



City of Chicago

Committee on Finance

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Alderman Edward M. Burke
Chairman

Telephone
312-744-3380

January 11, 2008

Mr. Langdon D. Neal
Chairman, Chicago Board of Election Commissioners
69 West Washington Street, Suite 800
Chicago, IL 60602

Dear Mr. Neal:

I am writing to request information regarding to the recently announced management-led buyout of Sequoia Voting Systems ("Sequoia"), which supplies electronic voting machines to Cook County. The transaction was completed under highly unusual circumstances: it was apparently forced by U.S. federal regulators due to concerns that the previous owner, the Venezuelan-owned Smartmatic Corporation ("Smartmatic"), was controlled by the government of Venezuelan President Hugo Chavez.¹ Smartmatic chose to sell Sequoia rather than face a full investigation by the Treasury Department's Committee on Foreign Investments in the United States ("CFIUS").

Prior to the divestiture, the ownership by Smartmatic of Sequoia and Smartmatic's relationship to President Chavez was the subject of investigations by CFIUS, the FBI, and the Internal Revenue Service, according to published reports. An article in *The Wall Street Journal* reported that federal investigators had uncovered several inappropriate transactions between Venezuelan authorities and Smartmatic, including payments to officials close to President Chavez worth over \$4 million.²

¹ Tim Golden, *U.S. Investigates Voting Machines' Venezuela Ties*, N.Y. TIMES, Oct. 29, 2006 at A1; See Tim Golden, *Voting Machine Company Submits to Inquiry*, N.Y. TIMES, Oct. 31, 2006, at A22; Alfonso Chardy, *U.S. digs for vote-machine links to Hugo Chavez*, MIAMI HERALD, Oct. 28, 2006 at A1; Bob Davis and Glenn Simpson, *U.S. Authorities Probe How Smartmatic Won Venezuela Election Pact*, WALL STREET JOURNAL, Dec. 1, 2006, at A13; Bob Davis, *Smartmatic to Shed U.S. Unit, End Probe into Venezuela Links*, WALL STREET JOURNAL, Dec. 22, 2006, at A6. Several of these articles and other background materials are attached hereto as Exhibit A.

² Bob Davis and Glenn Simpson, *U.S. Authorities Probe How Smartmatic Won Venezuela Election Pact*, WALL STREET JOURNAL, Dec. 1, 2006, at A13. ("The company says it paid \$1.5 million to a Venezuelan consultant who is close to the Chávez government and helped to win Smartmatic business. The allegation being investigated is that Smartmatic actually paid as much as \$4 million to the consultant, then deleted a substantial portion of those payments from its corporate records to hide the extent of its payments to a friend of the Chávez regime.")

Some of the concerns that prompted these federal investigations into Smartmatic and Sequoia first came to light during an April 7, 2006 hearing of the City of Chicago City Council's Joint Committee on Finance, Committee on Budget and Government Operations, and Committee on Committees, Rules and Ethics into malfunctions of Sequoia voting machines during primary elections held on March 21, 2006. During these hearings, members of the Joint Committee had an opportunity to question Mr. Jack Blaine, who then held the position of president of both Smartmatic and Sequoia. Throughout the hearing, Mr. Blaine refused to answer several questions about Smartmatic's ties to Venezuela, and was evasive in other areas. The following assertions by Mr. Blaine were very troublesome to me at the time:

- In his sworn testimony, Mr. Blaine told the Joint Committee that he did not know exactly how much Smartmatic paid for Sequoia, even though he was president of both companies.³
- Mr. Blaine told the Joint Committee that during the March 21, 2006 primary elections, more than fifteen Venezuelan nationals employed by Smartmatic were flown up from Venezuela and assisted in the tabulation of votes.⁴

3 The following text is the transcript of an exchange between Mr. Blaine and members of the Chicago City Council:

Chairman Burke: Okay. Then in March of 2005 Smartmatic, the company you're the president of, purchases Sequoia?

Blaine: That's correct.

Burke: What was the purchase price?

Blaine: It was under \$20,000,000. I forget the exact number.

Burke: If I said it was \$16,000,000, would that refresh your memory?

Blaine: I really don't know the exact figure but it's under 20, I know that.

Burke: Who would know the purchase price?

Blaine: Well, I certainly could find it out for you.

Burke: Is Mr. Mugica here today with you?

Blaine: No, he's not.

Burke: Are any of these other directors of the corporation here with you today?

Blaine: Roger Pinate is here.

Burke: Oh, he is. Then maybe we could hear from Mr. Pinate.

Alderman Suarez: Mr. Chairman, could I get a point of clarification through you?

Burke: Alderman Suarez.

Suarez: Just point of clarification. You bought the company and you don't know what you paid for it?

Burke: No, he's only the president, Alderman Suarez.

Blaine: As I said, it was under 20,000,000. I'm not sure whether it was 16,000,000 or \$18,000,000. That's what I can't remember but under 20.

City of Chicago, Joint Committee Hearings of April 7, 2006 (sworn testimony of Jack Blaine, President, Smartmatic Corporation and Sequoia Voting Systems, Inc.) (transcript pp. 36-37). A complete copy of this transcript is attached hereto as Exhibit B.

4 The following text is the transcript of an exchange between Mr. Blaine and members of the Chicago City Council:

Burke: So I take it then you bring people in to Chicago to work on these elections?

Blaine: Yes.

Burke: From whence do they come?

Blaine: Many different states, primarily California and Colorado.

Burke: Any from foreign countries?

Blaine: And some from Venezuela.

Burke: From Venezuela. Witnesses have told our investigators that you had Venezuelans working on the tabulation of the results; is that correct?

Blaine: Venezuelans were here providing support to the U.S.

Burke: How many Venezuelans?

Blaine: I'm not sure of the exact number.

Burke: Would it be more than ten?

Blaine: In providing total support, yes, more than ten.

Burke: Would it be more than 15?

Blaine: I think so.

- Mr. Blaine told the Joint Committee that software components for the Sequoia system were developed in Venezuela and that the Venezuelans had access to the Sequoia code. Specifically, a critical component of the Sequoia system purchased by Cook County, the HAAT, or Hybrid Activator Accumulator Transmitter, was developed in Caracas by Smartmatic engineers, according to Mr. Blaine.⁵ It was this component of the Sequoia voting system which failed during the primary election held March 21, 2006.⁶
- With respect to the complex ownership structure of Smartmatic-Sequoia, Mr. Blaine was asked if it was possible that the Venezuelan government, or even President Chavez himself, was an investor in Sequoia. Mr. Blaine told the Joint Committee that he "assumed" the ultimate owners of Smartmatic and Sequoia were a Mr. Antonio Mugica and other private investors, but acknowledged that because the identity of the owners was concealed in offshore trusts and could not be independently determined, it was "possible" that a foreign government could hold an interest.⁷

The entire Smartmatic episode has served as a reminder of how important it is to know and trust who is counting the votes in our elections and to protect the integrity of our elections. It is therefore important to confirm that the sale of Sequoia by Smartmatic is not a sham transaction designed to fool regulators and to further confirm that Smartmatic and the government of Venezuela have no ability to influence or control the new owners of Sequoia. It is with this goal that I ask that your office respond to the questions and information requests listed below. I

Burke: Would it be more than 20?

Blaine: Do not know.

City of Chicago City Council Joint Committee Hearings of April 7, 2006 (sworn testimony of Jack Blaine, President, Smartmatic Corporation and Sequoia Voting Systems, Inc.) (transcript p. 19-20).

⁵ City of Chicago, Joint Committee Hearings of April 7, 2006 (sworn testimony of Jack Blaine, President, Smartmatic Corporation and Sequoia Voting Systems, Inc.) (transcript p. 119).

⁶ The Chicago Tribune reported that the HAAT component of the Sequoia system was responsible for many of the delays in the March 21, 2006 Chicago and Cook County primaries, and the device continued to malfunction in subsequent tests. See John McCormick, *Voting Glitches Feared on Nov. 7: More races, bigger turnout will test new machines*, CHICAGO TRIBUNE, Oct. 19, 2006 ("The most likely stumbling block for a smooth election remains a small device that is supposed to consolidate totals from two voting systems and transmit the results downtown via cellular technology. In the spring, many judges couldn't get it to work.... The Hybrid, Activator, Accumulator & Transmitter (HAAT) machine was capable of erasing results from data cartridges if it wasn't first turned off before the cartridges were loaded. Large numbers of election judges were also unable to follow a complex series of instructions to get the machine to transmit results....[A]s the latest version of the HAAT was approved by the State Board of Elections at an emergency meeting Friday, there was testimony that even those who regularly work with election equipment could not get it to function properly.").

⁷ The following text is the transcript of an exchange between Mr. Blaine and members of the Chicago City Council:

Burke: Are you familiar with a filing -- since these are all proxies in the Curacao Islands, you're representing that the proxies are representing the Mugicas at least in part. Could they represent other people?

Blaine: Well, I assume they represent the minority partners as well.

Burke: Well, you assume but you don't know?

Blaine: No, I don't.

Burke: But they could also represent an owner like Hugo Chavez; is that correct?

Blaine: Obviously -- based on my knowledge, absolutely not.

Burke: But you don't know?

Blaine: But I don't know.

Burke: As a matter of fact, this proxy in the Curacao Islands could represent Fidel Castro for all you know?

Blaine: Again, I would doubt it but --

Burke: But it's possible?

Blaine: I assume it's possible.

City of Chicago, Joint Committee Hearings of April 7, 2006 (sworn testimony of Jack Blaine, President, Smartmatic Corporation and Sequoia Voting Systems, Inc.) (transcript pp. 25-26).

suppose that many of the questions I raise below you have already looked into as part of the minimal due diligence any prudent election official would perform under the circumstances:

- Who are the new owners of Sequoia and what were the terms of the management-led buyout which was announced in November 2008?
- Please provide copies of all shareholder registries and lists of beneficial owners of Sequoia.
- Please provide a list of the 10 largest present creditors of Sequoia and/or its affiliates. Please provide information regarding the terms of such lending arrangements.
- Do Sequoia voting machines used in Cook County use any software which was supplied by Smartmatic and/or its affiliates?
- Please list any license, royalty and/or other intellectual property agreements between Sequoia and Smartmatic and/or their affiliates.
- Are Sequoia and/or its affiliates party to any arrangement and/or contract with Smartmatic and/or its affiliates?
- Are Sequoia and/or its affiliates party to any arrangement and/or contract with the government of Venezuela, any departments and/or subdivisions of the government of Venezuela and/or any entities controlled by the government of Venezuela?
- Please provide a list of all directors and executive officers of Sequoia.
- Please provide a list of any present employees and/or contractors of Sequoia who were at any time directly employed by Smartmatic. Were any of the present managers and/or owners of Sequoia at any point affiliated with Smartmatic, and if so, how?
- Please provide a list of any lobbyists who have worked on behalf of Sequoia in Illinois.
- To the extent any of the above materials have not been provided by Sequoia to your office, please request them from Sequoia and review them. Please also provide a copy of any reports and reviews which were prepared by your office regarding your office's vetting of Sequoia as part of the hiring of Sequoia to supply electronic voting machines to be used by voters in the City of Chicago.

