

STANISLAUS COUNTY

Audit Report

ABSENTEE BALLOTS PROGRAM

Chapter 77, Statutes of 1978,
and Chapter 920, Statutes of 1994

July 1, 1999, through June 30, 2002



STEVE WESTLY
California State Controller

June 2004



STEVE WESTLY
California State Controller

June 30, 2004

The Honorable Larry D. Haugh
Auditor-Controller
Stanislaus County
1010 10th Street, Suite 5100
Modesto, CA 95354

Dear Mr. Haugh:

The State Controller's Office (SCO) has completed an audit of the claims filed by Stanislaus County for costs of the legislatively mandated Absentee Ballots Program (Chapter 77, Statutes of 1978, and Chapter 920, Statutes of 1994) for the period of July 1, 1999, through June 30, 2002.

The county claimed \$791,554 for the mandated program. Our audit disclosed that \$549,911 is allowable and \$241,643 is unallowable. The unallowable costs occurred primarily because the county claimed unsupported salaries and benefits, and misstated services and supplies. The county was paid \$313,698. Allowable costs claimed in excess of the amount paid total \$236,213.

The SCO has established an informal audit review process to resolve a dispute of facts. The auditee should submit, in writing, a request for a review and all information pertinent to any disputed issues within 60 days after receiving the final report. The request and supporting documentation should be submitted to Richard J. Chivaro, Chief Counsel, State Controller's Office, Post Office Box 942850, Sacramento, CA 94250-0001. In addition, please provide a copy of the request letter to Jim L. Spano, Chief, Compliance Audits Bureau, State Controller's Office, Division of Audits, Post Office Box 942850, Sacramento, California 94250-5874.

If you have any questions, please contact Mr. Spano at (916) 323-5849.

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:jj

cc: James Tilton, Program Budget Manager
Corrections and General Government
Department of Finance
Richard J. Chivaro, Chief Counsel
State Controller's Office
Jim L. Spano, Bureau Chief
Division of Audits
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by Stanislaus County for costs of the legislatively mandated Absentee Ballots Program (Chapter 77, Statutes of 1978, and Chapter 920, Statutes of 1994) for the period of July 1, 1999, through June 30, 2002. The last day of fieldwork was August 14, 2003.

The county claimed \$791,554 for the mandated program. The audit disclosed that \$549,911 is allowable and \$241,643 is unallowable. The unallowable costs occurred primarily because the county claimed unsupported salaries and benefits, and misstated services and supplies. The county was paid \$313,698. Allowable costs claimed in excess of the amount paid total \$236,213.

Background

The State of California enacted Chapter 77, Statutes of 1978, and Chapter 920, Statutes of 1994, which require that absentee ballots be available to any registered voter without conditions. Under prior law, absentee ballots were provided only when the voter met one of the following conditions: illness, absence from precinct on day of election, physical handicap, conflicting religious commitments, or a residence more than ten miles from the polling place.

On June 17, 1981, the Board of Control (BOC)—now the Commission on State Mandates (COSM)—ruled that the legislation imposed a state mandate upon local agencies reimbursable under *Government Code* Section 17561. The increased level of service required by this mandate is reimbursable.

Parameters and Guidelines, adopted by BOC on August 12, 1982 (and amended by COSM on December 18, 1997) establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist school districts and local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Absentee Ballots Program (Chapter 77, Statutes of 1978, and Chapter 920, Statutes of 1994) for the period of July 1, 1999, through June 30, 2002.

The auditor performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and

- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority provided for under *Government Code* Section 17558.5. The SCO did not audit the county's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

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

Conclusion

The 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, Stanislaus County claimed \$791,554 for costs of the legislatively mandated Absentee Ballots Program. The audit disclosed that \$553,786 is allowable and \$237,768 is unallowable.

For fiscal year (FY) 1999-2000, the county was paid \$165,448 by the State. The audit disclosed that \$134,356 is allowable. The amount paid in excess of allowable costs claimed, totaling \$31,092, should be returned to the State.

For FY 2000-01, the county was paid \$106,744 by the State. The audit disclosed that \$121,874 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$15,130, will be paid by the State based on available appropriations.

