



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

January 29, 2015

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Edward J. Kasemeyer, Chair
Senate Budget and Taxation Committee
Miller Senate Office Building, 3 West Wing
11 Bladen Street
Annapolis, Maryland 21401

Delegate Maggie McIntosh, Chair
House Appropriations Committee
House Office Building, Room 121
6 Bladen Street
Annapolis, Maryland 21401

Dear Senator Kasemeyer and Delegate McIntosh:

The Office of Legislative Audits (OLA) has conducted a review of the actions taken by the State Board of Elections (SBE) to resolve the four repeat findings in our March 24, 2014 audit report. This review was conducted in accordance with a requirement specified in the April 2014 *Joint Chairmen's Report* (JCR), page 19. The JCR required that, prior to release of \$250,000 of its administrative appropriation for fiscal year 2015, SBE must take corrective action on all repeat audit findings. The JCR language further provided that OLA submit a report to the budget committees listing each repeat audit finding along with a determination that each repeat finding was corrected within sufficient time to allow 45 days for the budget committees to review and release the funds prior to the end of fiscal year 2015.

The March 24, 2014 SBE audit report contained four repeat audit findings (findings 1, 4, 5, and 7) that were addressed by six recommendations. In accordance with the aforementioned JCR requirement, SBE provided a report to OLA, dated October 21, 2014, detailing the corrective actions that SBE has taken with respect to these repeat audit findings. We reviewed this report and related documentation, performed limited tests and analyses of the information, and held discussions with SBE personnel, as deemed necessary, to assess the implementation status of the related recommendations. Our review did not constitute an audit conducted in accordance with generally accepted government auditing standards.

Exhibit 1 is SBE's October 21, 2014 status report, which indicated that it had resolved all of the repeat findings. Our review determined that SBE had taken the necessary correction actions to satisfactorily address the recommendations for all four findings.

Senator Edward J. Kasemeyer
Delegate Maggie McIntosh

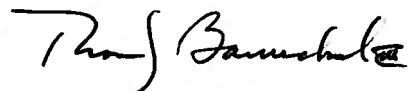
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January 29, 2015

A summary of OLA's assessment of the status of each of the repeat audit findings is included in the attached Exhibit 2. We wish to acknowledge the cooperation extended to us by SBE during this review.

We trust our response satisfactorily addresses the JCR requirement. Please contact me if you need additional information.

Sincerely,



Thomas J. Barnickel III, CPA
Legislative Auditor

cc: Joint Audit Committee Members and Staff
Senator Thomas V. Mike Miller, Jr., President of the Senate
Delegate Michael E. Busch, Speaker of the House of Delegates
Governor Lawrence J. Hogan, Jr.
Comptroller Peter V.R. Franchot
Treasurer Nancy K. Kopp
Attorney General Brian E. Frosh
David R. Brinkley, Acting Secretary, Department of Budget and Management
Bobbie S. Mack, Chairman, State Board of Elections
Linda H. Lamone, Administrator, State Board of Elections
Nikki Charlson, Deputy Administrator, State Board of Elections
Michelle Holland, Director of Budget and Finance, State Board of Elections
Joan Peacock, Manager, Audit Compliance Unit, DBM
Karl S. Aro, Executive Director, Department of Legislative Services
Tonya D. Zimmerman, Policy Analyst, Department of Legislative Services

Exhibit 1 to January 29, 2015 Letter to Joint Chairmen

MARYLAND

STATE BOARD OF ELECTIONS

P.O. BOX 6486, ANNAPOLIS, MD 21401-0486 PHONE (410) 269-2840

Bobbie S. Mack, Chairman
David J. McManus, Jr., Vice Chairman
Patrick J. Hogan
Janet S. Owens
Charles E. Thorman



Linda H. Lamone
Administrator

Nikki Charlson
Deputy Administrator

October 21, 2014

Via U.S. and Electronic Mail

Thomas J. Barnickel, III, CPA
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore MD 21201

Re: *Joint Chairman's Report* - Corrective Action on Repeat Findings

Dear Mr. Barnickel,

The *2014 Joint Chairman's Report* included language withholding \$250,000 of the State Board of Elections' (SBE) administrative appropriation until SBE takes corrective action on the four repeat findings in the most recent audit report issued by the Office of Legislative Audits. This letter serves as the report outlining the corrective actions SBE has taken with respect to the four repeat audit findings. SBE has resolved each of the repeat findings, and the steps taken to resolve the findings are described below.

Finding #1 - SBE's structure of the voting system support services contract may have limited competition and SBE lacked documentation that the sole source for the contract was sufficiently evaluated.

SBE's Procurement Officer reviews each request for a sole source procurement to evaluate whether the sole source request is appropriate under the State's procurement laws and, if so, requires a written explanation justifying the request for this type of procurement. SBE's Procurement Officer, the State Administrator, and if applicable, SBE's control agency for the procurement must approve the sole source procurement. This review and approval of a request for sole source procurement has been incorporated into SBE's procurement checklist, a copy of which is attached.

In addition to the review associated with a request for sole source procurement, SBE's Procurement Officer reviews each procurement request to ensure that the procurement does not include any bundling of goods or services that could be procured separately and competitively. SBE does not currently have any procurement that bundle goods or services.