Very truly yours,


Edward M. Burke

Attachments

EXHIBIT A

Attached please find various background materials and articles.

October 29, 2006

U.S. Investigates Voting Machines' Venezuela Ties

By TIM GOLDEN

The federal government is investigating the takeover last year of a leading American manufacturer of electronic voting systems by a small software company that has been linked to the leftist Venezuelan government of President Hugo Chávez.

The inquiry is focusing on the Venezuelan owners of the software company, the Smartmatic Corporation, and is trying to determine whether the government in Caracas has any control or influence over the firm's operations, government officials and others familiar with the investigation said.

The inquiry on the eve of the midterm elections is being conducted by the Committee on Foreign Investment in the United States, or Cfius, the same panel of 12 government agencies that reviewed the abortive attempt by a company in Dubai to take over operations at six American ports earlier this year.

The committee's formal inquiry into Smartmatic and its subsidiary, Sequoia Voting Systems of Oakland, Calif., was first reported Saturday in The Miami Herald.

Officials of both Smartmatic and the Venezuelan government strongly denied yesterday that President Chávez's administration, which has been bitterly at odds with Washington, has any role in Smartmatic.

"The government of Venezuela doesn't have anything to do with the company aside from contracting it for our electoral process," the Venezuelan ambassador in Washington, Bernardo Alvarez, said last night.

Smartmatic was a little-known firm with no experience in voting technology before it was chosen by the Venezuelan authorities to replace the country's elections machinery ahead of a contentious referendum that confirmed Mr. Chávez as president in August 2004.

Seven months before that voting contract was awarded, a Venezuelan government financing agency invested more than \$200,000 into a smaller technology company, owned by some of the same people as Smartmatic, that joined with Smartmatic as a minor partner in the bid.

In return, the government agency was given a 28 percent stake in the smaller company and a seat on its board, which was occupied by a senior government official who had previously advised Mr. Chávez on

elections technology. But Venezuelan officials later insisted that the money was merely a small-business loan and that it was repaid before the referendum.

With a windfall of some \$120 million from its first three contracts with Venezuela, Smartmatic then bought the much larger and more established Sequoia Voting Systems, which now has voting equipment installed in 17 states and the District of Columbia.

Since its takeover by Smartmatic in March 2005, Sequoia has worked aggressively to market its voting machines in Latin America and other developing countries. "The goal is to create the world's leader in electronic voting solutions," said Mitch Stoller, a company spokesman.

But the role of the young Venezuelan engineers who founded Smartmatic has become less visible in public documents as the company has been restructured into an elaborate web of offshore companies and foreign trusts.

"The government should know who owns our voting machines; that is a national security concern," said Representative Carolyn B. Maloney, Democrat of New York, who asked the Bush administration in May to review the Sequoia takeover.

"There seems to have been an obvious effort to obscure the ownership of the company," Ms. Maloney said of Smartmatic in a telephone interview yesterday. "The Cfius process, if it is moving forward, can determine that."

The concern over Smartmatic's purchase of Sequoia comes amid rising unease about the security of touch-screen voting machines and other electronic elections systems.

Government officials familiar with the Smartmatic inquiry said they doubted that even if the Chávez government was some kind of secret partner in the company, it would try to influence elections in the United States. But some of them speculated that the purchase of Sequoia could help Smartmatic sell its products in Latin America and other developing countries, where safeguards against fraud are weaker.

A spokeswoman for the Treasury Department, which oversees the foreign investment committee, said she could not comment on whether the panel was conducting a formal investigation.

"Cfius has been in contact with the company," said the spokeswoman, Brookly McLaughlin, citing discussions that were first disclosed in July. "It is important that the process is conducted in a professional and nonpolitical manner."

The committee has wide authority to review foreign investments in the United States that might have national security implications. In practice, though, it has focused mainly on foreign acquisitions of defense

companies and other investments in traditional security realms.

Since the political furor over the Dubai ports deal, members of Congress from both parties have sought to widen the purview of such reviews to incorporate other emerging national security concerns.

In late July, the House and the Senate overwhelmingly approved legislation to expand the committee's scope, give a greater role to the office of the director of national intelligence and strengthen Congressional oversight of the review process.

But the Bush administration opposed major changes, and Congressional leaders did not act to reconcile the two bills before Congress adjourned.

Foreigners seeking to buy American companies in areas like defense manufacturing typically seek the committee's review themselves before going ahead with a purchase. Legal experts said it would be highly unusual for the panel to investigate a transaction like the Sequoia takeover, and even more unusual for the panel to try to nullify the transaction so long after it was completed.

It is unclear, moreover, what the government would need to uncover about the Sequoia sale to take such an action.

The investment committee's review typically involves an initial 30-day examination of any transactions that might pose a threat to national security, including a collective assessment from the intelligence community. Should concerns remain, one of the agencies involved can request an additional and more rigorous 45-day investigation.

In the case of the ports deal, the transaction was approved by the investment committee. But the Dubai company later abandoned the deal, agreeing to sell out to an American company after a barrage of criticism by legislators from both parties who said the administration had not adequately reviewed the deal or informed Congress about its implications.

The concerns about possible ties between the owners of Smartmatic and the Chávez government have been well known to United States foreign-policy officials since before the 2004 recall election in which Mr. Chávez, a strong ally of President Fidel Castro of Cuba, won by an official margin of nearly 20 percent.

Opposition leaders asserted that the balloting had been rigged. But a statistical analysis of the distribution of the vote by American experts in electronic voting security showed that the result did not fit the pattern of irregularities that the opposition had claimed.

At the same time, the official audit of the vote by the Venezuelan election authorities was badly flawed, one of the American experts said. "They did it all wrong," one of the authors of the study, Avi Rubin, a professor

of computer science at Johns Hopkins University, said in an interview.

Opposition members of Venezuela's electoral council had also protested that they were excluded from the bidding process in which Smartmatic and a smaller company, the Bizta Corporation, were selected to replace a \$120 million system that had been built by Election Systems and Software of Omaha.

Smartmatic was then a fledgling technology start-up. Its registered address was the Boca Raton, Fla., home of the father of one of the two young Venezuelan engineers who were its principal officers, Antonio Mugica and Alfredo Anzola, and it had a one-room office with a single secretary.

The company claimed to have only two going ventures, small contracts for secure communications software that a Smartmatic spokesman said had a total value of about \$2 million.

At that point, Bizta amounted to even less. Company documents, first reported in 2004 by The Herald, showed the firm to be virtually dormant until it received the \$200,000 investment from a fund controlled by the Venezuelan Finance Ministry, which took a 28 percent stake in return.

Weeks before Bizta and Smartmatic won the referendum contract, the government also placed a senior official of the Science Ministry, Omar Montilla, on Bizta's board, alongside Mr. Mugica and Mr. Anzola. Mr. Montilla, The Herald reported, had acted as an adviser to Mr. Chávez on elections technology.

More recent corporate documents show that before and after Smartmatic's purchase of Sequoia from a British-owned firm, the company was reorganized in an array of holding companies based in Delaware (Smartmatic International), the Netherlands (Smartmatic International Holding, B.V.), and Curaçao (Smartmatic International Group, N.V.). The firm's ownership was further shielded in two Curaçao trusts.

Mr. Stoller, the Smartmatic spokesman, said that the reorganization was done simply to help expand the company's international operations, and that it had not tried to hide its ownership, which he said was more than 75 percent in the hands of Mr. Mugica and his family.

"No foreign government or entity, including Venezuela, has ever held any stake in Smartmatic," Mr. Stoller said. "Smartmatic has always been a privately held company, and despite that, we've been fully transparent about the ownership of the corporation."

Mr. Stoller emphasized that Bizta was a separate company and said the shares the Venezuelan government received in it were "the guarantee for a loan."

Mr. Stoller also described concerns about the security of Sequoia's electronic systems as unfounded, given their certification by federal and state election agencies.

But after a municipal primary election in Chicago in March, Sequoia voting machines were blamed for a series of delays and irregularities. Smartmatic's new president, Jack A. Blaine, acknowledged in a public hearing that Smartmatic workers had been flown up from Venezuela to help with the vote.

Some problems with the election were later blamed on a software component, which transmits the voting results to a central computer, that was developed in Venezuela.

Simon Romero contributed reporting from Caracas, Venezuela.

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October 31, 2006

Voting Machine Company Submits to Inquiry

By TIM GOLDEN

Officials of a major American voting-machine company that has come under federal scrutiny because of its primary owner's past business ties to the leftist government of Venezuela said yesterday that the company had voluntarily submitted to a federal investigation into its purchase.

The American company, Sequoia Voting Systems, was bought in March 2005 by the Smartmatic Corporation, a Venezuelan-owned software company whose only previous experience in the voting-machine business had been to overhaul Venezuela's electoral machinery before a referendum that confirmed Hugo Chávez as president in August 2004.

Brookly McLaughlin, a spokeswoman for the national security body conducting the investigation, the Committee on Foreign Investment in the United States, said she could not comment on which side opened the inquiry or when it began.

But another government official, who requested anonymity because the process is secret, said that Sequoia had submitted to the formal inquiry only in recent weeks, nearly three months after it was first contacted and asked for information.

At a news conference in Washington yesterday, officials of Smartmatic and Sequoia said they were eager to prove they had nothing to hide.

"The acquisition does not pose any national-security risk," a lawyer for the two companies, Jeffrey P. Bialos, said of its purchase for \$16 million from a British company, De La Rue.

But by asking that the committee begin a formal inquiry, Smartmatic also appears to have forced the government's hand. Such inquiries are limited to 30 days, although they can be followed by more rigorous 45-day investigations if questions remain.

The government official who requested anonymity said several federal agencies had begun examining Smartmatic before the company requested the committee's review.

Foreign investors in areas like military manufacturing usually submit purchases for the committee's review

before transactions are consummated. But after the political furor over a Dubai company's approved takeover of operations at six American ports, legislators have pushed the Bush administration to strengthen and expand the reviews.

The government's interest in Smartmatic stems from questions about the relationship between its principal owners and the government of Venezuela.

The company's founder and principal owner, Antonio Mugica Rivero, said he and an early partner, Alfredo Anzola, were young software engineers living in South Florida during the recount of the 2004 election and saw a business opportunity in electronic voting machines.

Despite their lack of experience in the field, Smartmatic and Bizta, another small company in which Mr. Mugica, his father and Mr. Anzola were majority shareholders, were chosen in early 2004 to overhaul the Venezuelan election machinery.

