

SAN JOAQUIN 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

January 2008



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California State Controller

January 23, 2008

The Honorable Adrian J. Van Houten, CPA
Auditor-Controller
San Joaquin County
24 South Hunter Street
First Floor, Room 103
Stockton, CA 95202

Dear Mr. Van Houten:

The State Controller's Office audited the costs claimed by San Joaquin 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 \$454,756 (\$456,756 less a \$2,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$430,070 is allowable and \$24,686 is unallowable. The unallowable costs resulted primarily because the county claimed unallowable services and supplies. The unallowable services and supplies were partially offset because the county understated indirect costs and understated the total number of ballots cast and the number of absentee ballots cast. The State paid the county \$156,864. Allowable costs claimed exceed the amount paid by \$273,206.

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

cc: Austin Erdman
Interim Registrar of Voters
San Joaquin County
Todd Jerue, Program Budget Manager
Corrections and General Government
Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San Joaquin County for the legislatively mandated Absentee Ballot 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 \$454,756 (\$456,756 less a \$2,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$430,070 is allowable and \$24,686 is unallowable. The unallowable costs resulted primarily because the county claimed unallowable services and supplies. The unallowable services and supplies were partially offset because the county understated indirect costs and understated the total number of ballots cast and the number of absentee ballots cast. The State paid the county \$156,864. Allowable costs claimed exceed the amount paid by \$273,206.

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, San Joaquin County claimed \$454,756 (\$456,756 less a \$2,000 penalty for filing late claims) for costs of the Absentee Ballots Program. Our audit disclosed that \$430,070 is allowable and \$24,686 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State made no payment to the county. Our audit disclosed that \$223,848 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 \$59,506 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$156,864. Our audit disclosed that \$146,716 is allowable. The State will offset \$10,148 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

**Views of
Responsible
Officials**

We discussed our audit results with the county's representatives during an exit conference conducted on November 27, 2007. Austin Erdman, Interim Registrar of Voters; Dolly Zarzuela, Deputy Auditor-Controller; Robert S. Lee, Deputy Auditor-Controller; and other county representatives, agreed with the audit results. Mr. Lee declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of San Joaquin 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

January 23, 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>				
Salaries	\$ 58,468	\$ 58,468	\$ —	
Benefits	6,276	6,276	—	
Services and supplies	146,077	140,009	(6,068)	Finding 1
Total direct costs	210,821	204,753	(6,068)	
Indirect costs	51,037	52,539	1,502	Finding 2
Total cost of absentee ballots	261,858	257,292	<u>\$ (4,566)</u>	
Number of absentee ballots cast	÷ 47,228	÷ 47,228	—	
Cost per absentee ballot cast	\$ 5.54	\$ 5.45		
Number of reimbursable absentee ballots	× 43,030	× 41,073	<u>(1,957)</u>	Finding 3
Total program costs	<u>\$ 238,386</u>	223,848	<u>\$ (14,538)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 223,848</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Salaries	\$ 23,636	\$ 23,636	\$ —	
Benefits	2,724	2,724	—	
Services and supplies	52,710	37,662	(15,048)	Finding 1
Total direct costs	79,070	64,022	(15,048)	
Indirect costs	19,677	19,677	—	Finding 2
Total cost of absentee ballots	98,747	83,699	<u>\$ (15,048)</u>	
Number of absentee ballots cast	÷ 26,294	÷ 80,675	<u>54,381</u>	Finding 3
Cost per absentee ballot cast	\$ 3.76	\$ 1.04		
Number of reimbursable absentee ballots	× 16,092	× 70,473		
Total cost of reimbursable absentee ballots	60,506	73,292	\$ 12,786	
Less late filing penalty	(1,000)	(1,000)	—	
Less allowable costs that exceed costs claimed ²	—	(12,786)	(12,786)	
Total program costs	<u>\$ 59,506</u>	59,506	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 59,506</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Salaries	\$ 39,203	\$ 39,203	\$ —	
Benefits	5,024	5,024	—	
Services and supplies	104,205	90,209	(13,996)	Finding 1
Total direct costs	148,432	134,436	(13,996)	
Indirect costs	31,598	34,385	2,787	Finding 2

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005 (continued)</u>				
Total cost of absentee ballots	180,030	168,821	\$ (11,209)	
Number of absentee ballots cast	÷ 64,326	÷ 64,326	—	
Cost per absentee ballot cast	\$ 2.80	\$ 2.62		
Number of reimbursable absentee ballots	× 56,380	× 56,380		
Total cost of reimbursable absentee ballots	157,864	147,716	\$ (10,148)	
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 156,864</u>	146,716	<u>\$ (10,148)</u>	
Less amount paid by the State		(156,864)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (10,148)</u>		
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Total cost of reimbursable absentee ballots	\$ 456,756	\$ 444,856	\$ (11,900)	
Less late filling penalty	(2,000)	(2,000)	—	
Less allowable costs that exceed costs claimed ²	—	(12,786)	(12,786)	
Total program costs	<u>\$ 454,756</u>	430,070	<u>\$ (24,686)</u>	
Less amount paid by the State		(156,864)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 273,206</u>		

¹ See the Findings and Recommendations section.

