings in the draft audit report, we are committed to resolving all issues flagged for follow-up and are happy to provide any additional information that might be needed. We believe that North Carolina did well in ensuring that the State and the recipients of 200 subgrants complied with 2 CFR 200 across thousands of transactions over a period of years that encompassed a pandemic, worldwide supply-chain issues, and civil unrest targeted at elections workers.

We believe that the audit report should reflect that NCSBE has:

- Used the funds for purposes authorized by the Help America Vote Act and CARES Act
- Accurately tracked transactions and ensured that competitive bidding requirements were met
- Maintained proper and effective internal control activities through consistent application of policies and procedures
- Created and applied a thorough timekeeping system to properly account for all payroll costs
- Provided guidance and training to subrecipients on permissible uses of funds.

Finding 1 – NCSBE Did Not Meet Grant Reporting Requirements

NCSBE Response:

NCSBE experienced problems with timely reporting due to issues with commingled HAVA Sec. 251 funds and HAVA Security Grant funds, issues obtaining supporting documentation from subgrantees, and multiple changes in reporting systems during the time period from 2017-2023. NCSBE worked closely with EAC Technical Advisors and the State DOA Fiscal Management Office to resolve issues related to commingled funds, and all grant reports have been filed and reviewed and accepted by the EAC.

Finding 2 – NCSBE Did Not Record Interest in Accordance with Requirements

NCSBE Response:

NCSBE's issues with recorded interest were resolved as part of the process of correcting commingled HAVA Sec. 251 funds and HAVA Security Grant funds. Earlier reporting forms did not contain separate lines for reporting interest earned on federal and state funds, so some earlier interest was reported on the Program Income line as per EAC training and guidance. NCSBE worked with EAC Technical Advisors to ensure that interest was reported according to EAC instructions. Recorded interest issues have been resolved and accepted by the EAC.

Finding 3 – Subaward Expenses Were Unsupported or Ineligible

NCSBE Response:

The North Carolina General Assembly required NCSBE to issue 200 subawards from Election Security and CARES Act funds in Session Law 2020-17. Legislation set formula-based subawards and allowed subawardees to receive their awards on either an up-front or a reimbursement basis. Before issuing any subgrants, NCSBE required each subawardee to provide us with signed certifications guaranteeing their compliance with 2 CFR 200 and the terms of the grants, as well as memoranda specifying whether they would receive the award up-front or on a reimbursement basis. Subawardees receiving grants on an up-front basis were required to provide monthly reports detailing expenditures and supporting them with copies of purchase orders or receipts. We reviewed all documentation submitted, declined to reimburse for non-reimbursable expenditures, and obtained refunds for expenditures that were later determined to be impermissible or duplicated. We are still working with two subawardees to close out their grants. We are proud that there are no outstanding ineligible costs and, we believe, no unsupported costs.

Finding 4 – NCSBE Did Not Always Properly Control Purchased Equipment

NCSBE Response:

NCSBE followed State requirements for controlling equipment, which are stricter than federal requirements. A small number of items were deployed during the pandemic before being tagged, and tagging has since occurred.

Finding 5 – HAVA-funded Positions May Have Performed Non-federal Election Duties

NCSBE Response:

NCSBE believes that only permissible duties were performed by HAVA-funded positions. From the time that our agency created and filled time-limited positions and contractor positions paid for with HAVA funds, NCSBE had a robust time-keeping system in place. All employees, HAVA-funded and non-HAVA-funded, use a statewide online system to record time, but it initially lacked a place for recording project details. All HAVA-funded personnel completed a supplemental paper timesheet with project details. Prior to the pandemic, timesheets for HAVA-funded positions had to have the wet-ink signature of the employee/contractor and their supervisor. In the early stages of the pandemic, we changed this to require an electronic signature. Eventually we were able to identify a way to add project information to the online timekeeping process that all state employees use, and this process is still in place today. NCSBE conducted regular audits of timekeeping records to ensure that records were complete, and activities were permissible.

As projects change, job descriptions are updated and cost-allocation is applied anytime a position will perform non-federal election duties. NCSBE has provided documentation to support the eligibility of all hours paid for with federal funds. NCSBE currently has two time-limited positions paid for with HAVA funds.

Thank you again for your work to ensure proper use of federal grant awards, and for the opportunity to provide a response to the draft audit findings. We look forward to providing any additional information necessary to resolve any outstanding issues.

Sincerely,



Karen Brinson Bell
Executive Director

Appendix C. EAC Comments



U.S. ELECTION ASSISTANCE COMMISSION
633 3rd Street, NW, Suite 200
Washington, DC 20001

TO: Brianna Schletz, Inspector General

FROM: Risa Garza, Gants Director

DATE: December 19, 2023

RE: Response to Draft Audit Report of Grants Awarded to the State of North Carolina

This is the EAC's response to the OIG draft audit of HAVA funds awarded to the North Carolina State Board of Elections (NCSBE) and serves as the EAC's management decision. The scope of the audit includes HAVA Sections 251, 101 Election Security and 101 CARES grants. The EAC Office of Grants Management (OGM) describes our management decisions related to each recommendation below:

Recommendation #1. Require the North Carolina State Board of Elections to implement procedures and training to help ensure that required progress and financial reports are properly and timely submitted.

Management Decision: The NCSBE and NC Dept of Accounting has worked extensively with OGM to identify and mitigate root causes that lead to late reporting. All outstanding reports have been submitted and approved at this time. In May 2023, OGM performed a full reconciliation of NCSBE expenditures to ensure the FFR's contained complete and accurate data. As requested by NCSBE, OGM is providing additional technical assistance to train NCSBE staff on the EAC's new grants management system and reporting requirements.