Only weeks before, Bizta had received what company officials said was a government loan of some \$150,000, in return for 28 percent of its shares. A Venezuelan official, Omar Montilla Castillo, joined its board as the government's representative. He has been identified in news reports as an elections-systems adviser to President Chávez.

At the news conference and in an interview yesterday, Mr. Mugica said he had never met Mr. Montilla. When asked about the minutes of a Bizta board meeting from Dec. 15, 2003, which indicate that both men were present, he said he had only "a vague recollection" of the event.

"If I met him it was a kind of 'hello' handshake," Mr. Mugica said. "But I don't remember it."

Mr. Mugica and other Smartmatic officials noted that the money was repaid to the Venezuelan government after the financing became public, and that the Venezuelan government had no further involvement with the company except as a client.

Mr. Mugica said that Smartmatic acquired Bizta in 2005, even though he, his father and Mr. Anzola still controlled 60 percent of Bizta stock.

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U.S. digs for vote-machine links to Hugo Chávez

Miami Herald ^

October 28, 2006

ALFONSO CHARDY achardy@MiamiHerald.com

In the debate about the reliability of electronic voting technology, the South Florida parent company of one of the nation's leading suppliers of touch-screen voting machines is drawing special scrutiny from the U.S. government.

Federal officials are investigating whether Smartmatic, owner of Oakland, Calif.-based Sequoia Voting Systems, is secretly controlled by Venezuelan President Hugo Chávez, according to two people familiar with the probe.

In July, a Treasury Department spokeswoman disclosed that a Treasury-led panel had contacted Smartmatic, and a company representative said his firm was "in discussions" with the panel. At the time, those discussions were informal. The government has now upgraded to a formal investigation, the two sources said.

Sequoia's electronic voting machines operate in 17 states. In Florida, the machines are used in four counties: Palm Beach, Indian River, Pinellas and Hillsborough.

Miami-Dade and Broward use other technology.

Concerns about Smartmatic are keen on the eve of the Nov. 7 election, given fears that someone with unauthorized access to the electronic system could create electoral chaos. Some critics believe that if the Venezuelan government is involved, Smartmatic could be a "Trojan horse" designed to advance Chavez's anti-American agenda.

However, officials in all four Florida counties using Sequoia said they were satisfied with the machines and were not concerned about allegations of a Chávez connection because company officials told them the Venezuelan government had no stake in the company.

"We are very satisfied," said Kathy Adams, spokeswoman for the Palm Beach County supervisor of elections.

The probe stems from a May 4 letter to the Treasury Department by Rep. Carolyn Maloney, D-N.Y., raising concerns about Smartmatic's purchase of Sequoia last year. Maloney said she was disturbed by a 2004 article in The Miami Herald revealing that the Venezuelan government owned 28 percent of Bizta — a company operated by two of the same people who own Smartmatic. Bizta bought back those shares after the article appeared, and Smartmatic now characterizes the deal as a loan.

Bizta and Smartmatic had partnered with Venezuelan telephone giant CANTV to win a \$91 million contract to supply electronic voting machines for Venezuelan elections, including the controversial 2004 referendum Chávez won.

Smartmatic categorically denies any link to the Chávez regime. "Smartmatic is a privately held corporation, and no foreign government or entity -- including Venezuela -- has ever held an ownership stake in the company," Mitch Stoller, a company spokesman, said in an e-mail to The Miami Herald.

Botched municipal elections involving Sequoia machines in Chicago in March added to the suspicions.

When the Chicago City Council grilled Sequoia executive Jack Blaine in April, he revealed that some Venezuelans had provided technical support during the election and that some of the glitches could be traced to a component developed in Venezuela to print and transmit results to a central tabulation computer.

The Chicago Board of Election Commissioners is withholding further payment to Sequoia until after the Nov. 7 election.

Sequoia machines in Florida do not use the component involved in the Chicago problems, however.

The Smartmatic investigation is being conducted by the Treasury-led Committee on Foreign Investment in the United States, CFIUS -- which determines whether deals involving foreign investors compromise national security.

Neither CFIUS nor Smartmatic confirmed the investigation, but they did not dispute it. The two people familiar with the probe asked that their names not be published because they were not authorized to speak about it.

Brookly McLaughlin, a Treasury spokeswoman, said she could not comment. Stoller, the Smartmatic spokesman, said in an e-mail: "We have been in contact with CFIUS staff and will provide additional information as appropriate and as requested."

Determining whether there really is a hidden connection to Chávez or anyone in his government is difficult because of Smartmatic's complex, though legal, corporate structure.

Smartmatic's corporate papers, obtained in Curacao by The Miami Herald, reveal a convoluted trail of companies incorporated abroad and operating through dozens of proxy holders -- a structure seemingly designed to cloak the true owners.

The founders and principal owners of Smartmatic are Antonio Mugica and Alfredo Anzola. They are also the founders and owners of Bizta -- the company the Venezuelan government once partly owned.

Though both men come from wealthy families, a decidedly anti-Chávez sector, their reluctance to provide specific details about ownership has continued to fuel suspicions about the company.

Adding to the suspicions was a recent statement from the Venezuela Information Office about Smartmatic, which Chávez critics viewed as corroboration the company is linked to the government in Caracas.

But Eric Wingerter of the Venezuela Information Office in Washington said the "fact sheet" was, rather, aimed at rebutting critics' allegations that the Chávez government controls the company.

Ostensibly, the company's umbrella corporation, Smartmatic International Group, is housed inside a bank building on a scenic boulevard in Willemstad's busy Punda financial district. But all the people contacted either at the building or at the addresses of company proxy holders refused to talk to a reporter in Curacao.

However, business records obtained by The Miami Herald in Willemstad's commercial registry provide no evidence of any Venezuelan government official or agency as director, associate, employee or proxy. What the records do show is the circuitous ownership structure with a paper trail leading from Willemstad to Amsterdam to Caracas to Delaware and then to Boca Raton and Oakland, Calif.

Stoller said the arrangement is standard for multinational companies.

But experts in offshore financial services say the Curacao arrangement is largely designed to conceal and protect the true owners and assets of a company.

Cárlos A. Souffront, a partner and expert on offshore jurisdictions at the Miami-based law firm of Tew Cardenas, said companies often choose offshore havens to avoid paying high taxes and disclosing owners' identities or to protect assets and avoid scrutiny and oversight under post-9/11 U.S. regulations.

Stoller said the company is 97 percent owned by the four Venezuelan founders -- two of them dual citizens: Mugica (Spanish and Venezuelan), Anzola, Roger Piñate and Jorge Massa (French and Venezuelan). The remainder of the company, Stoller said, is owned "by employees of Smartmatic (past and present) and family and acquaintances of the founders."

Stoller did not identify any of them, and their names are not listed in records obtained by The Miami Herald.

The four top owners have not said whether they support or oppose Chávez.

Curacao records show that Smartmatic International Group has three statutory directors: Piñate and two companies -- Curacao Corporation Co. and Netherlands Antilles Corporation Co.

Piñate was also identified by Sequoia's Blaine as among the Venezuelans who helped deliver technology "support" during the glitch-plagued Chicago elections.

Curacao business records also show that the two statutory director companies have 28 "proxy holders," all employees of Curacao International Trust Co.

CITCO is an old Dutch financial services firm based in the building Smartmatic lists as its Curacao address. CITCO specializes in financial services for wealthy clients who seek confidentiality.

Smartmatic's Amsterdam address is also CITCO.

Anzola and Mugica, the main founders, are childhood friends. Anzola's father, Alfredo Anzola Mendez, wrote a column for the anti-Chavez Caracas newspaper Tal Cual.



December 1, 2006

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U.S. Authorities Probe How Smartmatic Won Venezuela Election Pact

By **BOB DAVIS** and **GLENN SIMPSON**
December 1, 2006

WASHINGTON -- Federal investigators are looking into whether Smartmatic Corp., a voting-machine company whose equipment is used widely in the U.S. and abroad, paid bribes to win a Venezuela election contract in 2004.

Smartmatic's actions already are under a separate investigation by the Committee on Foreign Investment in the U.S., which reviews foreign acquisitions to see if they pose national-security concerns. In 2005, Smartmatic, which is owned by Venezuelan investors who split their time between Caracas and Boca Raton, Fla., purchased a U.S. voting-machine company, Sequoia Voting Systems Inc. Cfius is looking at whether that acquisition should be reversed on national-security grounds.

At the same time, the Justice Department has been conducting a probe of Smartmatic for possible violations of the Foreign Corrupt Practices Act and recently started looking at possible tax evasion as well, said two individuals familiar with the case. The Justice Department has informed Cfius representatives from U.S. agencies about their inquiry, these people said.

Jeffrey Bialos, an attorney for Smartmatic, said yesterday the Justice Department told the company it was looking into its actions, but that Smartmatic wasn't a target of an investigation. Smartmatic employees haven't been subpoenaed in the inquiry, Mr. Bialos added. That suggests that the probe is at an early stage.

"The company believes it conducted itself properly and within the law," Mr. Bialos said. A Justice Department spokeswoman declined to comment.

Smartmatic has drawn attention because of concerns that the government of Venezuelan President Hugo Chávez, an opponent of U.S. policies, has a stake in the company. That is a focus of the Cfius review. In 2004, Smartmatic's machines were used in an election to recall President Chávez, which Mr. Chávez won handily -- and which members of the Venezuelan opposition say was riddled with fraud. Smartmatic machines will be used Sunday in Venezuela's presidential election.

The company said it is the victim of false allegations made by two former executives, whom the company declined to name. Smartmatic said it would shortly send the two former employees a letter to "cease and desist their activities," which Smartmatic said violated agreements they made with the company. News of the Justice Department probe was reported earlier by el Nuevo Herald, a Spanish-language newspaper in Miami.

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Essentially, the Justice Department is looking into whether Smartmatic got its start in Venezuela by bribing officials and then improperly avoiding its tax liability in the U.S. The company says it paid \$1.5 million to a Venezuelan consultant who is close to the Chávez government and helped to win Smartmatic business.

The allegation being investigated is that Smartmatic actually paid as much as \$4 million to the consultant, then deleted a substantial portion of those payments from its corporate records to hide the extent of its payments to a friend of the Chávez regime. Antonio Mugica, Smartmatic's chief executive, said the company had budgeted a larger amount for the consultant than it ended up paying him, thus explaining the difference between the two amounts.

The tax question dates to late 2004 when Smartmatic scrapped a simple corporate structure, under which it was based in the U.S. with a Venezuelan subsidiary. It adopted a complex offshore structure, with headquarters in the Netherlands Antilles; a main subsidiary in the Netherlands; and a variety of subsidiaries in the U.S., Barbados, Venezuela and Mexico.

