MONTEREY COUNTY

Revised 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, 2006

JOHN CHIANG
California State Controller

June 2010

JOHN CHIANG
California State Controller

June 10, 2010

The Honorable Louis R. Calcagno, Chairman
Board of Supervisors
Monterey County
168 West Alisal Street, 3rd Floor
Salinas, CA 93901

Dear Mr. Calcagno:

The State Controller's Office audited the costs claimed by Monterey 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, 2006.

This revised final report supersedes our previous report dated April 15, 2009. Subsequent to our previous report, the county submitted additional supporting documentation. As a result, allowable costs increased by $531,652.

The county claimed $1,068,002 ($1,070,002 less a $2,000 penalty for filing late claims) for the mandated program. Our audit disclosed that $531,652 is allowable and $536,350 is unallowable. The unallowable costs occurred primarily because the county claimed unsupported and non-mandate-related costs, incorrectly reported total ballots cast and absentee ballots cast, and did not report offsetting revenues received. The State paid the county $442,492. Allowable costs exceed the amount paid by $89,160.

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 link at www.csm.ca.gov/docs/IRCForm.pdf.

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/vb

cc: The Honorable Michael J. Miller, Auditor-Controller
Monterey County
Dennis Gravelle, Chief Deputy Auditor-Controller
Monterey County
Linda Tulett, Registrar of Voters
Monterey County
Mari Beraz, Principal Administrative Analyst
Monterey County
Jeff Carosone, Principal Program Budget Analyst
Cor-Gen Unit
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Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Monterey 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, 2006.

The county claimed $1,068,002 ($1,070,002 less a $2,000 penalty for filing late claims) for the mandated program. Our audit disclosed that $531,652 is allowable and $536,350 is unallowable. The unallowable costs occurred primarily because the county claimed unsupported and non-mandate-related costs, incorrectly reported total ballots cast and absentee ballots cast, and did not report offsetting revenues received. The State paid the county $442,492. Allowable costs exceed the amount paid by $89,160.

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 the 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 State 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 for mandated programs, to assist local agencies and school districts in claiming 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, 2006.

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 this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 Revised Summary of Program Costs (Schedule 1) and in the Revised Findings and Recommendations section of this report.

For the audit period, Monterey County claimed $1,068,002 ($1,070,002 less a $2,000 penalty for filing late claims) for costs of the Absentee Ballots Program. Our audit disclosed that $531,652 is allowable and $536,350 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State made no payment to the county. Our audit disclosed that $68,023 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 $151,597 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State made no payment to the county. Our audit disclosed that $92,118 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2005-06 claim, the State paid the county $442,492. Our audit disclosed that $219,914 is allowable. The State will offset $222,578 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

Views of Responsible Officials

We issued a draft audit report on February 6, 2009. Michael J. Miller, Auditor-Controller, and Linda Tulett, Registrar of Voters, responded by letter dated March 20, 2009 (Attachment 1), agreeing with the audit results except for Finding 4. We issued the final report on April 15, 2009.

On August 19, 2009, the county submitted a response to the final audit report (Attachment 2), along with additional supporting documentation. This revised final report modifies Finding 1 (unsupported salaries and benefits), Finding 2 (overstated and understated services and supplies claimed), Finding 4 (understated offsetting savings/reimbursements), and Finding 5 (understated and overstated indirect costs). As a result, allowable costs increased by $531,652.

We advised Joe Ripley, Management Analyst, of the revisions on February 24, 2010. Michael J. Miller, Auditor-Controller, and Linda Tulett, Registrar of Voters, responded by letter dated May 28, 2010 (Attachment 3). The county disagreed with revised Finding 1 and did not comment on the remaining findings.