² Government Code section 17561 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2003-04.

Findings and Recommendations

FINDING 1— Unallowable services and supplies

The county claimed unallowable services and supplies totaling \$35,112. These costs are unallowable for the following reasons:

- The county claimed \$16,699 for printing absentee ballot request forms on sample ballot booklets. These costs are not reimbursable under the mandated program. Chapter 945, Statutes of 1974, effective September 19, 1974, first required counties to provide absentee voter applications with sample ballots. The requirement pre-dates mandated cost programs.
- The county overstated various shipping, envelope, printing, and processing costs totaling \$1,742.

In fiscal year (FY) 2003-04, the county incorrectly allocated shipping costs between the absentee ballots program and the permanent absent voters program. This resulted in overstated costs totaling \$67. In addition, the county overstated envelope costs by \$170. The county claimed a unit price of \$0.07; however, the applicable invoice supports a unit price of \$0.06.

In FY 2004-05, the county overstated printing costs by \$2,958. The county claimed a unit price of \$0.39; however, the applicable invoice supports a unit price of \$0.30. The county also overstated processing costs by \$1,150. The county claimed a unit price of \$0.405; however, the applicable invoice supports a unit price of \$0.37. In addition, the county understated shipping and handling costs by \$2,603.

- The county claimed duplicate costs totaling \$9,973. The county claimed \$6,068 for FY 2002-03 postage costs and \$500 for FY 2004-05 database setup costs that it also claimed on its permanent absent voters program claims. In addition, the county twice claimed \$3,405 for FY 2004-05 envelope costs on its absentee ballots program claims.
- The county claimed publication costs totaling \$4,832 to notify absentee voters that they may vote early at various satellite voting locations. However, costs related to early voting are not required and thus not reimbursable under the mandated program.

Election Code section 3018, subdivision (a), states, “Any voter using an absentee ballot may, prior to the close of the polls on election day, vote the ballot at the office of the elections official.” Election Code section 3018, subdivision (b), states, “For purposes of this section, the office of an elections official may include satellite locations. Notice of the satellite locations shall be made by the elections official by the issuance of a general news release, issued not later than 14 days prior to voting at the satellite location [emphasis added].” The Election Code does not require the county to establish satellite locations. Government Code section 17514 states, “‘Costs mandated by the state’ means any increased costs which a local agency or school district is required to incur. . . . [emphasis added].”

- The county claimed sales tax costs totaling \$2,231 that its invoice documentation did not support. Various invoices showed no sales tax liability.
- The county understated FY 2003-04 database setup costs by \$365.

The program’s parameters and guidelines state that counties may claim only actual costs. They state, “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 reimbursable activities.”

The following table summarizes the audit adjustment:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Sample ballot costs	\$ —	\$ (9,373)	\$ (7,326)	\$ (16,699)
Overstated shipping, envelope, printing, and processing costs	—	(237)	(1,505)	(1,742)
Duplicate costs claimed	(6,068)	—	(3,905)	(9,973)
Early voting publication costs	—	(4,832)	—	(4,832)
Unsupported sales tax	—	(971)	(1,260)	(2,231)
Underclaimed database setup costs	—	365	—	365
Total	\$ (6,068)	\$ (15,048)	\$ (13,996)	\$ (35,112)

Recommendation

We recommend that the county claim only those costs that are reimbursable under the mandated program and supported by appropriate source documentation.

County’s Response

The county agreed with the audit finding.

**FINDING 2—
Understated indirect costs**

The county understated indirect costs claimed by \$4,289. The county understated indirect costs claimed because it overstated and understated costs included in its indirect cost pool for each fiscal year. These overstated and understated costs resulted in understated indirect cost rates for each fiscal year; however, the understatement was immaterial for FY 2003-04. The overstated and understated costs occurred for the following reasons:

- The county overstated salaries and benefits that it included in the indirect cost pools. The county’s documentation did not support the reported costs.
- The county included all employees’ overtime salaries in its indirect cost pools. However, the county reported all regular salaries and benefits as direct costs for these employees. In addition, the county claimed overtime costs as direct costs on its mandated program claims. The county agreed that all overtime salaries should be reported as direct costs in its indirect cost rate proposals.

- The county understated indirect services and supplies by excluding election management system software costs from its indirect cost pools.