That raised the question of where to pay taxes on \$25 million in revenue from a contract to supply voting machines for Venezuelan regional elections: the U.S. or a lower-tax jurisdiction. Smartmatic paid taxes in Barbados, which the company said was proper because one of its international companies signed the deal. "The taxes due and owed are to Barbados authorities," said Mr. Mugica, who added that the company had consulted legal counsel and accounting firms on the issue.

Mr. Mugica said the company hasn't thus far been harmed by publicity about the probes. Customers "welcome the fact" that the company is trying to clear up allegations concerning its actions, he said.

Write to Bob Davis at bob.davis@wsj.com¹ and Glenn Simpson at glenn.simpson@wsj.com²

URL for this article:

<http://online.wsj.com/article/SB116493756785237566.html>

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WSJ: Smartmatic to Shed U.S. Unit, End Probe into Venezuelan Links

By BOB DAVIS, Wall Street Journal

December 22, 2006; Page A6

WASHINGTON -- Voting-machine company Smartmatic Corp. said it would sell its U.S. subsidiary to end a review by the Committee on Foreign Investment in the U.S. into whether Smartmatic is partially owned by the Venezuelan government.

Smartmatic, owned by Venezuelan entrepreneurs who split their time between Caracas and Boca Raton, Fla., portrayed itself as the latest victim of a U.S. protectionist response to foreign investment in sensitive industries. Earlier this year, a company owned by the government of Dubai, a Gulf emirate that is part of the United Arab Emirates, drew opposition in Congress and some media outlets with plans to buy a company that runs commercial operations at several U.S. ports. The company later sold the port-operations business.

"Given the current climate of the United States marketplace, with so much public debate over foreign ownership of firms in an area that is viewed as critical U.S. infrastructure -- election technology -- we feel it is in both companies' best interests to move forward as separate entities with separate ownership," Smartmatic said. The company said it plans to sell Sequoia Voting Systems Inc., headquartered in Oakland, Calif., which it purchased in early 2005 for \$16 million.

The Committee on Foreign Investment, known as the CFIUS, reviews foreign acquisitions to see if they pose national-security concerns. Normally, such reviews are conducted before deals close. The Smartmatic acquisition drew attention earlier this year because of concerns that the government run by Venezuelan President Hugo Chávez, an opponent of U.S. policy, owns a stake in the company.

Since its purchase by Smartmatic, Sequoia's sales have risen sharply to a projected \$200 million in 2006, said Smartmatic's chief executive, Anthony Mugica. He said the firm has a "healthy" profit but didn't provide a specific figure. Nevertheless, the CFIUS investigation, as well as a separate Justice Department probe into whether Smartmatic had paid bribes in Venezuela, had become a "distraction" for senior management, Mr. Mugica said.

With the 2008 election on the horizon, Mr. Mugica said, "it would be an extremely big mistake to not capitalize on the opportunity [of selling voting-machine equipment] by having a handicap, even if it was only a fantasy or a myth about Sequoia."

Sequoia voting machines were used in 16 states and the District of Colombia in 2006. Smartmatic, which has revenue of about \$100 million, focuses on Venezuela and other markets outside the U.S. After selling Sequoia, Mr. Mugica said, he hoped Smartmatic would work with Sequoia on projects in the U.S., though Smartmatic wouldn't take an equity stake.

The proposed sale may dim the spotlight on the Justice Department probe and make it easier to resolve. Among the issues the department is looking at are whether Smartmatic paid bribes to Venezuelan officials to win an election contract in 2004 and failed to pay taxes owed in the U.S. Smartmatic said it is cooperating with that probe and that the Justice Department hasn't issued any subpoenas to Smartmatic employees.

Jeffrey Bialos, a lawyer for Smartmatic, said the Justice Department investigation didn't play into its sales decision. Rather, he said, the attitude in the U.S. to foreign acquisitions had hardened since the Sept. 11, 2001, terror attacks.

A spokeswoman for the Treasury, which takes the lead on matters regarding the CFIUS, said the committee agreed to end the Smartmatic review but added that "CFIUS will closely monitor the sale process."

Smartmatic came to prominence in 2004 when its machines were used in an election to recall President Chávez, which Mr. Chávez won handily -- and which the Venezuelan opposition said was riddled with fraud. Smartmatic put together a consortium to conduct the recall elections, including a company called Bizta Corp., in which Smartmatic owners had a large stake. For a time, the Venezuelan government had a 28% stake in Bizta in exchange for a loan.

Bizta paid off the loan in 2004, and Smartmatic bought the company the following year. But accusations of Chávez government control of Smartmatic never ended, especially since Smartmatic scrapped a simple corporate structure, in which it was based in the U.S. with a Venezuelan subsidiary, for a far more complex arrangement. The company said it made the change for tax reasons, but critics, including Rep. Carolyn Maloney (D., N.Y.) and TV journalist Lou Dobbs, pounded the company for alleged links to the Chávez regime.

Write to Bob Davis at bob.davis@wsj.com

Maloney authored the new law to strengthen CFIUS. For more information on Congresswoman Maloney's work on CFIUS reform, click [here](#).

Background/Timeline:

May 2006 - Maloney first raised questions about Smartmatic with then-Treasury Secretary Snow, inquiring whether the deal for Sequoia had undergone a CFIUS investigation: http://maloney.house.gov/index.php?option=com_content&task=view&id=1095&Itemid=61

July 2006 - Treasury acknowledged that it had initially contacted Smartmatic, although a CFIUS investigation was not underway at the time. In early October, Maloney wrote to Treasury Secretary Paulson to apprise him of the lingering questions surrounding Smartmatic:
http://maloney.house.gov/documents/financial/acquisitions/20061006ElectionsCFIUS_paulson.pdf

October 2006: Smartmatic announced that it was undergoing a CFIUS investigation:
http://maloney.house.gov/index.php?option=com_content&task=view&id=1225&Itemid=61

December 2006: Smartmatic announced it was withdrawing from CFIUS review and selling Sequoia:
http://maloney.house.gov/index.php?option=com_content&task=view&id=1255&Itemid=61

###

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Press Release

Contact: Meghan O'Shaughnessy
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For Immediate Release
November 08, 2007

Smartmatic Announces Sale of Sequoia Voting Systems

Rep. Maloney Shined Congressional Spotlight on Questionable Deal, Helped Enact Tough Reforms to Strengthen Oversight of Foreign Investment

WASHINGTON – Smartmatic, the voting machine firm with ties to the Venezuelan government, today announced that it is divesting ownership of the voting machine company Sequoia Voting Systems. Congresswoman Carolyn Maloney (D-NY) shined the congressional spotlight on the Sequoia purchase last year by Smartmatic because it posed serious national security concerns about the integrity of our elections. Last year, Smartmatic decided to sell Sequoia rather than complete an investigation by the Committee on Foreign Investment in the United States (CFIUS), the government entity charged with ensuring the safety of foreign investment in the U.S. (To read the official Sequoia sale announcement: <http://www.sequoiavote.com/press.php>).

"I am relieved by the news of this sale – it was a long time coming," said Maloney. "The integrity of our voting machines and elections is vital to national security. Given all of the past uncertainty and anxiety surrounding electronic voting, it's nice that voters will have this added reassurance when they enter the voting booth this Election Day."

Smartmatic was the subject of controversy in 2004 when the Hugo Chavez-led Venezuelan government selected it to provide the voting machines system for the presidential recall election, even though it would have been the company's first time providing machines for an election. Smartmatic teamed up with a Venezuelan software company, Bitza, which at the time was 28 percent owned by Chavez's government. In 2005, a Chicago city alderman questioned the possible ties between Sequoia and the Venezuelan government when that company's machines were used in the March 2006 Chicago primaries.

"When I first raised concerns about the Smartmatic case with the U.S. Treasury Department, I knew it was ripe for a CFIUS investigation. There were just too many questions and lingering doubts, which Smartmatic was clearly unable to overcome," Maloney said.

At first, Smartmatic flatly refused to undergo a CFIUS review. It eventually agreed to a review, but later dropped out of the review process and announced its intent to divest of Sequoia.

"The Smartmatic case reinforces the importance of a strong CFIUS review system. That's why I worked hard to pass new CFIUS reforms this year that encourage safe foreign investment in the U.S. without jeopardizing our nation's security," added Maloney.

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Press Release

Contact: Afshin Mohamadi
202-225-7944

For Immediate Release
December 22, 2006

Smartmatic Announces It Will Sell Sequoia Voting Systems, Withdraw from CFIUS Review

Rep. Maloney, who first raised case with Treasury, says company could not overcome doubts and reiterates need for an enhanced CFIUS process

WASHINGTON, DC – Voting machine firm Smartmatic has announced that it plans to sell major voting machine maker Sequoia Voting Systems. With this pending sale, Smartmatic is withdrawing from the Committee on Foreign Investment in the United States investigation into its 2005 purchase of Sequoia.

Rep. Carolyn Maloney (NY-14), who first raised the need for an investigation of the Sequoia deal to the Department of the Treasury (http://maloney.house.gov/index.php?option=com_content&task=view&id=1095&Itemid=61), said today that the CFIUS review, though initially resisted by Smartmatic, was vital in helping eliminate questions about the soundness of the Sequoia voting machines.

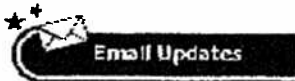
"There clearly remained doubts surrounding this company, and as long as those doubts lingered, many people would have legitimate questions about the integrity of these voting machines," said Maloney. "When I first raised this case with Treasury, I thought that it was ripe for a CFIUS investigation, because the integrity of our voting machines is vital to national security. At that time, Smartmatic flatly refused to undergo a CFIUS review. But now it seems the company could not overcome the cloud of doubt surrounding this deal – had they been able to, we would not be talking about a sale of Sequoia today. As I said in May, it seems that a CFIUS review was in fact the proper course."

"It is apparent that the CFIUS process, though it had not completely run its course, was necessary to spur this action that will eliminate this issue with these voting machines. To me, this reinforces the importance of the CFIUS review system, and it underscores the need for a system that will consistently pinpoint the deals that should be reviewed and reliably ask the necessary questions. CFIUS raised no red flags on the Dubai Ports deal, and this deal would not have been reviewed had it not been brought to their attention. These are two examples of why we need a stronger CFIUS process."

When Maloney first raised the possibility of a CFIUS review in May, Sequoia's initial response was to vehemently dismiss the need for an investigation (<http://maloney.house.gov/documents/financial/acquisitions/20060511SmartmaticRIs.pdf>).

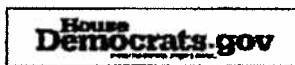
For a few years, questions have surrounded Smartmatic about its ownership and its possible ties to the Venezuelan government. It has also been recently reported that Smartmatic is the subject of a Department of Justice investigation into possible bribery of the Venezuelan government and U.S. tax fraud.