For example, the implementation of a new voting system requires many products and services, and each of these procurements will be separate. The recently issued Request for Proposal for the new voting system requested proposals only for the hardware and software of

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<http://www.elections.maryland.gov>

OCT 22 2014
151 West Street Suite 200
Annapolis, Maryland 21401

a voting system. Project management support for implementing the new voting system, transportation, temporary staffing, and ancillary equipment (e.g., privacy sleeves, carts, booths) have already been or will be procured separately and competitively.

SBE requested that the Department of Budget and Management's (DBM) Audit Compliance Unit validate the agency's actions with respect to this finding. DBM's representative reviewed SBE's procurement checklist and current contracts and found that all of SBE's major contracts were competitively bid and for the four sole source contracts, the reasons and documentation were sufficient to justify the sole source procurement.

Finding #4 – SBE's cash receipt procedures did not establish control and accountability.

In the agency's response to the Legislative Audit Report, SBE described how each recommendation was implemented. SBE has since updated its cash management procedures to reflect the new processes.

A representative of DBM's Audit Compliance Unit verified that:

1. SBE's Financial Officer can independently access the daily cash/check receipt log prepared by the mail room to verify payments received to the actual deposit.
2. Separate user IDs have been issued to each cashier and back-up cashier.
3. A manager authorizes cash register voids and "no sale" by entering her user ID to allow the transaction.
4. Most of the local boards of elections now pay invoices via electronic transfer.

As part of his review, DBM's representative reviewed deposits from 21 days over three months. Although SBE has been diligent about making timely deposits, he found two deposits that were not deposited within one business day. We are currently looking into the circumstances surrounding those two deposits and will make any necessary changes to SBE's procedures to ensure that deposits are consistently timely made, in accordance with Comptroller of Maryland's *Accounting Procedures Manual*.

Finding #5 – Sufficient collection efforts were not made on delinquent accounts receivable.

SBE reviews monthly the accounts receivable aging report and promptly sends delinquent statements when necessary. In the past six months, SBE has sent seven dunning notices for accounts receivable that were between 1 and 30 days late. Two of these accounts receivable were not paid by the deadline in the dunning notice, and a second notice was sent. As of today, both accounts receivable have been paid.

SBE's dunning notices have the Central Collection Unit's required content, including a statement that, if payment is not received, SBE will refer the account to CCU. Auditors from the Office of Legislative Audit previously reviewed the revised dunning notices and concurred that they include the required information. Attached is the template of SBE's dunning notice.

Letter to Mr. Barnickel
Page 3
October 21, 2014

With respect to the delinquent accounts from the prior audit, SBE completed its investigation and submitted a request to CCU's abatement committee to write off these balances. In May 2014, CCU approved the abatement of these accounts receivable.

A representative of DBM's Audit Compliance Unit verified that:

1. Accounts delinquent from the prior audit were researched, and those accounts without sufficient evidence of origin were approved for abatement by CCU.
2. Dunning notices were issued for delinquent accounts.
3. The dunning notice template includes the required declaration.

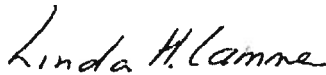
Finding #7 – SBE had not recovered indirect costs for federal grants because it had not prepared an indirect cost recovery plan, as required by DBM.

In May 2014, SBE received documentation from the Department of Budget and Management that SBE has a negative indirect cost amount for the federal funds SBE received under the federal Help America Vote Act. As a result, SBE is not able to recover indirect costs for federal costs under this federal grant program.

SBE's most recent federal grant award included indirect costs. Representatives from DBM reviewed the proposed indirect cost plan, and on October 17, 2014, SBE submitted the plan to the federal cognizant agency, the U.S. Department of Defense.

Thank you for the opportunity to update the Office of the Legislative Auditors on the corrective actions SBE implemented in response to the four repeat findings. If you have any questions or would like to verify these resolutions, please contact Nikki Charlson, Deputy Administrator, at 410.269.2843.

Sincerely yours,



Linda H. Lamone
State Administrator

Enclosures

cc: Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Bobbie Mack, Chair, State Board of Elections
Cheri Gerard, Department of Budget and Management
Joan Peacock, Manager, Audit Compliance Unit, DBM
Jim Kopp, Audit Compliance Unit, DBM

Exhibit 2 to January 29, 2015 Letter to Joint Chairmen

Status of Repeat Findings in OLA's March 24, 2014 Audit Report on the State Board of Elections

Prior Recommendations Pertaining to Repeat Findings	Status Based on OLA Review
Voting System Support Services Contract	
1b. We recommend that SBE document the evaluation of proposals, including both the technical and cost components.	Corrected
Cash Receipts	
4. We recommend that SBE	
a. provide the documentation used to initially record collections directly to the employee who verifies the deposit, and	Corrected
d. deposit cash receipts within one business day after the date received.	Corrected
Accounts Receivable	
5. We recommend that SBE	
a. investigate and appropriately resolve the accounts that have been delinquent since the preceding audit report, and	Corrected
b. ensure that delinquent accounts are sent dunning notices and referred to the State's Central Collection Unit in a timely manner, as required by State regulations.	Corrected
Federal Funds	
7. We recommend that SBE comply with the Department of Budget and Management's policy regarding the recovery of all costs, direct and indirect, associated with the administration of federally funded programs.	Corrected