For FY 2001-02, the county was paid \$41,506 by the State. The audit disclosed that \$293,681 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$252,175, will be paid by the State based on available appropriations.

Views of Responsible Official

The SCO issued a draft audit report on April 21, 2004. Dean Wright, Deputy County Counsel, stated by telephone on June 17, 2004, that the county will not provide a written response prior to the issuance of the final audit report.

Restricted Use

This report is solely for the information and use of Stanislaus 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

**Schedule 1—
Summary of Program Costs
July 1, 1999, through June 30, 2002**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 1999, through June 30, 2000</u>				
Salaries	\$ 40,156	\$ 18,697	\$ (21,459)	Finding 1
Benefits	7,027	3,653	(3,374)	Finding 1
Services and supplies	<u>109,217</u>	<u>115,135</u>	<u>5,918</u>	Finding 2
Subtotals	156,400	137,485	(18,915)	
Indirect costs	<u>30,218</u>	<u>14,060</u>	<u>(16,158)</u>	Findings 1, 3
Total cost of absentee ballots cast	186,618	151,545	<u>\$ (35,073)</u>	
Number of absentee ballots cast	<u>÷ 33,846</u>	<u>÷ 33,846</u>		
Cost per absentee ballot	5.51	4.48		
Additional absentee ballot filings	<u>× 30,079</u>	<u>× 30,079</u>		
Total cost of additional ballot filings	165,846	134,754	\$ (31,092)	
Less offsetting savings/reimbursements	<u>(398)</u>	<u>(398)</u>	<u>—</u>	
Amount claimed	<u>\$ 165,448</u>	134,356	<u>\$ (31,092)</u>	
Less amount paid by the State		<u>(165,448)</u>		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ (31,092)</u>	
<u>July 1, 2000, through June 30, 2001</u>				
Salaries	\$ 66,203	\$ 31,533	\$ (34,670)	Finding 1
Benefits	12,301	5,933	(6,368)	Finding 1
Services and supplies	<u>66,910</u>	<u>70,286</u>	<u>3,376</u>	Finding 2
Subtotals	145,414	107,752	(37,662)	
Indirect costs	<u>66,732</u>	<u>29,950</u>	<u>(36,782)</u>	Findings 1, 3
Total cost of absentee ballots cast	212,146	137,702	<u>\$ (74,444)</u>	
Number of absentee ballots cast	<u>÷ 44,944</u>	<u>÷ 44,944</u>		
Cost per absentee ballot	4.72	3.06		
Additional absentee ballot filings	<u>× 39,828</u>	<u>× 39,828</u>		
Total cost of additional ballot filings	187,996	121,874	\$ (66,122)	
Less offsetting savings/reimbursements	<u>—</u>	<u>—</u>	<u>—</u>	
Amount claimed	<u>\$ 187,996</u>	121,874	<u>\$ (66,122)</u>	
Less amount paid by the State		<u>(106,744)</u>		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ 15,130</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
July 1, 2001, through June 30, 2002				
Salaries	\$ 48,210	\$ 34,877	\$ (13,333)	Finding 1
Benefits	11,540	5,689	(5,851)	Finding 1
Services and supplies	<u>387,009</u>	<u>248,001</u>	<u>(139,008)</u>	Finding 2
Subtotals	446,759	288,567	(158,192)	
Indirect costs	<u>47,631</u>	<u>34,207</u>	<u>(13,424)</u>	Findings 1, 3
Total cost of absentee ballots cast	494,390	322,774	<u>\$(171,616)</u>	
Number of absentee ballots cast	<u>÷ 44,944</u>	<u>÷ 32,017</u>		
Cost per absentee ballot	11.00	10.08		
Additional absentee ballot filings	<u>× 39,828</u>	<u>× 29,135</u>	<u>(10,693)</u>	Finding 4
Total cost of additional ballot filings	438,110	293,681	(144,429)	
Less offsetting savings/reimbursements	<u>—</u>	<u>—</u>	<u>—</u>	
Amount claimed	<u>\$ 438,110</u>	293,681	<u>\$(144,429)</u>	
Less amount paid by the State		<u>(41,506)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 252,175</u>		
Summary: July 1, 1999, through June 30, 2002				
Total cost of absentee ballot filings	<u>\$ 893,154</u>	<u>\$ 612,021</u>	<u>\$(281,133)</u>	
Total cost of additional ballot filings	\$ 791,952	\$ 550,309	\$(241,643)	
Less offsetting savings/reimbursements	<u>(398)</u>	<u>(398)</u>	<u>—</u>	
Amount claimed	<u>\$ 791,554</u>	549,911	<u>\$(241,643)</u>	
Less amount paid by the State		<u>(313,698)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 236,213</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unsupported salaries, benefits, and related indirect costs

