

PLACER COUNTY

Audit Report

ABSENTEE BALLOTS PROGRAM

Chapter 77, Statutes of 1978; Chapter 920, Statutes of 1994;
and Chapter 1032, Statutes of 2002

July 1, 2002, through June 30, 2005



JOHN CHIANG
California State Controller

August 2008



JOHN CHIANG
California State Controller

August 13, 2008

The Honorable Jim Holmes, Chairperson
Board of Supervisors
Placer County
175 Fulweiler Avenue
Auburn, CA 95603

Dear Mr. Holmes:

The State Controller's Office audited the costs claimed by Placer County for the legislatively mandated Absentee Ballots Program (Chapter 77, Statutes of 1978; Chapter 920, Statutes of 1994; and Chapter 1032, Statutes of 2002) for the period of July 1, 2002, through June 30, 2005.

The county claimed \$1,022,981 for the mandated program. Our audit disclosed that \$617,498 is allowable and \$405,483 is unallowable. The unallowable costs resulted primarily because the county claimed unallowable services and supplies related to sample ballots and mail-precinct ballots, and incorrectly claimed indirect costs. The State paid the county \$375,161. Allowable costs claimed exceed the amount paid by \$242,337.

In its response to our draft audit report, the county provided revised indirect cost rate proposals. However, the county did not provide sufficient documentation to validate its revised proposals. If the county provides the required documentation, we will revise our final audit report as warranted.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at CSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk:vb

cc: The Honorable Katherine Martinis
Auditor-Controller
Placer County
The Honorable Jim McCauley
County Clerk/Recorder, Registrar of Voters
Placer County
Ryan Ronco
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Placer County for the legislatively mandated Absentee Ballots Program (Chapter 77, Statutes of 1978; Chapter 920, Statutes of 1994; and Chapter 1032, Statutes of 2002) for the period of July 1, 2002, through June 30, 2005.

The county claimed \$1,022,981 for the mandated program. Our audit disclosed that \$617,498 is allowable and \$405,483 is unallowable. The unallowable costs resulted primarily because the county claimed unallowable services and supplies related to sample ballots and mail-precinct ballots, and incorrectly claimed indirect costs. The State paid the county \$375,161. Allowable costs claimed exceed the amount paid by \$242,337.

Background

Election Code section 3003 (added by Chapter 77, Statutes of 1978, and amended by Chapter 920, Statutes of 1994) requires absentee ballots to be available to any registered voter without conditions. Prior law required that absentee ballots be provided only when the voter met one of the following conditions: illness; absence from precinct on election day; physical handicap; conflicting religious commitments; or residence more than ten miles from the polling place.

Election Code section 3024 (added by Chapter 1032, Statutes of 2002, effective September 28, 2002) prohibits local agencies from fully or partially prorating their costs to school districts. Therefore, the law excludes school districts, county boards of education, and community college districts from claiming costs under the mandated Absentee Ballots Program when they do not administer their own elections. However, school districts that administer their own elections are eligible claimants on or after September 28, 2002.

On June 17, 1981, the Board of Control (now the Commission on State Mandates [CSM]) determined that Chapter 77, Statutes of 1978; Chapter 920, Statutes of 1994; and Chapter 1032, Statutes of 2002; imposed a state mandate reimbursable under Government Code section 17561.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. CSM adopted the parameters and guidelines on August 12, 1982, and last amended them on February 27, 2003. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

**Objective, Scope,
and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Absentee Ballots Program for the period of July 1, 2002, through June 30, 2005.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Placer County claimed \$1,022,981 for costs of the Absentee Ballots Program. Our audit disclosed that \$617,498 is allowable and \$405,483 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State made no payment to the county. Our audit disclosed that \$117,756 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payment to the county. Our audit disclosed that \$263,741 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$375,161. Our audit disclosed that \$236,001 is allowable. The State will offset \$139,160 from other mandated program payments due to the county. Alternatively, the county may remit this amount to the State.

**Views of
Responsible
Official**

We issued a draft audit report on June 27, 2008. Gloria Coutts, Assistant County Clerk, responded by letter dated July 18, 2008 (Attachment), disagreeing with the audit results. This final audit report includes the county's response.

Based on the county's response and the additional documentation it submitted, we revised Finding 2 to allow costs attributable to permanent absent voters who resided in mail-precincts. We also revised the finding to allow the \$384 unclaimed amount noted in the county's response.