Restricted Use

This report is solely for the information and use of Monterey 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

June 10, 2010

Revised Schedule 1—
Summary of Program Costs
July 1, 2002, through June 30, 2006

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [2]
July 1, 2002, through June 30, 2003				
Direct costs:				
Salaries	$ 62,647	$ 14,546	$ (48,101)	Finding 1
Benefits	9,298	2,410	(6,888)	Finding 1
Services and supplies	109,569	89,283	(20,286)	Finding 2
Total direct costs	181,514	106,239	(75,275)	
Indirect costs	55,787	15,881	(39,906)	Finding 5
Total direct and indirect costs	237,301	122,120	$ (115,181)	
Number of absentee ballots cast	÷ 38,920	÷ 35,675	(3,245)	Finding 3
Cost per absentee ballot cast [1]	$6.10	$3.42		
Number of reimbursable absentee ballots	× 34,086	× 30,660	(3,426)	Finding 3
Total cost of reimbursable absentee ballots [1]	207,830	104,953	$ (102,877)	
Less offsetting savings/reimbursements	—	(35,930)	(35,930)	Finding 4
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	$ 206,830	68,023	$ (138,807)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 68,023		
July 1, 2003, through June 30, 2004				
Direct costs:				
Salaries [3]	$ 45,228	$ 38,079	$ (7,149)	Finding 1
Services and supplies	99,787	196,280	96,493	Finding 2
Total direct costs	145,015	234,359	89,344	
Indirect costs	28,367	29,778	1,411	Finding 5
Total direct and indirect costs	173,382	264,137	$ 90,755	
Number of absentee ballots cast	÷ 40,321	÷ 79,103	38,782	Finding 3
Cost per absentee ballot cast [1]	$4.30	$3.34		
Number of reimbursable absentee ballots	× 35,487	× 69,743	34,256	Finding 3
Total cost of reimbursable absentee ballots [1]	152,597	232,942	$ 80,345	
Less offsetting savings/reimbursements	—	(28,640)	(28,640)	Finding 4
Less late filing penalty	(1,000)	(1,000)	—	
Less allowable costs that exceed costs claimed	—	(51,705)	(51,705)	
Total program costs	$ 151,597	151,597	$ —	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 151,597		
July 1, 2004, through June 30, 2005				
Direct costs:				
Salaries [3]	$ 11,450	$ 32,789	$ 21,339	Finding 1
Services and supplies	176,407	99,119	(77,288)	Finding 2
Total direct costs	187,857	131,908	(55,949)	
Indirect costs	8,630	30,759	22,129	Finding 5

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [2]
July 1, 2004, through June 30, 2005 (continued)				
Total direct and indirect costs	196,487	162,667	$ (33,820)	
Number of absentee ballots cast	÷ 69,748	÷ 63,584	(6,164)	Finding 3
Cost per absentee ballot cast [1]	$2.82	$2.56		
Number of reimbursable absentee ballots	× 62,640	× 56,476	(6,164)	Finding 3
Total cost of reimbursable absentee ballots [1]	176,463	144,483	$ (31,980)	
Less offsetting savings/reimbursements	—	(52,365)	(52,365)	Finding 4
Total program costs	$ 176,463	92,118	$ (84,345)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ (92,118)		
July 1, 2005, through June 30, 2006				
Direct costs:				
Salaries [3]	$ 93,092	$ 42,876	$ (50,216)	Finding 1
Services and supplies	342,609	197,627	(144,982)	Finding 2
Total direct costs	435,701	240,503	(195,198)	
Indirect costs	150,194	53,445	(96,749)	Finding 5
Total direct and indirect costs	585,895	293,948	$ (291,947)	
Number of absentee ballots cast	÷ 86,607	÷ 80,076	(6,531)	Finding 3
Cost per absentee ballot cast [1]	$6.76	$3.67		
Number of reimbursable absentee ballots	× 78,805	× 72,274	(6,531)	Finding 3
Total cost of reimbursable absentee ballots [1]	533,112	265,308	$ (267,804)	
Less offsetting savings/reimbursements	—	(45,394)	(45,394)	Finding 4
Total program costs	$ 533,112	219,914	$ (313,198)	
Less amount paid by the State		(442,492)		
Allowable costs claimed in excess of (less than) amount paid		$ (222,578)		
Summary: July 1, 2002, through June 30, 2006				
Total cost of reimbursable absentee ballots	$ 1,070,002	$ 747,686	$ (322,316)	
Less offsetting savings/reimbursements	—	(162,329)	(162,329)	
Less late filing penalty	(2,000)	(2,000)	—	
Less allowable costs that exceed costs claimed	—	(51,705)	(51,705)	
Total program costs	$ 1,068,002	531,652	$ (536,350)	
Less amount paid by the State		(442,492)		
Allowable costs claimed in excess of (less than) amount paid		$ 89,160		

[1] Calculation differences because of rounding.