Maloney is the lead Democratic sponsor of H.R. 5337, the legislation to reform the CFIUS process that



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unanimously passed the House earlier this year (http://maloney.house.gov/index.php?option=com_content&task=view&id=1166&Itemid=61). Among other provisions, that bill would enhance CFIUS reporting to Congress and increase monitoring of withdrawal agreements.

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Press Release

Contact: Afshin Mohamadi
202-225-7944

For Immediate Release
May 05, 2006

U.S. Voting Machine Company's Possible Ties to Foreign Government Draws Congressional Inquiry
Rep. Maloney wants to know if CFIUS process was used to green-light sale of Sequoia to company with possible Venezuelan government ties

WASHINGTON, DC – The sale of an American voting machine company to a firm with possible ties to the Venezuelan government has already drawn questions surrounding a recent Chicago city election and now is the focus of a congressional inquiry. Rep. Carolyn Maloney (NY-14) has asked Treasury Secretary John Snow whether or not the sale of California-based Sequoia to Smartmatic, a company with possible ties to the Venezuelan government, was reviewed by the Department of Treasury or vetted in the Committee on Foreign Investments in the United States (CFIUS) process ([read the letter to Secretary Snow](#)).

Smartmatic was first the subject of controversy in 2004 when the Hugo Chavez-led Venezuelan government selected it to provide the voting machines system for the presidential recall election, even though it would be the company's first time providing machines for an election. Smartmatic teamed up with a Venezuelan software company, Bitza, which at the time was 28% owned by Chavez's government. More recently, a Chicago city alderman questioned the possible ties between Sequoia and the Venezuelan government when that company's machines were used in the March 2006 Chicago primaries.

"Just as the Dubai ports deal was a priority security issue, any potential foreign influence on our elections system is vital to our national security and deserves at least a look," said Maloney. "It doesn't seem that the deal for Sequoia was vetted by our government, and I want to know why."

Maloney has been heavily involved in the effort to reform the CFIUS process that allowed Dubai Ports World to acquire a British company that controlled operations in several key U.S. ports. She is the ranking member on the Domestic and International Monetary Policy, Trade and Technology Subcommittee, which has jurisdiction over CFIUS. She has introduced legislation that would implement a stricter foreign-acquisition approval process (http://maloney.house.gov/index.php?option=com_content&task=view&id=1071&Itemid=61).

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Congress of the United States
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May 4, 2006

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Website: www.house.gov/maloney

Hon. John W. Snow
Secretary
Department of the Treasury
1500 Pennsylvania Ave. NW
Washington DC 20220

Dear Mr. Secretary:

I am writing regarding possible investments by the Venezuelan government in Smartmatic, a voting machine company with business in the United States and its acquisition of Sequoia, a U.S.-based voting machine company. Specifically, I am interested in any interactions these companies have had with the Department of Treasury in completing the acquisition of Sequoia and whether this transaction went through the Committee on Foreign Investment in the United States (CFIUS) process.

As you can imagine, having a foreign government investing in or owning a company that supplies voting machines for U.S. elections could raise concerns over the integrity of elections conducted with these machines. Furthermore, I would have concerns if this transaction was done outside the CFIUS process, a process that was put in place to appropriately examine these types of foreign investment.

Attached please find a series of articles regarding these countries and concerns raised about the involvement the Venezuelan government with them including an article from the *Miami Herald* entitled "Venezuela Owns Stake in Ballots". If you have any questions and/or to provide information to my office regarding this letter, please do not hesitate to contact Edward Mills of my staff at edward.mills@mail.house.gov or (202) 225-7944.

Sincerely,


CAROLYN B. MALONEY
Member of Congress

Attachments

The Miami Herald

May 28, 2004 Friday FINAL EDITION

SECTION: FRONT; Pg. 1A

LENGTH: 1555 words

HEADLINE: VENEZUELA OWNS STAKE IN BALLOTS

BYLINE: RICHARD BRAND AND ALFONSO CHARDY, rbrand@herald.com

DATELINE: CARACAS

BODY:

A large and powerful investor in the software company that will design electronic ballots and record votes for Venezuela's new and much criticized election system is the Venezuelan government itself, The Herald has learned.

Venezuela's investment in Bizta Corp., the ballot software firm, gives the government 28 percent ownership of the company it will use to help deliver voting results in future elections, including the possible recall referendum against President Hugo Chavez, according to records obtained by The Herald.

The deal to scrap the country's 6-year-old machines - for a \$91 million system to be built by two fledgling companies that have never been used in an election before - was already controversial among Chavez opponents who claimed it was a maneuver to manipulate votes amid growing political turmoil.

Chavez opponents told The Herald on Thursday they were stunned to learn the government has a proprietary stake in a company critical to the election process.

"The Venezuelan state? Are you kidding?," said Jesus Torrealba, an official in the Democratic Coordinator opposition group. "It impugns the credibility of the process. That is shocking."

Government officials insist the investment is an effort to help support private enterprise and its interest in a ballot software company is merely coincidental, one of a dozen such investments made to help struggling companies.

"The whole process led to a decision that was best for Venezuela," said Bernardo Alvarez, Venezuela's ambassador in Washington.

But Venezuela is a nation bitterly polarized by Chavez's leftist populist rule. Nearly every move by the government is scrutinized by opponents who accuse Chavez of trying to impose an authoritarian regime.

GOVERNMENT FUNDS

Until a year ago, the Bizta Corp. was a struggling Venezuelan software company with barely a sales deal to its name, records show. Then, the Venezuelan government - through a venture capital fund - invested about \$200,000 and bought 28 percent of it.

The government's investment in Bizta made Venezuela Bizta's largest single shareholder and, ultimately, its most important client.

The decision to replace the \$120 million system built by Omaha-based Election Systems & Software was made Feb. 16 under unusual circumstances. Two of the five National Electoral Council members sympathetic to the opposition complained that they had been largely shut out of the process.

"The selection process was secret and it didn't allow us to get any information about the bidders and their products," board member Sobella Mejias said after the decision.

Other members knew about the government's investment, according to one member who asked not to be identified.

The new system is to be built by the **Smartmatic Corp.**, which is incorporated in Florida, and programmed by Bizta, which also is registered in Florida and Venezuela.

Pro-Chavez government officials and company executives interviewed by The Herald say the **Smartmatic-Bizta** machines are among the most secure in the world, and that the government's investment in Bizta was unrelated to Bizta's bid for the voting machine contract.

"The companies that were chosen have the highest technical capacity," said Alvarez, the ambassador. "In Venezuela there have been many fair elections and there will be many more fair elections."

But the Atlanta-based Carter Center, which has observed every major Venezuelan electoral process since Chavez's election in 1998, said the disclosure of the government's role in Bizta reinforces the need for independent election audits.

"What we look at in any electoral process is whether each of the components is transparent and auditable. In this case, we would include these new machines," said Jennifer McCoy, who is leading the Carter Center's mission in Venezuela. She said she was unaware of the government's investment in Bizta.

Even without the political implications, the use of electronic voting machines has been widely debated since the United States' 2000 presidential election. Stanford University Professor David Dill, who has studied voting machines but is not specifically knowledgeable about the new Venezuelan system, said almost any programmed electronic machine is subject to possible manipulation.

"People just don't understand how easily these machines could fail to record votes accurately - even by being 'fixed,' " he said.

PAPER TRAIL

Smartmatic does produce a paper trail of votes as well, but Venezuelan government critics claim it will be useless since an election recount would be supervised by the Electoral Council, perceived as pro-Chavez.

The National Electoral Council members have hailed Bizta's software-writing role as

contributing to Venezuelan "sovereignty" over their voting system, which replaces American-designed machines. Chavez, an outspoken critic of U.S. policy, is viewed as leftist and anti-American.

According to Bizta's 2002 financial statement, the most recent one filed by the company in Venezuela, it was then a dormant firm that had no sales and was slowly losing money.

In June 2003, however, a venture capital company called Sociedad de Capital de Riesgo (SCR) invested about \$200,000 in Bizta. The SCR is owned by the Venezuelan government's Industrial Credit Fund.

In January, a top official in Venezuela's science ministry, Omar Montilla, joined Bizta's board of directors to represent the government's three million shares, records show.

Montilla, who is one of five directors, canceled a meeting with The Herald and did not reply to repeated Herald queries.

One month after Montilla joined the board, the National Electoral Council awarded Bizta and partners **Smartmatic** and CANTV the \$91 million contract to develop new voting machines. Bizta was hired to write the electronic code that configured the names and parties of candidates on the touch screens. **Smartmatic** would build and design the machines. CANTV, the publicly held phone company, would provide the phone lines for the system and election-day technical support.

The venture is largely the work of two little-known Venezuelan engineers: Antonio Mugica Rivero and Alfredo Anzola Jaumotte, childhood friends and recent engineering school graduates.

Mugica, 30, is the president of **Smartmatic** and a founder of Bizta. Anzola, 30, is the president of Bizta and the vice president of **Smartmatic**, corporate records from Venezuela show.

NO CONNECTIONS

Both executives say they have no political allegiances. Neither signed a petition drive seeking Chavez's recall.

Anzola initially told The Herald that one of the reasons the electoral council selected the group was that it had no connection to either the government or the opposition.

When told in a subsequent interview in Caracas that Bizta papers showed the government had an investment in his company through SCR, Anzola and Mugica said they viewed the investment as a loan.

"We really don't want to be involved in politics," said Wladimir Serrano, head of the government's venture capital fund. "Our role is strictly financial and technical."

Bizta "remains a private company, with some government shares but without any say on our part on its day to day activities or its strategic programs and policies," Serrano said.

SUBSTANTIAL POWER

But Harvard Professor Ricardo Hausmann, a former Venezuelan official who also has worked as the chief economist of the Inter-American Development Bank, said any investor holding a 28 percent stake in a company would likely have substantial power to make decisions.

"For example, Verizon is the largest shareholder in CANTV, holding 28 percent, and it has control of the company's management," said Hausmann, who sits on the CANTV board. With Bizta, "The government's influence will depend on the arrangement between the government and other shareholders."

SCR's stock purchase in Bizta was part of a broader effort to help start-up companies that could bring Venezuela international prestige in a wide range of industries, Serrano said.

He provided a list of a dozen other companies in which SCR has invested.

Most of the 20,000 **Smartmatic**-Bizta machines will be delivered over the summer from the factory in Italy, officials say.

Company Facts

Three companies will build and execute Venezuela's new touch-screen voting system. Two are incorporated in Florida, though neither does most of its business here.

* **Smartmatic** Corp., which will build the machines, incorporated in Florida in 2000 and lists its world headquarters at 6400 Congress Ave. in Boca Raton. Its president is Antonio Mugica Rivero, 30, and its vice president is Alfredo Anzola, 30.