The county also provided revised indirect cost rate proposals. However, the county did not provide sufficient documentation to validate its revised proposals. If the county provides the required documentation, we will revise our final audit report as warranted.

Restricted Use

This report is solely for the information and use of Placer County, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

August 13, 2008

**Schedule 1—
Summary of Program Costs
July 1, 2002, through June 30, 2005**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries	\$ 35,226	\$ 33,532	\$ (1,694)	Finding 1
Benefits	5,645	5,645	—	
Services and supplies	152,134	82,034	(70,100)	Finding 2
Total direct costs	193,005	121,211	(71,794)	
Indirect costs	49,933	17,615	(32,318)	Finding 3
Total direct and indirect costs	242,938	138,826	\$ (104,112)	
Number of absentee ballots cast	÷ 32,305	÷ 32,305		
Cost per absentee ballot cast	\$7.52014	\$4.29735		
Number of reimbursable absentee ballots	× 27,402	× 27,402		
Total program costs	<u>\$ 206,067</u>	117,756	<u>\$ (88,311)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 117,756</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries	\$ 39,610	\$ 33,544	\$ (6,066)	Finding 1
Benefits	5,529	5,529	—	
Services and supplies	418,031	255,360	(162,671)	Finding 2
Total direct costs	463,170	294,433	(168,737)	
Indirect costs	43,915	8,314	(35,601)	Finding 3
Total direct and indirect costs	507,085	302,747	\$ (204,338)	
Number of absentee ballots cast	÷ 84,088	÷ 84,088		
Cost per absentee ballot cast	\$6.03041	\$3.60036		
Number of reimbursable absentee ballots	× 73,254	× 73,254		
Total program costs	<u>\$ 441,753</u>	263,741	<u>\$ (178,012)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 263,741</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries	\$ 35,593	\$ 35,593	\$ —	
Benefits	6,937	6,937	—	
Services and supplies	<u>339,713</u>	<u>212,674</u>	<u>(127,039)</u>	Finding 2
Total direct costs	382,243	255,204	(127,039)	
Indirect costs	<u>38,120</u>	<u>14,675</u>	<u>(23,445)</u>	Finding 3
Total direct and indirect costs	420,363	269,879	<u>\$ (150,484)</u>	
Number of absentee ballots cast	<u>÷ 71,096</u>	<u>÷ 60,902</u>	<u>(10,194)</u>	Finding 4
Cost per absentee ballot cast	\$5.91261	\$4.43137		
Number of reimbursable absentee ballots	<u>× 63,451</u>	<u>× 53,257</u>		
Total program costs	<u>\$ 375,161</u>	236,001	<u>\$ (139,160)</u>	
Less amount paid by the State		<u>(375,161)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (139,160)</u>		
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Total program costs	<u>\$ 1,022,981</u>	\$ 617,498	<u>\$ (405,483)</u>	
Less amount paid by the State		<u>(375,161)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 242,337</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salaries

The county claimed unallowable salaries totaling \$7,760. The unallowable costs resulted for the following reasons:

Fiscal Year 2002-03

- The county claimed both regular hours and overtime hours based on employees’ productive hourly wage rates. However, the county paid overtime hours at a rate equal to 150% of employees’ regular hourly wage rates.
- The county overstated three employees’ productive hourly wage rates.
- The county claimed non-mandate-related hours for two employees. The county’s records show that the employees performed general office and warehouse activities during these hours.

Fiscal Year 2003-04

- The county claimed regular hours, overtime hours, and compensatory hours based on employees’ productive hourly wage rates. However, the county paid overtime hours at a rate equal to 150% of employees’ regular hourly wage rates. In addition, the county expensed compensatory hours at a rate equal to 150% of employees’ productive hourly wage rates.
- The county overstated nine employees’ productive hourly wage rates.
- The county claimed non-mandate-related hours for two employees. The county’s records show that the employees performed general office, warehouse, and other election activities during these hours.

The following table summarizes the audit adjustment for salaries claimed:

	Fiscal Year		Total
	2002-03	2003-04	
Audit adjustment	\$ (1,694)	\$ (6,066)	\$ (7,760)

The program’s parameters and guidelines state that claimants may claim only actual costs, which are those costs actually incurred to implement the mandated activities. They also state that actual costs must be “traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.”