[2] See the Revised Findings and Recommendations section.

[3] Includes related benefits.

[4] Government Code section 17568 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.

Revised Findings and Recommendations

FINDING 1—
Unsupported salaries and benefits

The county claimed unsupported salaries and benefits totaling $91,015.

During the November 2008 general election, the county performed a time study to document mandate-related time spent by permanent and temporary employees. The county summarized the time study results and extrapolated the results to support salaries and benefits claimed during the audit period. We reviewed the county's documentation and identified the following issues:

Permanent Employees

The county extrapolated mandate-related hours for two permanent employees. The county extrapolated hours based on 1,025.5 hours worked that were applicable to the November 2008 election. One employee worked 1,023.5 of the 1,025.5 total hours. The county provided this employee's timesheets for the period of August 30, 2008, through December 19, 2008, to support the mandate-related hours worked. However, the timesheets indicate that the employee performed non-mandate-related activities during the period from August 30, 2008, through September 12, 2008. The employee confirmed that he did not perform mandate-related activities during that period. As a result, allowable mandate-related time worked totaled 939 hours for permanent employees.

Temporary Employees

The county extrapolated mandate-related hours for various temporary employees. The county hired these employees from two employment agencies, Manpower and Spherion. The county extrapolated hours based on 2,705 hours worked that were applicable to the November 2008 election.

Of the total hours worked, 2,194 hours are applicable to Spherion employees. During the period from October 6, 2008, through October 19, 2008, these employees worked 408 hours. The county provided timesheets to support the hours worked during this period. One employee's timesheet did not identify the activity performed. As a result, 33 hours are unallowable. For the remaining 1,786 hours worked, the county did not provide timesheets to document the activity performed; thus, these hours are unallowable. Temporary employees' allowable mandate-related time worked totaled 886 hours.

Extrapolation of Time Study Results

The county incorrectly extrapolated the time study results. The county calculated the time spent per "eligible absentee ballot cast" for the November 2008 election. The "eligible absentee ballots cast" represent the total number of absentee ballots less "mail-precinct ballots." (The term "mail-precinct ballots" refers to those ballots that the county issued pursuant to Election Code section 3005.) The county then applied the time per eligible absentee ballot cast to the number of eligible absentee ballots cast for each election during the audit period.

For the November 2008 election, employees spent time related to both eligible absentee ballots cast and mail-precinct ballots. Therefore, the county cannot exclude mail-precinct ballots when calculating the time spent per absentee ballot.

We calculated allowable salaries and benefits based on the allowable permanent and temporary employee hours and the appropriate calculation of time spent per absentee ballot. The following table summarizes the audit adjustment:

	Fiscal Year				
	2002-03	2003-04	2004-05	2005-06	Total
Salaries	$(48,101)	$ (7,149)[1]	$ 21,339 [1]	$(50,216)[1]	$(84,127)
Benefits	(6,888)	—	—	—	(6,888)
Audit adjustment	$(54,989)	$ (7,149)	$ 21,339	$(50,216)	$(91,015)

[1] Includes related benefits.

The program's parameters and guidelines require counties to report actual costs. The parameters and guidelines state:

> Actual costs are those costs actually incurred to implement the mandated activities. 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. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

The parameters and guidelines identify the following reporting requirements for salaries and benefits:

> Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate. . . . Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

Recommendation

We recommend that the county maintain contemporaneous time records supporting the actual time that employees spend performing mandate-related activities.