Stanislaus County overstated employee salaries and benefits totaling \$85,055 for the period of July 1, 1999, through June 30, 2002. The related indirect cost, based on the claimed indirect cost rate for each fiscal year, is \$64,268.

Unsupported salary and benefit costs, and the related indirect costs, are summarized as follows:

	<u>Fiscal Year</u>			<u>Total</u>
	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>	
Salaries	\$ (21,459)	\$ (34,670)	\$ (13,333)	\$ (69,462)
Benefits	<u>(3,374)</u>	<u>(6,368)</u>	<u>(5,851)</u>	<u>(15,593)</u>
Subtotals	(24,833)	(41,038)	(19,184)	(85,055)
Related indirect costs	<u>(16,148)</u>	<u>(34,947)</u>	<u>(13,173)</u>	<u>(64,268)</u>
Audit adjustment	<u>\$ (40,981)</u>	<u>\$ (75,985)</u>	<u>\$ (32,357)</u>	<u>\$ (149,323)</u>

For FY 1999-2000, the county claimed \$9,224 in salaries and \$2,786 in benefits that were not supported by any documentation. The county also misstated salaries by \$901 and benefits by \$27 due to the use of an incorrect hourly rate for one employee. In addition, salaries were overstated by \$11,334 and benefits were overstated by \$172 because certain contract services costs were improperly claimed as salaries (see Finding 2). Benefits were also overstated by \$389 due to the use of an average employee benefits rate of 30.2% for all employees in the Election Department rather than using an actual benefits rate attributable to each employee or an average fringe benefit cost by job classification. The related overstated indirect cost claimed is \$16,148.

For FY 2000-01, the county claimed \$12,931 in salaries and \$4,336 in benefits that were not supported by any documentation. In addition, salaries were overstated by \$21,739 because certain contract services costs were improperly claimed as salaries (see Finding 2). Benefits were also overstated by \$2,032 due to the use of an incorrect formula to calculate the employee benefit percentage rate. The related overstated indirect cost claimed is \$34,947.

For FY 2001-02, the county claimed \$6,634 in salaries and \$1,777 in benefits incurred on behalf of and billed to the City of Modesto for administering an “all mailed” ballot special election. For this election, there was no separate process for absentee ballots; therefore, the costs are unallowable. The county also claimed \$6,699 in salaries and \$2,278 in benefits that were not supported by any documentation. Benefits were also overstated by \$1,796 due to the use of an incorrect formula to calculate the employee benefit percentage rate. The related overstated indirect cost claimed is \$13,173.

Parameters and Guidelines allows only reimbursement of actual increased costs incurred for making absentee ballots available to any register voter and states that all costs claimed must be traceable and

supported by source documents that show the validity of such costs. *Parameters and Guidelines*, Section IV—Reimbursable Costs, states that election services costs billed to a local agency for providing election services to the local agency are not reimbursable costs included in the county’s reimbursement claims.

Recommendation

The county should establish and implement procedures to ensure that all claimed costs are properly supported. The county should also review its current mandated cost claiming procedures to ensure that employee benefits are correctly calculated. In addition, the county should establish and implement an adequate recording and reporting system to ensure that all claimed costs are eligible for reimbursement.

FINDING 2— Misstated services and supplies

The county overstated services and supplies totaling \$139,008 for FY 2001-02 and understated services and supplies costs totaling \$9,294 for the period of July 1, 1999, through June 30, 2001 (\$5,918 for FY 1999-2000 and \$3,376 for FY 2000-01).