Recommendation

We recommend that the county claim only those mandate-related costs that it can support with appropriate source documentation.

County’s Response

The county agreed with the audit finding.

**FINDING 2—
Unallowable services
and supplies**

The county claimed unallowable services and supplies totaling \$359,810. These unallowable costs resulted for the following reasons:

- The county claimed unallowable sample ballot costs totaling \$326,287.

Election Code section 13300 requires the county to provide sample ballots to voters. This statutory requirement pre-dates mandated cost programs.

- The county understated allowable contract services costs.
- The county claimed unallowable printing, postage, and envelope costs totaling \$33,907 for mail-precinct ballots. (We used the term “mail-precinct ballots” to identify those ballots that the county issued pursuant to Election Code section 3005.) The mandated program does not require the county to issue mail-precinct ballots.

Election Code section 3005, effective during the audit period, states, “Whenever, on the 88th day before the election, there are 250 or less persons registered to vote in any precinct, the elections official may [emphasis added] furnish each voter with an absentee ballot along with a statement that there will be no polling place for the election.” Therefore, these costs are not reimbursable under the mandated program.

The following table summarizes the audit adjustment:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Sample ballot costs	<u>\$ (58,917)</u>	<u>\$(151,792)</u>	<u>\$(115,578)</u>	<u>\$(326,287)</u>
Contract services	<u>384</u>	<u>—</u>	<u>—</u>	<u>384</u>
Mail-precinct ballot costs:				
Printing	(6,127)	(10,521)	(6,719)	(23,367)
Postage	(4,679)	—	(4,742)	(9,421)
Envelopes	(761)	(358)	—	(1,119)
Total mail-precinct ballot costs	<u>(11,567)</u>	<u>(10,879)</u>	<u>(11,461)</u>	<u>(33,907)</u>
Audit adjustment	<u><u>\$ (70,100)</u></u>	<u><u>\$(162,671)</u></u>	<u><u>\$(127,039)</u></u>	<u><u>\$(359,810)</u></u>

The program’s parameters and guidelines state that claimants may claim only actual costs, which are those costs actually incurred to implement the mandated activities. They also state that actual costs must be “traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.”

Recommendation

We recommend that the county claim only those costs that are reimbursable under the mandated program.

County's Response

The county agreed with the portion of the finding related to sample ballot costs. The county disagreed with the portion of the finding related to mail-precinct ballot costs. This report's attachment includes the full text of the county's response. The county believes that either all or a portion of the mail-precinct ballot costs are reimbursable for the following reasons:

- A significant percentage of voters who resided in mail-precincts were already registered as permanent absent voters.
- Had the county established polling places in mail-precincts, costs related to any voter who might have requested and voted by absentee ballot would be reimbursable.
- The SCO would create a significant disincentive for a local elections official to determine that mail-precincts are more cost effective than poll precincts if it concludes that mail-precinct costs are not reimbursable under the mandated program.
- As it was worded during the audit period, Election Code section 3005 referenced absentee ballots rather than mail ballots or mail-precinct ballots, which infers that the State considered such ballots to be absentee ballots and thus reimbursable under the mandated program.
- Since 2007, state law refers to both absentee ballots and mail-precinct ballots as vote-by-mail ballots, supporting the county's position that mail-precinct ballots should be mandate-reimbursable in the same manner as "traditional" absentee ballots.

Notwithstanding the above issues, the county believes that, at a minimum, the State should allow costs applicable to permanent absent voters who were registered in mail-precincts during the audit period.

The county also contends that it under-claimed contracted services costs claimed as services and supplies by \$384.

SCO's Comment

We revised our audit finding to allow costs attributable to permanent absent voters who resided in mail-precincts. We also revised our finding to allow the \$384 unclaimed amount noted in the county's response. Our recommendation is unchanged.

We do not concur that remaining mail-precinct costs are allowable, for the following reasons:

- The county contends that if mail-precincts had instead been polling place precincts, any costs attributable to voters who requested and submitted absentee ballots would be allowable. However, the county provided no documentation to support the number of voters who might have requested and submitted absentee ballots; therefore, there is no basis to allow additional costs.