County's Response

In its response to our draft audit report dated February 6, 2009, the county agreed that the audit evidence provided a reasonable basis for the audit finding. The county stated that it would submit time study documentation to support the claimed salaries and benefits. We issued our final audit report on April 15, 2009. The county submitted the following response on August 19, 2009:

The SCO audit disallowed all of the County claimed Salaries, Benefits, and related Indirect Costs due to lack of supporting time records. . . .

The SCO advised that the County may apply appropriate time spent during the November 2008 election to the audit period. . . .

The following table summarizes the County's review of the Audit Report and subsequent time study:

FY 2002-03 through FY 2005-06

	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	County Review	Review Adjustment
Salaries	$ 212,417.00	$ —	$(212,417.00)	$ 280,493.13	$ 280,493.13
Benefits	$ 9,298.00	$ —	$ (9,298.00)	$ —	$ —
Indirect Costs	$ 242,977.73	$ —	$(242,977.73)	$ 278,758.90	$ 278,758.90
Total	**$ 464,692.73**	**$ —**	**$(464,692.73)**	**$ 559,252.04**	**$ 559,252.04**

The Salaries and Benefits amounts were calculated with the following formulas:

Mandate Hours Worked during the November 2008 election (A)
Absentee Ballots Cast during November 2008 election (B)
Absentee Ballots Cast during an election in the time period (C)
Mandate Hours Worked during election (D) = (A * (C/B))

Mandate Hours Worked during election (D)
Employee Salary and Benefit Rate during an election in the time period (E)
Salaries and Benefits cost for election (F) = (D * E)

County used the indirect cost rate as determined by the SCO in Finding 5 of the audit. The County agrees with Finding 5.

SCO's Comment

We revised our audit finding based on the allowable salaries and benefits that are supported by extrapolating the county's November 2008 election time study documentation.

FINDING 2—Overstated and understated services and supplies claimed

The county overstated and understated claimed services and supplies, which resulted in unallowable costs totaling $146,063. The overstated costs occurred because the county claimed unallowable and unsupported costs. The understated costs occurred because the county did not claim applicable sales tax in FY 2002-03 and mandate-related costs applicable to one election conducted in FY 2003-04.

The following table summarizes the audit adjustment for services and supplies claimed:

	Fiscal Year				
	2002-03	2003-04	2004-05	2005-06	Total
Services and supplies:					
Audit adjustment	$ (20,286)	$ 96,493	$ (77,288)	$ (144,982)	$ (146,063)

Following is the detailed audit adjustment for each fiscal year.

Fiscal Year 2002-03

The county claimed unsupported costs totaling $18,325 for setup charges, absentee ballot envelopes, and incoming postage charges. The county did not provide documentation supporting these costs.

In addition, the county claimed unsupported outgoing absentee ballot postage costs totaling $6,742. The county claimed outgoing postage costs totaling $25,293 based on a rate of $0.52 per ballot and 48,641 ballots mailed. However, the county did not provide documentation to support the actual number of ballots that it mailed. As a result, we allowed $18,551 based on the claimed postage rate and 35,675 absentee ballots that the county received from voters.

The county also understated allowable costs by $4,781 because it did not claim sales tax attributable to allowable absentee ballot printing and card stock costs.

The following table summarizes the FY 2002-03 audit adjustment:

Item	Actual Costs Claimed	Allowable per Audit	Audit Adjustment
Absentee ballot printing	$ 49,211	$ 49,211	$ —
Card stock	16,740	16,740	—
Setup	6,243	—	(6,243)
Envelopes	10,409	—	(10,409)
Subtotal	82,603	65,951	(16,652)
Sales tax @ 7.25%	—	4,781	4,781
Outgoing postage	25,293	18,551	(6,742)
Incoming postage	1,673	—	(1,673)
Total	$ 109,569	$ 89,283	$ (20,286)

Fiscal Year 2003-04

The county understated allowable costs because it did not claim costs related to the October 7, 2003, statewide special election. We allowed ballot printing, card stock, setup, and applicable sales tax costs based on invoices that the county provided. We also allowed outgoing absentee ballot postage costs based on the $0.37 minimum first-class postage rate and 42,721 absentee ballots that the county received from voters.