The parameters and guidelines state that counties may claim indirect costs using the procedures provided in Office of Management and Budget (OMB) Circular A-87 (Title 2, Code of Federal Regulations, Part 225). The circular states that salaries will be based on payroll documentation. It also states that counties must treat each cost item consistently in like circumstances either as a direct or an indirect cost.

The following table summarizes the adjustments to the indirect cost rate proposals:

	<u>Costs Reported</u>	<u>Allowable Costs</u>	<u>Audit Adjustment</u>
<u>FY 2002-03</u>			
Direct costs:			
Regular salaries	\$ 542,109	\$ 559,651	\$ 17,542
Overtime salaries	—	40,790	40,790
Total direct costs (A)	<u>\$ 542,109</u>	<u>\$ 600,441</u>	<u>\$ 58,332</u>
Indirect costs:			
Regular salaries	\$ 96,498	\$ 78,956	\$ (17,542)
Overtime salaries	40,790	—	(40,790)
Benefits	28,815	23,576	(5,239)
Other	<u>307,118</u>	<u>437,020</u>	<u>129,902</u>
Total indirect costs (B)	<u>\$ 473,221</u>	<u>\$ 539,552</u>	<u>\$ 66,331</u>
Indirect costs rate (B ÷ A)	<u>87.29%</u>	<u>89.86%</u>	<u>2.57%</u>
<u>FY 2004-05</u>			
Direct costs:			
Regular salaries	\$ 748,308	\$ 753,545	\$ 5,237
Overtime salaries	—	38,640	38,640
Total direct costs (A)	<u>\$ 748,308</u>	<u>\$ 792,185</u>	<u>\$ 43,877</u>
Indirect costs:			
Regular salaries	\$ 95,530	\$ 90,293	\$ (5,237)
Overtime salaries	38,640	—	(38,640)
Benefits	33,908	32,045	(1,863)
Other	<u>435,095</u>	<u>572,458</u>	<u>137,363</u>
Total indirect costs (B)	<u>\$ 603,173</u>	<u>\$ 694,796</u>	<u>\$ 91,623</u>
Indirect costs rate (B ÷ A)	<u>80.60%</u>	<u>87.71%</u>	<u>7.11%</u>

Based on the allowable indirect cost rates, the following table summarizes the audit adjustment to indirect costs claimed:

	Fiscal Year	
	2002-03	2004-05
Allowable salaries	\$ 58,468	\$ 39,203
Allowable indirect cost rate	× 89.86%	× 87.71%
Allowable indirect costs	52,539	34,385
Less indirect costs claimed	<u>(51,037)</u>	<u>(31,598)</u>
Audit adjustment	<u>\$ 1,502</u>	<u>\$ 2,787</u>

Recommendation

We recommend that the county prepare its indirect cost rate proposals according to OMB Circular A-87 requirements.

County’s Response

The county agreed with the audit finding.

**FINDING 3—
Understated ballots
cast and absentee
ballots cast**

The county understated the total number of ballots cast for FY 2002-03. The county erroneously reported precinct ballots cast rather than total ballots cast. In addition, the county understated absentee ballots cast for FY 2003-04.

The parameters and guidelines prescribe the formula used to calculate the number of reimbursable absentee ballots and resulting reimbursable costs. The number of ballots cast directly affects the calculation of the number of reimbursable absentee ballots.

The following table summarizes the audit adjustment for number of ballots cast, number of absentee ballots cast, and number of additional absentee ballot filings.

	Number of Ballots		
	Claimed	Allowable	Audit Adjustment
<u>Fiscal Year 2002-03</u>			
Ballots cast, 01/01/75-12/30/78 (W)	371,400	371,400	—
Absentee ballots cast, 01/01/75-12/30/78 (X)	15,391	15,391	—
Ballots cast in FY 2002-03 (Y)	101,292	148,520	47,228
Absentee ballots cast in FY 2002-03 (Z)	47,228	47,228	—
Additional absentee ballot filings (Z – [(X/W) × Y])	43,030	41,073	(1,957)
<u>Fiscal Year 2003-04</u>			
Ballots cast, 01/01/75-12/30/78 (W)	371,400	371,400	—
Absentee ballots cast, 01/01/75-12/30/78 (X)	15,391	15,391	—
Ballots cast in FY 2003-04 (Y)	246,173	246,173	—
Absentee ballots cast in FY 2003-04 (Z)	26,294	80,675	54,381
Additional absentee ballot filings (Z – [(X/W) × Y])	16,092	70,473	54,381

Recommendation

We recommend that the county report the total number of ballots cast and absentee ballots cast as reported to the Office of the California Secretary of State for each fiscal year.

County’s Response

The county agreed with the audit finding.

**State Controller's Office
Division of Audits
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