- The county states that legislative intent was to allow for mail-precincts when the local elections official determines that it is more cost-effective to do so by forgoing costs applicable to poll voting. The county also implies that a local elections official might not conclude that mail-precincts are cost-effective if the associated costs are not reimbursable under the mandated-program. However, the county did not provide any documentation that ties “legislative intent” for mail precincts to mandated-program reimbursement. Furthermore, the county admits in its response that mail-precincts result in cost savings because the county does not incur costs for “poll workers, precinct kits, poll space rental, drayage, mileage, and other costs.” These cost savings occur regardless of mandated-program reimbursement. However, the county did not report any offsetting savings related to mail-precincts and provided no evidence showing that mail-precinct ballot costs exceed costs saved by eliminating polling places.
- The county contrasts Election Code section 3005 versus Election Code section 4000, *et. seq.* The county contends that before 2007, state law “differentiated” between absentee ballots (as referenced in Election Code section 3005) and vote-by-mail ballots (as referenced in Election Code section 4000, *et. seq.*). The county states that both Election Code sections refer to vote-by-mail ballots since 2007. The county believes that ballots issued pursuant to Election Code section 3005 are reimbursable under the mandated program because that section referenced absentee ballots before 2007.

Election Code section 4000, *et. seq.*, allows a local agency to conduct an election wholly by mail under specified conditions. Its provisions are not relevant to Election Code section 3005. In addition, the Election Code section 3005 terminology before and since 2007 is not relevant to determining whether costs are reimbursable under the mandated program. The mandated program and statutory provisions do not require the county to issue mail-precinct ballots. Government Code section 17514 states that “costs mandated by the State” means any increased costs which a local agency is *required* to incur. [Emphasis added.]

**FINDING 3—
Overstated indirect
costs**

The county claimed unallowable indirect costs totaling \$91,364. The unallowable costs resulted for the following reasons:

- The county overstated its indirect cost rate for fiscal year (FY) 2004-05. The county claimed indirect costs based on an indirect cost rate of 107.10%. During our audit fieldwork, the county revised its indirect cost rate proposal to reflect federal funding that it received. The federal funding offset costs that the county included in its indirect cost pool. The county’s revised indirect cost rate is 101.40%.

The county incorrectly applied its indirect cost rates to calculate indirect costs claimed. For each fiscal year, the county claimed indirect costs by applying its indirect cost rate to total salaries and benefits claimed. Total salaries and benefits claimed included overtime wages and part-time employees’ wages. However, the county calculated its indirect cost rates using only permanent employees’ regular and compensatory wages as the direct cost base.

The following table summarizes the audit adjustment:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Allowable permanent employee regular and compensatory wages	\$ 12,427	\$ 7,499	\$ 14,472	
Allowable indirect cost rate	×141.75%	×110.87%	×101.40%	
Allowable indirect costs	17,615	8,314	14,675	\$ 40,604
Indirect costs claimed	(49,933)	(43,915)	(38,120)	(131,968)
Audit adjustment	\$ (32,318)	\$ (35,601)	\$ (23,445)	\$ (91,364)

The parameters and guidelines state, “Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in OMB Circular A-87.” In addition, the parameters and guidelines state that actual costs must be “traceable and supported by source documents that show the validity of such costs”

Recommendation

We recommend that the county prepare its indirect cost rate proposals in accordance with Office of Management and Budget (OMB) Circular A-87 (Title 2, Code of Federal Regulations, Part 225). In addition, we recommend that the county claim only those costs that are reimbursable under the mandated program.

County’s Response

The county agreed that it incorrectly applied its indirect cost rates to calculate indirect costs claimed. However, the county contends that it understated its indirect cost rates for all fiscal years. The county provided revised indirect cost rate proposals. This report’s attachment includes the full text of the county’s response.

SCO’s Comment

Our finding and recommendation are unchanged. The county did not provide the following documentation, specified in OMB Circular A-87, to validate its revised indirect cost rate proposals:

- “A copy of the financial data (financial statements, comprehensive annual financial report, executive budgets, accounting reports, etc.) upon which the rates are based.” This includes expenditure reports which separately detail expenditures attributable to the Elections Division, Clerk-Recorder Division, and Administration Division. It also includes revenue reports applicable to the Administration Division.
- “A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency.” This documentation should include information sufficiently detailed to identify the employees for each division within the County Clerk-Recorder-Registrar of Voters Department.