The county claimed unsupported costs related to the March 2, 2004, presidential primary election. The county claimed services and supplies totaling $99,787. However, the county did not reconcile claimed costs to supporting documentation. Of the total amount claimed, the county claimed outgoing absentee ballot postage costs totaling $29,403 based on a rate of $0.52 per ballot and 56,544 ballots mailed. However, the county did not provide documentation to support the actual number of ballots that it mailed. As a result, we allowed $18,919 based on the claimed postage rate and 36,382 absentee ballots that the county received from voters. We also allowed ballot printing, card stock, setup, envelope, and applicable sales tax costs based on invoices that the county provided. The county did not provide documentation supporting claimed costs for incoming postage.

The following table summarizes the FY 2003-04 audit adjustment:

Item	Actual Costs Claimed	Allowable per Audit	Audit Adjustment
Absentee ballot printing:			
October 2003 election	$ —	$ 57,084	$ 57,084
March 2004 election	38,781	17,940	(20,841)
Card stock:			
October 2003 election	—	17,252	17,252
March 2004 election	12,464	6,084	(6,380)
Setup:			
October 2003 election	—	19,921	19,921
March 2004 election	5,544	21,732	16,188
Envelopes:			
October 2003 election	—	—	—
March 2004 election	12,100	10,620	(1,480)
Subtotal	68,889	150,633	81,744
Sales tax @ 7.25%	—	10,921	10,921
Outgoing postage:			
October 2003 election	—	15,807	15,807
March 2004 election	29,403	18,919	(10,484)
Incoming postage:			
October 2003 election	—	—	—
March 2004 election	1,495	—	(1,495)
Total	$ 99,787	$ 196,280	$ 96,493

Fiscal Year 2004-05 and Fiscal Year 2005-06

The county claimed unsupported costs totaling $77,288 for FY 2004-05 and $144,982 for FY 2005-06.

In our final audit report dated April 15, 2009, we identified allowable costs totaling $23,526 for FY 2004-05 and $155,716 for FY 2005-06. On August 19, 2009, the county submitted additional documentation to support allowable costs totaling $99,317 for FY 2004-05 and $217,912 for FY 2005-06.

During the November 2008 election, the county performed a time study to document mandate-related time spent by permanent and temporary employees. The county also identified absentee ballot services and supplies for the election. The county extrapolated the November 2008 election costs to calculate allowable services and supplies for FY 2004-05 and FY 2005-06.

We reviewed the county's documentation supporting its August 19, 2009 response and identified the following issues:

Understated Services and Supplies for November 2008 Election

The county reported November 2008 election services and supplies totaling $142,988. On October 29, 2009, the county revised the reported costs to $161,209. We reviewed the county's supporting documentation and concluded that the revised amount reported is appropriate.

Extrapolation of Time Study Results

The county incorrectly extrapolated the November 2008 election services and supplies to calculate allowable services and supplies for the FY 2004-05 and FY 2005-06 elections. The county calculated the services and supplies per "eligible registered absentee voter" for the November 2008 election. The "eligible registered absentee voters" represent the total number of registered absentee voters less registered "mail-precinct voters." (The term "mail-precinct voters" refers to those voters who receive absentee ballots pursuant to Election Code section 3005.) The county then applied the cost per eligible registered absentee voter to the number of eligible registered absentee voters for each election during FY 2004-05 and FY 2005-06.