* Bizta Corp., which will provide software for the new machines, incorporated in Florida in 2001, and lists its address as 19591 Dinner Key Dr., Boca Raton, a residential property owned by Mugica's father. Mugica is listed as president, and Anzola is vice president, according to Florida records. Venezuelan records, however, indicate Anzola is president. In Caracas, Bizta shares its office with **Smartmatic**.

* CANTV, Venezuela's publicly held phone company, will provide phone lines to connect the system and election day technical support. It would have been part of any voting system selected for the elections contract.

The Miami Herald

June 12, 2004 Saturday FINAL EDITION

SECTION: FRONT; Pg. 12A

LENGTH: 765 words

HEADLINE: VOTING-SYSTEM FIRM DROPS VENEZUELA AS AN INVESTOR

BYLINE: RICHARD BRAND, rbrand@herald.com

BODY:

A company hired to help deliver voting results in the recall referendum against Venezuelan President Hugo Chavez announced Friday it will buy back the government's shares in the firm - a move meant to deflect criticism that the government's investment was a tool to manipulate the election.

The announcement by software maker Bizta Corp. comes amid an escalating uproar in Venezuela over the reliability and trustworthiness of the "touch-screen" voting machines, purchased in February for \$91 million. The machines have never been used in an election anywhere.

28 PERCENT

The Herald reported last month that the government purchased a 28 percent stake in Bizta, through a venture capital fund, in June 2003 - just a few months before the company bid for the elections contract.

"They were caught. We discovered the fraud and now they are covering it up," said Ernesto Alvarenga, an opposition congressman. "We still have to be careful. All of this is related to the electronic fraud that they are trying to achieve."

The Herald also reported that a top official in Venezuela's science ministry, Omar Montilla, joined Bizta's board of directors in December to represent the government's three million shares. Two months later, the National Electoral Council awarded Bizta and partners **Smartmatic** and CANTV the \$91 million.

Bizta officials said Friday they were buying back the shares, purchased for about \$200,000, to address concerns about the government's influence in the company as it prepares for the critical August referendum.

"Given our current engagements, even the appearance of a conflict of interest is unacceptable, and as a result, we are repaying the . . . loan and Omar Montilla is stepping down from our Board of Directors," Bizta official Eduardo Correia said in the press release.

The sudden decision also comes one day after The Herald started asking Bizta executives about Montilla's background. Montilla, the Herald learned, was an ally of Chavez who had an intricate role in his 1998 election campaign.

FIRST ELECTION

Montilla had been a top official in a group called UNEPAD, formed by then-presidential candidate Chavez's Patriotic Pole coalition in 1997 to monitor his first election and conduct exit polls, among other things. Most Venezuelan political parties maintain monitoring groups such as UNEPAD to protect their party interests at the polls.

While working for the Chavez campaign in 1998, Montilla was given the task of evaluating the effectiveness of electronic voting machines being used at the time, an optical scanner system built by Omaha-based Election Systems & Software, former UNEPAD members said.

As an electronic engineer, his job was to make sure that Chavez would not be cheated in the election, a former UNEPAD member said.

Montilla declined several requests to be interviewed.

Government officials had repeatedly claimed that its investment in Bizta and Montilla's appointment was made without knowledge that the company would ever seek an elections-related contract.

COINCIDENTAL

They also insisted the investment was part of a larger effort to help support private enterprise and its interest in a ballot software company was merely coincidental, one of a dozen such investments made to help promising companies.

But the government's role in Bizta had raised new concerns among opposition leaders, who continue to say they will not go to the polls unless the vote is manual.

"The process must be manual," said opposition leader Americo Martin. "[The machines] have not been tested in the field. They are unknown. To use them in such a difficult election, in a world of such strong passions, this could lead us to a catastrophe of violence and fighting."

The National Electoral Council on Tuesday announced that it would not change course - and would keep the machines. It also said there would be no concurrent manual count or independent audit to supplement the machine tally.

THE STORY SO FAR

* June 10, 2003: Venezuela's Industrial Credit Fund buys 28 percent of Bizta Corp. shares through a venture capital fund.

* Dec. 15, 2003: Omar Montilla, a top official in Venezuela's Ministry of Science and Technology, joins Bizta's board of directors.

* Feb. 16, 2004: Venezuela's five-person National Electoral Council votes to award Bizta, **Smartmatic** Corp. and CANTV a \$91 million contract to build and deploy "touch-screen" voting machines.

* June 11: Bizta announces it will buy back the government's 28 percent stake, seeking to address conflict-of-interest concerns.

The Miami Herald

April 20, 2004 Tuesday FINAL EDITION

SECTION: FRONT; Pg. 1A

LENGTH: 1143 words

HEADLINE: UNTRIED FLA. VOTE DEVICE TO DEBUT IN VENEZUELA

BYLINE: RICHARD BRAND, rbrand@herald.com

DATELINE: CARACAS

BODY:

Venezuela's electoral council is scrapping its 6-year-old voting machines and replacing them with touch-screen computers from a tiny South Florida company whose machines have never been used in an election anywhere.

The switch - coming as President Hugo Chavez maneuvers to avoid a recall referendum - has sparked a fury among his opponents, who say the new machines from Boca Raton-based **Smartmatic** Corp. could be used to manipulate the tally in a recall vote and other elections.

It could also cast an international spotlight on the reliability of electronic voting systems, hotly debated since the 2000 U.S. presidential election and Florida's ensuing hanging chad, butterfly-ballot chaos.

"We have no trust in these new machines. We are afraid they are preparing to cheat us, and we have reasons to be worried," said opposition congressman Edgar Zambrano.

The National Electoral Council's five-member board awarded the contract to **Smartmatic** and its partners on Feb. 16 amid objections by the two board members sympathetic to the opposition that they had been shut out.

"The selection process was secret and it didn't allow us to get any information about the bidders and their products," board member Sobella Mejias wrote in a letter to the rest of the council.

When Venezuelans first elected Chavez in 1998, they cast their votes using brand-new optical scanners that read paper ballots - a system considered among the most secure and advanced in the world. The \$112 million voting system was built by Omaha-based Election Systems & Software.

THE PARTNERS

Now **Smartmatic** and its partners - the publicly owned CANTV telephone monopoly and Bizta, a private Venezuelan software firm - have a \$91 million contract to provide 20,000 new touch-screen voting machines.

Bizta will add the candidates' names to the electronic ballot. CANTV's phone lines, to transmit vote tallies, would have been part of any election system. But **Smartmatic** is the central player, taking a \$60 million chunk of the contract to arrange to build and program the machines.

Smartmatic's CEO, Antonio Mugica, a Venezuelan citizen, met with The Herald recently in Caracas to demonstrate the new system and address concerns that **Smartmatic** has never before built a voting machine.

Mugica said some employees of his company and its partners are election industry veterans, like Robert Cook, a former executive with Unisys, a large U.S.-based

information technology firm. Mugica said his firm has 70 employees in Venezuela and seven in its offices in Boca Raton and Sunnyvale, Calif.

Smartmatic Incorporated in Florida in 2000. State records show the company's five directors, including Mugica and his father, all listed the same home address in Boca Raton.

Mugica, offering references for his firm, said **Smartmatic** has partnered in the past with Unisys and with Mexico's Santander-Serfin Bank, providing security technology.

"We do have two small projects that we are doing with them," said Jacqueline Lewis, a spokeswoman for Unisys, reached in Pennsylvania. "We have [nothing] . . . to do with the contract with Venezuela."

Mugica said the **Smartmatic** touch-screen machines would eliminate errors that can occur when voters fill in the optically scanned paper ballots, and would save Venezuela money in the long run because it does not use expensive optical scanner paper.

Instead, the **Smartmatic** machines print a small paper receipt after each vote is cast, a record that voters can use to verify their decision. Users drop those paper receipts into ballot boxes, and at the end of the day the electronic tallies from each machine should match the paper totals, Mugica said.

'SECURE SYSTEM'

"Even though our system is not well known, it is the most secure voting system available in the world," Mugica said. "You always have to have a first election."

Mugica said the machines and the process by which they were chosen can stand up to international scrutiny.

Johns Hopkins University computer science professor Aviel Rubin, who studies voting systems, says the **Smartmatic** feature of printing a paper receipt is an important element in a secure voting technology.

But he added that having a printer does not guarantee a fraud-proof election and questioned the wisdom of switching systems on the eve of a potentially critical recall vote.

"I've never heard of **Smartmatic**. I'd be very concerned about an unknown player with that big of a contract, especially in a place like Venezuela, where fraud is such a big concern," said Rubin, reached in Washington, D.C.

"Somebody writes the software in the machines, and then you don't know what the software is doing. It can pretend to be working all day and then send out the wrong results at the end of the day."

The first **Smartmatic** vote may be a trial by fire for a company that in a recent U.S. business reference directory estimated its total annual sales at less than \$2.5 million.

Chavez's opponents are trying to force a recall referendum with a petition drive, but the electoral council has challenged more than a million signatures. The council and

opposition are now negotiating for a way to validate those signatures.

With a possible recall vote and regional elections slated for August and September, respectively, some Venezuelans are wondering whether **Smartmatic** will even make the deadline.

DELIVERY SCHEDULE

Fewer than 10 of the machines have so far arrived in Venezuela for demonstrations, and the first shipment of 1,000 is expected to arrive from a factory in Italy shortly, officials said. Most of the machines are scheduled for delivery by July.

The timing is important. Under the constitution, if the recall vote is held before Aug. 19 and Chavez loses, a new presidential election must be held. But after that date his appointed vice president would complete the remainder of his term, which ends in 2006.

National Electoral Council officials said they do not expect the new machines to cause delays.

"We are confident that we won't have a problem," said Luis Ramirez, director of automated systems. He quickly added, "We always have contingency plans."

THE SYSTEM NOW IN USE

Venezuelan electoral authorities are replacing a 6-year-old electronic voting system built by Omaha-based Election Systems & Software.

With the ES&S Model 100 system, Venezuelan voters fill in bubbles next to candidate names on ballots printed on special paper. The ballots are then scanned by an optical reader and tallied by the machines.

The ES&S Model 100s are also used in elections across the United States and Canada, including Toronto, Hawaii and Oklahoma, company officials say.

ES&S also builds the iVotronic machines now used in Miami-Dade County elections.

- RICHARD BRAND

Herald researcher Elisabeth Donovan contributed to this report.

The Miami Herald

August 19, 2004 Thursday FINAL EDITION

SECTION: FRONT; Pg. 12A

LENGTH: 659 words

HEADLINE: CHAVEZ FOES BOYCOTT AUDIT, URGE TESTS OF VOTE MACHINES

BYLINE: STEVEN DUDLEY AND PHIL GUNSON, sdudley@herald.com

DATELINE: CARACAS

BODY:

Opponents of Venezuelan President Hugo Chavez Wednesday refused to take part in a special audit of the results of the president's landslide victory in a recall vote, despite the participation of international observers.