If the county provides the required documentation, we will revise our final audit report as warranted.

**FINDING 4—
Overstated absentee
ballots cast**

The county overstated the number of absentee ballots cast in FY 2004-05. The county reported 71,096 absentee ballots cast. However, the California Secretary of State's voter participation statistics show that 60,902 voters cast absentee ballots in FY 2004-05. The county included mail-precinct, challenged, undeliverable, and void ballots in the amount it reported for absentee ballots cast. The mandated program does not provide for the inclusion of challenged, undeliverable, and void ballots when reporting absentee ballots cast.

In addition, the mandated program does not require the county to issue mail-precinct ballots. Election Code section 3005 states, "Whenever, on the 88th day before the election, there are 250 or less persons registered to vote in any precinct, the elections official may [emphasis added] furnish each voter with a vote by mail ballot along with a statement that there will be no polling place for that election." Therefore, mail-precinct ballots are not reportable as absentee ballots under the mandated program.

Claimants calculate actual mandate-related costs based on the number of absentee ballots cast. The parameters and guidelines state that actual costs must be "traceable and supported by source documents that show the validity of such costs"

Recommendation

We recommend that the county accurately report absentee ballots cast to correctly compute mandated program reimbursable costs.

County's Response

The county disagreed with the audit finding. The county believes that the reported number of absentee ballots cast is correct. This report's attachment includes the full text of the county's response.

SCO's Comment

We did not revise the number of allowable absentee ballots cast. We revised the audit finding to reference the California Secretary of State's official voter participation statistics. We also clarified that the county included mail-precinct, challenged, undeliverable, and void ballots in its count of reported absentee ballots cast. Our recommendation is unchanged.

In its claim, the county reported 154,497 total ballots cast in FY 2004-05. This number agrees with the California Secretary of State's voter participation statistics, which show that this amount includes 93,595 precinct ballots and 60,902 absentee ballots. The total number of votes cast does not include challenged, undeliverable, and void ballots. Therefore, the county may not report those ballots as absentee ballots cast on its mandated program claim.

We addressed the mail-precinct ballots issue in our comment to Finding 2. Mail-precinct ballots are not reimbursable under the mandated program.

**Attachment—
County’s Response to
Draft Audit Report**



OFFICE OF

**PLACER COUNTY CLERK – RECORDER –
REGISTRAR OF VOTERS**

Administration Division • 2954 Richardson Drive • Auburn, CA 95603
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JIM McCAULEY
County Clerk-Recorder-Registrar

RYAN RONCO
Assistant Recorder-Registrar

July 18, 2008

Mr. Jim L. Spano
Chief, Mandated Cost Audits Bureau
Division of Audits,
State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Spano:

The following is the Placer County Clerk-Recorder-Elections Department's response to the draft report dated June 27, 2008, for the State Controller's Office audit of costs claimed by the County for the legislatively mandated Absentee Ballots Program (Chap. 77, Statutes of 1978; Chap. 920, Statutes of 1994; and Chap. 1032, Statutes of 2002) for the period of July 1, 2002 through June 30, 2005.

The response is organized in the same order as in your office's draft report, i.e. by Finding and then by Fiscal Year.

Finding 1 – Unallowable Salaries

- Fiscal Years 2002-03 and 2003-04

The County concurs with the findings and audit adjustments totaling \$7,760 for persons whose time records reported working on tasks not related to the absentee ballot program mandate and for the net adjustment of productive hourly rates charged for compensatory time off and overtime and for certain other productive hourly wage rates.

Finding 2 – Unallowable Services and Supplies

- Fiscal Years 2002-03, 2003-04, and 2004-05

The County concurs with the finding and audit adjustments totaling \$326,287 based on the determination that the requirement for mailing of an application for an absentee ballot with the sample ballot provided to voters (Elections Code Sect. 3022) enacted by Chap. 920, Statutes of 1994 is a pre-1975 mandate on counties and thus is not required to be reimbursed by the State under the provisions of Article XIII-B, Sect. 6(3). In future years, the County will

not include the absentee application sample ballot costs as part of its SB 90 claims for absentee ballot mandate reimbursements.