NCSBE has implemented corrective actions to strengthen internal controls to ensure compliance with federal reporting regulations and requirements. OGM expects that the NCSBE will implement the finalized version of these controls by January 31, 2024.

Recommendation #2. Require the North Carolina State Board of Elections to implement procedures and training to help ensure that interest earned from grant funds is reported on its financial reports.

Management Decision: As of the publication of this report, OGM has worked with the State Treasury and NCSBE to resolve this recommendation and all past financial

reporting has been corrected to include interest earned. While the draft audit report states that the reports for periods ending September 30, 2018 and 2019 were not amended, OGM confirmed that interest is accurately reported on line 10I of the SF-425 per the EAC's reporting guidance at the time. NCSBE has provided documentation to substantiate its deposit of the shortfall of interest into the state election fund and their updated financial reports.

Recommendation #3. Determine the allowability of \$400,696 in questioned costs under CARES Act Award and recover any amount that is unallowable.

Recommendation #4: Determine the allowability of \$324,753 in questioned costs under Election Security Award and recover any amount that is unallowable.

Management Decision: NCSBE confirmed through their subrecipient accounting system records that the questioned costs met federal cost principles for allowability and the period of performance. NCSBE also provided the following internal monitoring and policy processes to support the allowability of expenditures:

- NCSBE reviews all reports and reimbursement requests for compliance with 2 CFR 200. Any costs that do not meet grant criteria are rejected and payment withheld.
- NCSBE provides subrecipients allowable cost guidance documents on their initial SOWs as well as on revisions to the SOW
- NCSBE staff meets with subrecipients routinely to monitor progress of the work, resources, capacity, and budget management.
- NCSBE staff provide technical assistance and policies to subrecipients related to both allowability and compliance as it relates to programmatic process

OGM is in the process of reviewing supporting cost documentation provided by NCSBE subrecipients and expects to have all questioned and ineligible costs resolved by January 31, 2024.

Recommendation #5. Require that the North Carolina State Board of Elections assess its staffing needs and strengthen its policies and procedures for subawardee monitoring, including the procedures for reviewing invoices and supporting information submitted by subawardees.

Management Decision: OGM has reviewed the current processes and steps taken by NCSBE to ensure past and future payments to subrecipients are properly documented per their established policies and procedures. NCSBE staff have developed a more rigorous payment review process that aligns with federal guidance. The review process ensures that all backup documentation is tracked, including any questioned costs requested by subrecipients to reduce the risk of unsupported or improper payments. NCSBE is providing training and technical assistance to their subrecipients on this new review process and documentation

procedures. NCSBE also conducts on-site reviews with subrecipients on an as-needed basis to monitor allowability and compliance as it relates to programmatic processes.

Recommendation #6: Require the North Carolina State Board of Elections to implement procedures and training to ensure assets purchased with HAVA funds are completely documented in the Fixed Asset System and asset tags are affixed to the asset in a visible location.

Management Decision: OGM reviewed NCSBE's current fixed asset controls and methodology and determined that NCSBE meets federal regulations regarding the inventory and documentation of assets. As described in this report, the assets in question had been entered into the inventory system but were awaiting a delayed shipment of tags. NCSBE explained that the delay was due to supply chain shortages during the COVID-19 pandemic. NCSBE staff were also prevented from working in the office during this time and day-to-day operations were changed or delayed due to new emergency protocols. Following the COVID pandemic, NCSBE has worked to identify any gaps in its inventory process and to develop new emergency protocols in the event of another national emergency.

NCSBE is currently working with DOA Fiscal Management to update the Fixed Asset System to include the serial number from the network server that is currently missing from the system, but this process has been slowed due to a statewide deployment of a new financial system. OGM expects that NCSBE will complete final updates by December 31, 2023.

Recommendations #7 and #8. Determine the allowability of HAVA-funded payroll expenses under Election Security Award NC20101001-01 and recover any amount that is unallowable. Require the North Carolina State Board of Elections to establish a process to ensure that employees track time spent on grant activities and to allocate HAVA funds only for time spent on grant activities.

Management Decision: OGM reviewed NCSBE's established timekeeping processes and determined that their procedures are robust and sufficient for accurately recording staff time spent on HAVA grant activities. OGM further determined that all questioned payroll expenses are properly supported and allowable under HAVA Section 101.

Per the EAC's guidance, activities described under HAVA101(b)(1)(C) through (H) do not require allocation between federal and non-federal elections. These activities include improving voting systems and methods, training of election officials, educating voters, and improving the accessibility of polling locations. An expenditure is fully allocable to HAVA funding if it is for the stated purposes under (C) through (H) of HAVA 101(b)(1) and does not have an additional non-election related benefit. This report identifies an instance where the job description for an NCSBE position

that was 100 percent HAVA funded included managing all voting machines certified for use in North Carolina. Under HAVA 101(b)(1)(F) which allows states to improve, acquire, lease, modify, or replace voting systems and technology methods for casting and counting votes, expenditures related to managing voting machines do not need to be allocated based on the benefit to federal elections versus non-federal elections.

Furthermore, OGM reviewed the payroll documentation provided by NCSBE and verified that they require employees in time-limited, HAVA-funded positions to complete weekly time sheets with detailed hours spent on federally funded projects. NCSBE also updates job descriptions as projects change and applies appropriate cost-allocation anytime a position will perform non-federal election duties. NCSBE has provided documentation to support the eligibility of all hours paid for with federal funds.

The EAC expects to review the actions and documentation provided by the state by January 31, 2024.



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