



**City of Chicago**

Committee on Finance

City Hall • Room 302

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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.<sup>1</sup> 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.<sup>2</sup>

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<sup>1</sup> 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.

<sup>2</sup> 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.<sup>3</sup>
- 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.<sup>4</sup>

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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.<sup>5</sup> It was this component of the Sequoia voting system which failed during the primary election held March 21, 2006.<sup>6</sup>
- 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.<sup>7</sup>

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

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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).

<sup>5</sup> 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).

<sup>6</sup> 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.").

<sup>7</sup> 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