However, the County does not concur with the finding and audit adjustments totaling \$39,418 related to services and supplies costs for "mail-precinct" ballots.¹ While the County concurs that the provisions of Election Code Sect. 3005 do not require the elections official to furnish a vote by mail ballot, the County disagrees that the costs related to vote by mail balloting are therefore discretionary and non-reimbursable under the absentee ballot mandates. Instead, it is the County's position that all – or at least a portion of – the "mail-precinct" ballot costs are reimbursable for the following reasons:

- Because a significant percentage of the voters in the "mail-precincts" were already registered as permanent absentee voters (PAV's), had the County conducted poll balloting in such precincts, the State would have been obligated to reimburse the County for the mandated costs associated with printing, mailing, receiving, verifying and otherwise processing absentee ballots for those PAV's, and
- The State also would have been obligated to reimburse the County for the mandated absentee ballot costs associated with any additional, non-PAV's residing in the "mail-precincts" who did choose (or would have chosen)² to apply for absentee ballots during the elections conducted in the fiscal years audited, and
- The intent of Election Code Sect. 3005 is to allow for "mail-precincts" where the local elections official determines that is more cost-effective to do so by forgoing costs that would be incurred for poll workers, precinct kits, poll space rental, drayage, mileage, and other costs associated with conducting poll voting, not including the impacts to voters in terms of time and vehicle costs for traveling to polls in remote, rural locations. However, the State Controller's proposed disallowing of all ballot costs associated with "mail-precincts" creates a significant disincentive for the local elections official to determine that "mail-precincts" are in fact, more cost effective than having poll precincts, and
- Prior to 2007, Election Code Sect. 3005 referred to the provision of *absentee* ballots under that section's provisions and not to mail ballots (which are covered in Election Code Sect. 4000, *et. seq.*) or "mail-precinct" ballots, clearly indicating that the State considered such ballots to be, in fact, absentee ballots and thus, the County submits, reimbursable under the absentee ballot mandates, and finally
- Since 2007, State law no longer differentiates between absentee ballots and "mail-precinct" ballots, referring to *both* as vote by mail ballots, which

¹ "Mail-precinct" per se does not appear to be a term found in the Election Code and, as indicated in the text above, is not a term used at all - previously or currently - in Election code Sect. 3005.

² County Elections staff has indicated that some non-PAV voters in "mail-precincts" do not bother to apply for absentee ballots since they historically receive vote by mail ballots anyway, without application.

supports the County's position that the costs during the audit period for the mandated tasks and services and supplies associated with the absentee ballots for "mail-precincts" should be reimbursable in the same manner as those for the "traditional" absentee ballot mandates.

The attached Revised Schedule 1 per County has been adjusted to reflect the County's position that all the claimed "mail-precinct" absentee ballot mandated costs should be fully reimbursable.

However, notwithstanding the above, the following information is provided regarding the number of PAV's and total registered voters in the "mail-precincts" during the fiscal years covered in the audit period, since the County's position is that, at a minimum, the PAV absentee ballot costs for the "mail-precincts" should be fully reimbursable:

	Fiscal Year		
	<u>2002-03</u>	<u>2003-04</u> ³	<u>2004-05</u>
Total "Mail-Precinct" Reg. Voters	8,375	13,822	9,047
Total "Mail-Precinct" PAV's	<u>780</u>	<u>1,548</u>	<u>1,718</u>
Percent PAV's in "Mail-Precincts"	9.31%	11.20%	18.99%

Finally, review of the County's SB 90 claim files at the time of the State Controller's field audit found that \$384 in costs for contract extra help (included in services and supplies) for fiscal year 2002-03 had inadvertently been omitted from the costs claimed, although fully supported and reimbursable for the mandated absentee ballot tasks being performed by the contract staff and included in the County's supporting documentation. The field auditor noted that the costs should be added to the total, although they were not included in the draft audit report. A copy of the omitted charges is attached to this response and the Revised Schedule 1 per County has been adjusted to reflect the additional allowable \$384 in services and supplies costs for fiscal year 2003-03.