The National Electoral Council reported that with 96 percent of the votes from Sunday's referendum counted, its tallies showed 59.06 percent of the 9,402,892 voters backed Chavez while 40.94 percent voted to recall him.

Observers from former President Jimmy Carter's Atlanta-based Carter Center and the Organization of American States (OAS) have said their own checks on tallies matched the Electoral Council figures giving Chavez victory.

Observers said that on Tuesday, several leaders of the loosely knit opposition coalition known as the Democratic Coordinator had agreed to the terms of the audit, to be carried out by the Electoral Council, Carter Center and OAS.

The audit, which began Wednesday without the Democratic Coordinator, is expected to be finished today.

On Wednesday, however, the group said it wanted more tests on the machinery that tabulated the votes, saying the Electoral Council-Carter-OAS audit would not be able to answer the right questions.

Opposition leaders have said their own exit polls during the balloting Sunday showed Chavez losing the referendum by a vast margin.

TALLIES 'IMPOSSIBLE'

Opposition legislator Nelson Rampersad said the opposition coalition had discovered major anomalies in the tally sheets produced by the touch-screen voting machines.

In 25 percent of the results for the state of Aragua, for example, the number of YES votes produced by at least two machines in one polling station were either identical or nearly identical, Rampersad said, suggesting that voting machines had been tampered with. He showed reporters tally sheets showing the anomalies, but offered no other evidence.

"This is mathematically impossible," he asserted. In other cities and states, the Democratic Coordinator claims, the pattern of identical or nearly identical YES votes repeated, reaching 40 percent in the western state of Zulia.

The OAS and the Carter Center have observed dozens of elections, and the opposition coalition had said before Sunday's vote that it would accept the results if they were validated by those observers.

Since Sunday, the OAS and Carter Center have said their "quick counts" - random and representative samples of voting tallies from polling stations around the country - matched Electoral Council tallies showing Chavez as the winner. "Quick counts" are

the most common, respected means by which observers verify elections worldwide.

The Electoral Council also performed an audit of 199 of the 19,800 machines used in Sunday's vote to make sure the paper receipts that voters deposited into ballot boxes matched the results issued by the voting machines.

International observers said the Democratic Coordinator had also inspected the machines before the elections and had agreed to their use.

ANGRY RESPONSE

Chavez government representatives reacted vehemently to the coalition's announcement that it would not participate in the extra audit.

"Let's be serious," said Mari Pili Hernandez. "They ask everyone to get ready to do the audit. Now they don't want to do the audit. That's a lack of respect for the country."

The voting machines used Sunday were supplied by Boca Raton-based **Smartmatic** and used software provided by Bitza, a company registered in Venezuela and Florida. Bitza came under some scrutiny in May when The Herald reported that the government owned a 28 percent stake in the company. After the report was published, Bitza announced it would buy back the government's shares.

Smartmatic representatives have said the machines, originally developed in Italy to sell lottery tickets and used in an election for the first time here on Sunday, were safe from fraud and that there are numerous ways to audit them.

From Jimmy Carter's oped in the Herald urging acceptance or recall results:

The vote in Venezuela two Sundays ago was the culmination of this process, and a large number of other international observers were invited, including Latin American presidents and members of the U.S. Congress. Because of intense distrust expressed by the opposition, extra care was taken to ensure secrecy and accuracy of the voters' decisions. An electronic voting and tabulation system was developed by a Venezuelan-American consortium led by **Smartmatic**. It permitted touch-screen voting, with each choice backed up by a paper ballot that was examined by the voter and then placed in a sealed box. We international monitors assured that the machines were tested in advance, and observed the voting nationwide.

]

Investor's Business Daily

April 6, 2006 Thursday
NATIONAL EDITION

SECTION: ISSUES & INSIGHTS; EDITORIALS; Pg. A12

LENGTH: 368 words

HEADLINE: Hugo Wants Your Vote

BODY:

Elections: If 9-11 taught us anything, it was to be wary of asymmetrical threats from hostile entities no matter what size. We might just get ambushed again if the Venezuelan government ends up controlling our elections.

Don't think it can't happen. A Venezuelan-linked company called **Smartmatic** has bought out a U.S. electronic voting device firm called **Sequoia**, which holds contracts for elections in Chicago and elsewhere.

U.S. foreign investment bureaucrats aren't worried because no military secrets are involved. But that kind of thinking can blindside our democratic institutions as we look for threats to our hardware.

Venezuelan President Hugo Chavez is the foremost meddler in foreign elections in the Western hemisphere and has been accused of secretly financing candidates in Peru, Nicaragua, Bolivia and Mexico. Why wouldn't he be interested in influencing vote outcomes here?

He's already trying to influence our politics through a congressional lobbying effort and a cheap fuel program for welfare recipients explicitly linked to congressional participation.

These and other shenanigans signal interest in influencing perceptions in the U.S.

There's plenty of domestic white noise about electronic machines to cloud the issue. But the problems Chavez could cause are in a different league.

Even as regulators dismiss security threats, the performance of **Smartmatic** in Venezuela's own elections raises questions.

For example, 82% of voters there sat out last December's **Smartmatic**-operational congressional race on shattered confidence in the system.

The **Smartmatic** machines are capable of controlling the speed at which votes are transmitted, creating long lines to discourage voting. They can also instantaneously tally as results come in, giving favored sides information to manipulate turnout.

Mathematicians accuse them of flipping results. And combined with fingerprint machines, they can match votes to voters, violating ballot secrecy.

There may be no problem with **Smartmatic** working U.S. elections, but just wait for a close call and see how credible the result will be. With as many problems as U.S. elections have seen, the one thing it doesn't need is to import Venezuela's electoral wreckage.

Chicago Tribune

April 8, 2006 Saturday
Chicago Final Edition

SECTION: NEWS ; ZONE C; Pg. 1

LENGTH: 995 words

HEADLINE: Alderman sees a plot in voting machines;
Burke connects dots to Venezuela leader

BYLINE: By Gary Washburn, Tribune staff reporter

BODY:

Venezuela gave Chicago Ozzie Guillen, the beloved manager of the World Series champion White Sox. But is the South American country, with secrecy and stealth, also exporting vote fraud here?

As angry aldermen lambasted the head of the company that sold Chicago new, controversial voting machinery, Ald. Edward Burke (14th) suggested Friday that the hardware could be part of a Venezuelan conspiracy to subvert American elections.

Jack Blaine, president of **Sequoia** Voting Systems, faced the hostile questions for about two hours at the City Council hearing. He acknowledged some problems with his company's equipment in the March 21 primary.

But he flatly denied Burke's allegation that Venezuela's leftist president, U.S. critic Hugo Chavez, might be pulling strings behind the scenes.

"Of course, I think it is a crackpot theory," Blaine told reporters after his grilling.

Though **Sequoia** is based in the U.S., Burke hammered away in his questioning about a series of offshore "shell" companies that are **Sequoia** parents and, at the end of a circuitous trail, Venezuelan nationals who are the firm's ultimate owners.

As a result of problems with the recent election, which was plagued by lengthy delays in tabulating results, "we may have stumbled across what could be [an] international conspiracy to subvert the electoral process in the United States of America," he told reporters.

"I am saying the potential for tampering with the American electoral process where presidential elections can be determined by just one state exists here," Burke said.

"Tell me a single solitary reason there is to trace ownership through three shell corporations to the Curacao Islands and its roots to Venezuela, where they have already been involved with the dictator of Venezuela, who Defense Secretary [Donald] Rumsfeld says is an enemy of the United States."

Blaine later said that the ownership structure is similar to those of other firms that do business internationally and that **Sequoia** and the owners of parent **Smartmatic Corp.** have no ties to Chavez. Because they are Venezuelan, **Smartmatic's** owners "are being stereotyped," he asserted.

Some Internet blogs have been rife with talk of a possible **Sequoia-Chavez** connection, and newspapers that have raised the question include the Miami Herald and Investors Business Daily.

Meanwhile, a Carnegie Mellon University computer science professor recently concluded after two days of testing that vote totals on a **Sequoia** model, different from those used here, could be manipulated. That prompted Pennsylvania's Allegheny County to scrap plans to buy the machines.

But Langdon Neal, president of the Chicago Board of Election Commissioners, expressed confidence that the new machines used in Cook County are protected.

"We have enough redundant security measures in place to protect the accuracy of the vote," Neal said. "The beginning starts with tests of the firmware, software and mechanical operation before election day."

The "ultimate protection," Neal said, is a paper record created for every vote cast. Cook County Clerk David Orr, who attended the hearing but was not among the speakers, agreed.

"There are so many ways to protect the vote," Orr said. "Part of the reason we have this paper trail is if ... you had 20 people in our office and 20 people at **Sequoia** who formed some sort of conspiracy, as long as you have that paper trail it wouldn't even matter. You could audit it."

While Burke was the most vocal about a potential Venezuelan tie, other aldermen were highly critical of the performance of the **Sequoia** equipment.

At one point, unhappy with Blaine's answers to some questions, Ald. Leslie Hairston (5th) declared, "I think you belong to the secret brotherhood of I Don't Know."

Two types of voting technology--optical scanners for paper ballots and touch screen machines for the disabled--were used at polling places in the primary. Another device consolidated the results of both types of machines at each polling place and transmitted the data to central tabulation computers downtown.

"During our pre-election testing of this system, data were transmitted 99 percent of the time," Blaine said. "During the election on March 21, however, transmission occurred 68 percent of the time," he said. He suggested that the problems were the result of election judges forced to use the new system "in a relatively short period of time and with a limited amount of training."

Election officials have acknowledged a lack of adequate training for election judges using the machines for the first time in the primary and have said they plan additional training before the Nov. 7 general election.

Burke was not swayed, saying the election "was a disaster," and **Sequoia** "never should have been hired in the first place" because of its ownership ties.

But aldermen acknowledged that the Chicago Board of Election Commissioners is outside council control, and Burke said the council cannot force the board to switch to a new company in time for the general election in November.

Such a move is not in the cards, Neal said.

"At this point it would be almost impossible to switch vendors," he said. Legal issues aside, "to arrange for new equipment to have to be manufactured and tested in that amount of time would be a recipe for disaster in my opinion."

And if there were to be a change, "I guess the [question] is who should we select," Neal said. "Our process began in 2003. We looked at over 23 different vendors. One of the three finalists was the previous vendor. The largest falloff in the U.S. was produced by our previous vendor. Everyone here remembers 2000."

In that election more than 7 percent of the ballots tallied registered no vote for president.

Despite the delay in tallying totals in the most recent election, election officials contended the count was accurate.

Meanwhile, the Cook County Board, which acquired the **Sequoia** machines used in suburban areas during the primary, plans to hold its own hearing.