Overstated services and supplies costs are summarized as follows:

	<u>Fiscal Year</u>			<u>Total</u>
	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>	
Services and supplies:				
Unsupported	\$ (2,016)	\$(14,580)	\$ (23,940)	\$ (40,536)
Overstated computer time costs	(3,400)	(3,783)	(16,558)	(23,741)
Understated contract costs	11,334	21,739	—	33,073
City of Modesto election costs	<u>—</u>	<u>—</u>	<u>(98,510)</u>	<u>(98,510)</u>
Audit adjustment	<u>\$ 5,918</u>	<u>\$ 3,376</u>	<u>\$ (139,008)</u>	<u>\$ (129,714)</u>

For the audit period, the county did not support claimed contract services costs of \$40,536. These unsupported amounts were caused by errors made when preparing the county’s Absentee Ballots claims. The county also claimed annual maintenance costs of \$23,741 for software used by the county’s Elections Department, which included activities that were outside the scope of the mandate. In addition, the costs were based on an estimated percentage of time spent and on an unsupported hourly charge for a computer technician.

The county also understated contract services costs by \$33,073 for FY 1999-2000 and FY 2000-01 because it improperly claimed these costs as direct salaries and benefits.

For FY 2001-02, the county claimed \$98,510 in services and supplies costs incurred on behalf of and billed to the City of Modesto for administering an “all mailed” ballot special election. For this election, there was no separate process for absentee ballots; therefore, this cost is unallowable.

Parameters and Guidelines allows only reimbursement of actual increased costs incurred for making absentee ballots available to any register voter and states that all costs claimed must be traceable and supported by source documents that show the validity of such costs.

Parameters and Guidelines, Section IV–Reimbursable Costs, states that election services costs billed to a local agency for providing election services to the local agency are not reimbursable costs included in the county’s reimbursement claims.

Recommendation

The county should establish and implement procedures to ensure that all claimed costs are properly supported. In addition, the county should establish and implement an adequate recording and reporting system to ensure that all claimed costs are eligible for reimbursement.

**FINDING 3—
Overstated indirect
cost rates**

The county overstated the indirect cost rates by \$2,096 for the period of July 1, 1999, through June 30, 2002.

The overstated indirect costs are summarized as follows:

	<u>Fiscal Year</u>			<u>Total</u>
	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>	
Total allowable salary costs	\$ 18,697	\$ 31,533	\$ 34,877	
Overstated indirect costs	<u>× 0.05%</u>	<u>× 5.82%</u>	<u>× 0.72%</u>	
Audit adjustment	<u>\$ (10)</u>	<u>\$ (1,835)</u>	<u>\$ (251)</u>	<u>\$ (2,096)</u>

For FY 1999-2000, the county claimed an indirect cost rate of 75.25% rather than the county’s calculated rate of 75.2%, a difference of 0.05%.

For FY 2000-01, the county claimed an indirect cost rate of 100.8% rather than the county’s calculated rate of 94.98%, a difference of 5.82%, because it used FY 1999-2000 indirect costs of \$38,991 rather than FY 2000-01 indirect costs of \$18,060 (an overstatement \$20,931).

For FY 2001-02, the county claimed an indirect cost rate of 98.8% rather than the county’s calculated rate of 98.08%, a difference of 0.72%, because of a transposition error.

Parameters and Guidelines for the Absentee Ballots Program allows only reimbursement of actual increased costs incurred for making absentee ballots available to any register voter.

Recommendation

The county should establish and implement procedures to ensure that all claimed costs are properly supported.

**FINDING 4—
Overstated number of
ballots and absentee
ballots cast**

For FY 2001-02, the county overstated the number of ballots by 56,572 and absentee ballots cast by 12,927 because the ballot numbers for FY 2000-01 were used to determine the reimbursable number of additional absentee ballots cast during FY 2001-02. Consequently, the amount of allowable costs increased because the total cost of absentee ballots cast is now divided by a smaller number, which results in a higher cost per absentee ballot.

Parameters and Guidelines allows only reimbursement of actual increased costs incurred for making absentee ballots available to any registered voter activities.

Recommendation

The county should establish and implement procedures to ensure that all claimed costs are actual costs and that costs are properly supported.

**State Controller's Office
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<http://www.sco.ca.gov>