Finding 3 – Overstated Indirect Costs

- Fiscal Years 2002-03, 2003-04, and 2004-05

The County concurs that it inadvertently calculated and claimed its indirect costs based on the use of inconsistent divisors regarding base salaries and wages between the indirect cost rate plan (ICRP) calculations and the mandate claim forms submitted. As noted in the draft report, this resulted in allowable indirect costs – based on the audit report's adjusted salaries and wages for regular staff salaries (only) and the indirect cost rates submitted for the three fiscal years – of \$40,604 rather than the \$131,968 the County claimed over the three fiscal

³ There were two statewide elections in FY 2003-04, the statewide gubernatorial recall in Oct. 2003 and the Presidential Primary in Mar. 2004 resulting in the higher number of absentee votes than in either the previous or subsequent fiscal year.

years, the latter being based (incorrectly) on both regular and extra help⁴ salaries and wages for the claims.

However, the County has also determined that the indirect rates for Elections were significantly understated for each of the three fiscal years because (1) costs for department administration were not allocated at all to the elections function, which understated the allowable indirect costs for both departmental and County A/87 administrative costs, and (2) the ICRP spreadsheets had formula errors that excluded indirect (department administrative) salaries and wages from the total allowable indirect costs. With these corrections, the allowable indirect cost rates and costs are as follows:

	Fiscal Year			<u>Total</u>
	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	
Allowable permanent employees regular and compensatory wages per audit:	\$ 12,427	\$ 7,499	\$ 14,472	
Corrected allowable indirect cost rate:	<u>x 296.20%</u>	<u>x 173.59%</u>	<u>x 167.70%</u>	
with Dept. admin. costs	\$ 36,809	\$ 13,018	\$ 24,270	\$ 74,097
Indirect costs claimed	<u>(49,933)</u>	<u>(43,915)</u>	<u>(38,120)</u>	<u>(131,968)</u>
Revised audit adjustment	<u>\$(13,124)</u>	<u>\$(30,897)</u>	<u>\$(13,850)</u>	<u>\$(57,871)</u>

The revised ICRP calculations for the three fiscal years are attached to this letter for your review and are included in the attached Revised Schedule 1 per County. In future years, the Department will correctly allocate its administrative costs to the elections function in the ICRP's and will use both regular and extra help salaries and wages in the ICRP calculations, consistent with the SB 90 claim calculation format.

Finding 3 - Overstated Absentee Ballots Cast

- Fiscal Year 2004-05

The County does not concur with the finding that the number of absentee ballots was overstated in fiscal year 2004-05 because the number claimed included 10,194 in "mail-precinct" ballots. As noted in the response to Finding 2, the County's position is that the "mail-precinct" ballots claimed were, in fact, properly classified as absentee ballots based on the provisions of Election Code Sect. 3005, and therefore, the claimed costs for the "mail-precinct" ballots were reimbursable.

Additionally, the number of "mail-precinct" absentee ballots cast was not 10,194 but 7,675 as indicated on the attached copy of the summary of returned (cast) absentee ballots for the 2004 Presidential General Election. Therefore, should the State determine not to adjust its findings and not to allow all or part of the mandated costs for the "mail-precinct" absentee ballots, the total number of absentee ballots cast will nevertheless still require adjustment to the

⁴ In Placer County, extra help staff are used extensively to perform the mandated absentee ballot tasks since the required processes are time-limited, though labor-intensive.

figure of 63,421 which was the total number of 71,096 cast absentee ballots less the 7,675 "mail-precinct" absentee ballots cast.

The Revised Schedule 1 per County attached has been adjusted to reflect the total number of 71,096 absentee ballots cast, including "mail-precinct" absentee ballots and costs, for fiscal year 2004-05 (ex. 1). This adjustment increases the total program costs allowable over that in the draft report, the number of reimbursable absentee ballots, and would reduce the County costs claimed in excess of the amount paid by the State for that fiscal year. Alternately, the Revised Schedule 1 per County is also shown for fiscal year 2004-05 with total costs, less "mail-precinct" costs and with the correct adjusted total of 63,421 absentee ballots cast if "mail-precinct" ballots are excluded (ex. 2). This adjustment also increases the total program costs allowable, the number of reimbursable absentee ballots, and reduces the County costs claimed in excess of the amount paid by the State for that fiscal year over that in the draft report.

Please do not hesitate to contact either myself at (530) 886-5692 or Ms. Vicki Kunimitsu at (530) 886-5694 should you have any questions regarding the County's response to the draft audit report or the supporting attachments. I am certain that both our agencies look forward to concluding the review of the County's SB 90 absentee ballot claims for the subject fiscal years and the issuance of the final audit report.

Sincerely,



Gloria Coutts
Asst. County Clerk

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