Chicago Tribune

April 27, 2006 Thursday
Northwest Final Edition

SECTION: METRO ; ZONE NW; Pg. 10

LENGTH: 820 words

HEADLINE: Voting-machine maker on defense;
Election trouble puts exec on the hot seat

BYLINE: By John McCormick, Tribune staff reporter.

BODY:

Jack Blaine, president of the company that made the voting machines used in Cook County's glitch-filled March primary, is used to jetting around the country selling election equipment.

These days, however, the head of **Sequoia** Voting Systems is racking up frequent flier credits defending his products to angry election officials and testifying before committees.

Outcomes in Chicago's March 21 primary went undetermined for days, and the problems cast doubts on more than \$50 million of new **Sequoia** equipment.

Besides shaking the confidence of voters, the problems have also tarnished **Sequoia's** reputation, providing the latest hit for an industry that is the frequent target of electoral conspiracy theories.

As the company's invoices to Chicago and Cook County remain unpaid in protest, a committee of the Cook County Board will hold a hearing Thursday to look at how similar problems can be prevented in November. The State Board of Elections and a committee of the Chicago City Council have already held similar inquiries.

Election officials have acknowledged a lack of training for election judges who were using the new and complex system. But they have also pointed fingers at **Sequoia**, saying the firm and its equipment did not perform adequately.

The company says that's unfair.

"The only major disappointment was the slow tabulation of the results," Blaine said in a recent interview. "We can improve on the user-friendliness of the equipment."

While the company has previously found itself embroiled in disputes in Florida and Washington state because of equipment failures and other issues, its reputation has never before taken such a blow from a single election in the U.S.

The confusion in Cook County--primarily from widespread failures in the remote reporting of results from polling places--was reported on the front page of the Pittsburgh Post-Gazette in late March, just as officials in Allegheny County, Pa., were finalizing an \$11.8 million contract with **Sequoia**.

Although different machines were to be used in Pennsylvania, the experience in Chicago and suburban Cook County concerned Allegheny officials enough that they went with another vendor.

"I gotta believe this had an impact on it," Blaine said. "But I know of no other [business] fallout."

Much of the angst about **Sequoia** is related to its purchase in March 2005 by **Smartmatic Corp.**, a company that provided voting machines for the controversial 2004 recall election of Venezuelan President Hugo Chavez. **Smartmatic's** involvement in U.S. elections troubles some, including Chicago Ald. Edward Burke (14th), who has suggested that the company's equipment could be part of a Venezuelan conspiracy to subvert American democracy.

Chicago and Cook County election officials, meanwhile, were aware of the international controversy surrounding **Sequoia** well before they awarded the company contracts. A county consultant pitched **Smartmatic's** foreign ties as an advantage.

"**Smartmatic**, which provided the election machines for the Venezuelan vote, can rightly claim that they have conducted one of the most closely watched, carefully audited, and statistically analyzed elections in recent history," Oak Park-based Major Scale Technology Management wrote in a memo to Cook County Clerk David Orr's

office.

Sequoia is on its second owner since 2000, when companies started to see a potential windfall from the call for improved voting technology following the controversial presidential election that year.

More than 97 percent of **Smartmatic**, a privately held company like **Sequoia**, is owned by the firm's four founders, the company said in a letter responding to Burke's hearing. Antonio Mugica, the company's chief executive officer, owns 75 percent of the shares.

Whatever baggage **Sequoia** had prior to its selection, election officials would likely have faced similar criticism had they picked other vendors.

"All of the major manufacturers have had significant problems in counting the vote accurately and, in some cases, ethical issues as well," said Bev Harris, founder of Black Box Voting, a national voting watchdog group.



Ohio-based Diebold Inc., for example, has been mired in controversy since its former chairman pledged in a letter to deliver victory for President Bush in Ohio in 2004. The company, one of the finalists here, has since taken steps to isolate itself from politics.

Although **Sequoia's** offices are only a short drive from Silicon Valley, home to hundreds of high-tech companies, most of its products are manufactured on contract by two New York firms, Jaco Electronics and Harvard Custom Manufacturing.

Officials say it would be almost impossible to change vendors in time for the November election--and also potentially costly. Still, Diebold has since tried to reopen discussions following the **Sequoia** flap.

"We have made an offer to sit back down with them and offer a proven solution," said David Bear, a company spokesman.

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*Voting glitches feared on Nov. 7; More races, bigger turnout will test new machines Chicago Tribune
October 19, 2006 Thursday*

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Chicago Tribune

October 19, 2006 Thursday
Chicago Final Edition

SECTION: NEWS ; ZONE C; Pg. 1**LENGTH:** 1242 words**HEADLINE:** Voting glitches feared on Nov. 7;
More races, bigger turnout will test new machines**BYLINE:** By John McCormick, Tribune staff reporter.**BODY:**

With the November election just weeks away, Chicago and Cook County officials have yet to fix some of the problems that led to a virtual meltdown of the new electronic voting system used in the spring primary.

Twice as many voters are likely to head for the polls on Nov. 7, where they will face new voting procedures and test the training of election workers who were often baffled by the machinery in March.

The most likely stumbling block for a smooth election remains a small device that is supposed to consolidate totals from two voting systems and transmit the results downtown via cellular technology. In the spring, many judges couldn't get it to work.

And it will still be possible for workers to accidentally fry vote totals if they forget to disconnect the power from ballot scanners before data cartridges are removed at the end of the night.

"We don't want you to erase any of the memory," warned Gail Weisberg, Cook County's equipment manager coordinator, during a training class last week in Hoffman Estates.

Election officials have boosted training and demanded many fixes to the machinery and software since March, when they were humiliated by confusion and delayed results.

The possible snags are unlikely to throw an election--there are paper backup systems at most every turn--but they could again slow results from some of the nearly 5,000 precincts.

While they suggest major improvements have been made, officials say politicians, voters and the media should never expect the new system to operate as quickly as when paper ballots were used and 90 percent of precincts typically reported results within an hour of polls closing.

"Will it be better than the primary? Absolutely," said Tom Leach, a spokesman for the Chicago Board of Election Commissioners.

The experience here this year with electronic voting was one of the earliest, and also one of the most troubled. But problems were also seen in Ohio, Maryland and elsewhere.

The snafu potential will be even greater in November, when the battle for Congress and other close races hangs in the balance. It is estimated that more than 80 percent of voters nationwide will use electronic voting machines, with a third of all precincts using the technology for the first time.

The changes were required by the federal government after problems in the 2000 presidential election with punch-card ballots and antiquated voting machines in Florida and elsewhere.

To satisfy a new requirement that the visually impaired and others with disabilities be able to vote unassisted, Chicago and Cook County purchased touch screens with audio prompts for each polling place.

Dual system in each precinct

But because those machines were expensive, officials also purchased cheaper optical scan readers for paper ballots, creating a dual system in each precinct.

This dual system, at a cost of more than \$50 million, requires hardware and software to blend the vote tallies from both platforms into one result per precinct.

But the system, the first major hardware change here in more than two decades, buckled under the pressure in its debut, when poorly trained election judges failed to properly deal with ballot jams, locked-up computer screens and other issues.

As roughly 25,000 Chicago and suburban Cook election judges are trained, city and county officials are working through the recommendations contained in a 26-page report that deconstructed the primary's problems.

The report, prepared by a Florida-based consulting firm at a cost of more than \$90,000, found one of the biggest issues was a device that is designed, among other things, to merge totals from the two voting systems.

The Hybrid, Activator, Accumulator & Transmitter (HAAT) machine was capable of erasing results from data cartridges if it wasn't first turned off before the cartridges were loaded. Large numbers of election judges were also unable to follow a complex series of instructions to get the machine to transmit results.

Mostly operator error

"Most of the inability of the HAAT devices to successfully transmit data on election night was due to operator error," the Freeman, Craft, McGregor Group wrote in its report.

Still, as the latest version of the HAAT was approved by the State Board of Elections at an emergency meeting Friday, there was testimony that even those who regularly work with election equipment could not get it to function properly.

"I followed the steps and the steps didn't take me to where I needed to be," said Dianne Felts, the state board's director of voting systems and standards.

Felts said that in one round of testing, 16 of 19 precincts failed to properly consolidate in the HAAT because there were differing versions of software installed in the machines. "It was easily remedied,

but it was another human error," she said.

Felts also encouraged Chicago and Cook County officials to calibrate the touch screen machines once they are set up in the polls because she found some where it was possible to accidentally check one candidate's name when intending to check another.

Election officials say they plan to calibrate the equipment at warehouses before it is shipped and that the machines can be calibrated again at the polls.

The frontline of defense against such equipment problems will be a specially trained group of poll workers. Cook County is calling them "equipment managers," while Chicago will have "polling place administrators."

The specialists will receive about 10 hours of training, triple what typical election judges receive. They will also be paid more: \$500 versus \$150.

The county is giving the extra training to about 1,600 election judges, one for each polling place. The city, meanwhile, will give the weighty responsibility to roughly 2,100 college students, the only group allowed to apply for the jobs. "We figured they had the time to devote to this," Leach said.

Election judges say they welcome the presence of an on-site technology specialist.

"I think it will work a little better, if that person is there," said Phyllis Pepper, a South Side resident and election judge since 1996.

Most of the changes since March should go mostly unnoticed by voters, with a couple exceptions.

Voters will be asked to shade in an arrow next to a candidate's names instead of marking an "X." In March, too many of the other marks failed to be read by optical scanners.

Voters will also receive two ballots, instead of one as in the primary. The second ballot is needed because there are so many judges running for retention.

Preventing scanner jams

Despite the higher volume of ballots, officials promise fewer jams in optical scanners because the ballots will be shipped in cellophane, rather than having perforations for tearing off a tablet, something that created scanner jams in March.

Another major improvement is the elimination of doubling up on equipment. In March, multiple precincts that shared a polling place also shared a HAAT, resulting in a traffic jam at the end of the night.

Cook County Clerk David Orr predicted that "most" of the precinct transmissions would be successful.

On election night, California-based Sequoia Voting Systems, the equipment manufacturer, plans to have as many as 75 people here, including the company's president, to help work through any equipment failures or issues that may arise. The outcome here is important for the company's reputation because the combined Chicago and Cook County contracts are its biggest in the nation.

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NOTES: CAMPAIGN COVERAGE '06

GRAPHIC: GRAPHIC: How votes are counted at precincts

In the March primary, election officials in Chicago and suburban cook county blamed inadequate training of poll workers for delays in reporting vote totals. One of the biggest problems involved a device responsible for compiling and relaying vote totals. Some changes to the device have been made since then, but it remains one of the biggest hurdles for a smooth-running election night.


Source: Sequoia Voting Systems

Chicago Tribune

- See microfilm for complete graphic.

GRAPHIC

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EXHIBIT B

Attached please find a transcript of the City of Chicago City Council Joint Committee on Finance, Committee on Budget and Government Operations and Committee on Committees, Rules, and Ethics hearings of April 7, 2006.