The November 2008 election services and supplies include costs attributable to both eligible registered absentee voters and mail-precinct voters. Therefore, the county cannot exclude mail-precinct voters when calculating the services and supplies per registered absentee voter. The following table summarizes the allowable November 2008 election services and supplies per registered absentee voter:

	Costs Reported August 19, 2009	Allowable Costs
November 2008 services and supplies	$ 142,988	$ 161,209
Registered absentee voters	÷ 79,738	÷ 88,471
November 2008 services and supplies per registered absentee voter	$1.79	$1.82

Overstated Number of Eligible Registered Absentee Voters

For FY 2005-06, the county overstated the number of eligible registered absentee voters because it understated the number of registered mail-precinct voters. The county reported registered mail-precinct voters totaling 3,526 and 8,477 for the November 2005 and June 2006 elections, respectively. On October 29, 2009, the county revised the number of registered mail-precinct voters to 12,940 for the November 2005 election and to 11,721 for the June 2006 election. We concluded that each election's official voting statistics support the revised numbers.

Consumer Price Index

The county used incorrect Consumer Price Index (CPI) adjustments to extrapolate November 2008 election services and supplies to FY 2004-05 and FY 2005-06 elections. The county used CPI statistics for all urban consumers, all items, for the San Francisco-Oakland-San Jose area. The county used CPI data as of February 2004, 2005, 2006, and 2008 to extrapolate costs. We calculated allowable costs by using CPI data immediately preceding each election. The following table summarizes the CPI data and identifies the relationship between November 2008 election costs and FY 2004-05 and FY 2005-06 election costs:

Period	CPI	Relative to October 2008
October 2004 (for November 2004 election)	200.300	0.887
October 2005 (for November 2005 election)	205.900	0.912
June 2006 (for June 2006 election)	209.100	0.926
October 2008 (for November 2008 election)	225.824	1.000

The following table summarizes the audit adjustment for services and supplies claimed:

	Costs Reported August 19, 2009	Allowable Costs
Fiscal Year 2004-05		
November 2004 election:		
November 2004 eligible registered absentee voters	61,399	61,399
November 2008 services and supplies per registered absentee voter	× $1.79	× $1.82
Subtotal [1]	$ 110,102	$ 111,746
Consumer price index adjustment	× 0.902	× 0.887
Total services and supplies [1]	$ 99,317	$ 99,119
Claimed services and supplies		(176,407)
Audit adjustment, FY 2004-05		$ (77,288)
Fiscal Year 2005-06		
November 2005 election:		
November 2005 eligible registered absentee voters	68,631	59,217
November 2008 services and supplies per registered absentee voter	× $1.79	× $1.82
Subtotal [1]	$ 123,071	$ 107,775
Consumer price index adjustment	× 0.916	× 0.912
Total services and supplies, November 2005 election [1]	$ 112,752	$ 98,291
June 2006 election:		
June 2006 eligible registered absentee voters	62,186	58,942
November 2008 services and supplies per registered absentee voter	× $1.79	× $1.82
Subtotal [1]	$ 111,513	$ 107,274
Consumer price index adjustment	× 0.943	× 0.926
Total services and supplies, June 2006 election [1]	$ 105,160	$ 99,336
Total services and supplies	$ 217,912	197,627
Claimed services and supplies		(342,609)
Audit adjustment, FY 2005-06		$ (144,982)

[1] Calculation differences due to rounding.

The parameters and guidelines require claimants to report actual costs. The parameters and guidelines state:

> Actual costs are those costs actually incurred to implement the mandated activities. 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. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Recommendation

We recommend that the county claim only those mandate-related costs that are supported by source documentation.

County's Response

In its response to our draft audit report dated February 6, 2009, the county agreed with this finding. We issued our final audit report on April 15, 2009. The county submitted the following response on August 19, 2009:

> For FY 2002-03, 2004-05, and 2005-06, the SCO audit found less allowable Services and Supplies costs than claimed by the County. For FY 2003-04, the SCO audit found more allowable costs than claimed by the County. The County agrees that the audit evidence provides a reasonable basis for the audit finding.
>
> The County agrees with Finding 2 for FY 2002-03 and 2003-04. The County applied Services and Supplies costs for the November 2008 election to the audit time period for FY 2004-05 and 2005-06.
>
> The following table summarizes the County's review of the Audit Report and subsequent time study:

	FY 2002-03 through FY 2005-06				
	Actual Costs Claimed	**Allowable per Audit**	**Audit Adjustment**	**County Review**	**Review Adjustment**
Services and Supplies	$ 728,372.00	$ 464,805.00	$(263,567.00)	$ 602,791.86	$ 137,986.86

> The Services and Supplies amounts were calculated with the following formulas:
>
> Mandate costs during the November 2008 election (A)
> Absentee Ballots Voters during November 2008 election (B)
> Absentee Ballots Voters during an election in the time period (C)
> Mandate cost in 2008 dollars during election (D) – (A * (C/B))
>
> Mandate costs in 2008 dollars during election (D)
> Consumer Price Index (CPI) conversion factor for year (E)
> Mandate cost in appropriate dollars for election (F) = (D * E)

The county's calculation of the "county review" amount is comprised of the following costs per fiscal year:

	County Review
Services and supplies:	
FY 2002-03	$ 89,283
FY 2003-04	196,280
FY 2004-05	99,317
FY 2005-06	217,912
Total services and supplies	$ 602,792

SCO's Comment

We revised our audit finding based on the allowable FY 2004-05 and FY 2005-06 services and supplies that are supported by extrapolating November 2008 election costs.

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

The county understated the number of total ballots cast in FY 2002-03 and FY 2003-04. The county either understated or overstated the number of absentee ballots cast in all fiscal years. The understated and overstated ballots cast occurred because of the following reasons:

- In its FY 2002-03 claim, the county understated the total ballots cast. The county reported 86,193 total ballots cast; however, its official "Statement of Vote" documents 89,434 total ballots cast. In addition, the county overstated the number of absentee ballots cast. It reported 38,920 absentee ballots cast; however, its official Statement of Vote documents 35,675 absentee ballots cast.

- In its FY 2003-04 claim, the county understated both the number of total ballots cast and the number of absentee ballots cast. The county reported ballots cast from only one of the two mandate-related elections that it conducted. The county conducted mandate-related elections during October 2003 and March 2004. The county reported 86,193 total ballots cast and 40,321 absentee ballots cast. For both elections combined, its official Statements of Vote document 166,901 total ballots cast and 79,103 absentee ballots cast.

- In its FY 2004-05 and FY 2005-06 claims, the county overstated the number of absentee ballots cast because it incorrectly included "mail-precinct ballots" as absentee ballots cast (the term "mail-precinct ballots" refers to 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. Therefore, these costs are not reimbursable under the mandated program. 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 <u>may</u> [emphasis added] furnish each voter with an absentee ballot along with a statement that there will be no polling place for the election."

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 and the number of absentee ballots cast directly affect the calculation of the number of reimbursable absentee ballots.

The following table summarizes the audit adjustment for the number of total ballots cast, number of absentee ballots cast, and number of reimbursable absentee ballots:

	Number of Ballots		
	Claimed	Allowable	Audit Adjustment
Fiscal Year 2002-03			
Ballots cast, 01/01/75–12/30/78 (W)	345,027	345,027	—
Absentee ballots cast, 01/01/75–12/30/78 (X)	19,349	19,349	—
Ballots cast in FY 2002-03 (Y)	86,193	89,434	3,241
Absentee ballots cast in FY 2002-03 (Z) [1]	38,920	35,675	(3,245)
Additional absentee ballot filings ((Z) – [(X) ÷ (W) × (Y)]) [1]	34,086	30,660	(3,426)
Fiscal Year 2003-04			
Ballots cast, 01/01/75–12/30/78 (W)	345,027	345,027	—
Absentee ballots cast, 01/01/75–12/30/78 (X)	19,349	19,349	—
Ballots cast in FY 2003-04 (Y)	86,193	166,901	80,708
Absentee ballots cast in FY 2003-04 (Z) [1]	40,321	79,103	38,782
Additional absentee ballot filings ((Z) – [(X) ÷ (W) × (Y)]) [1]	35,487	69,743	34,256
Fiscal Year 2004-05			
Ballots cast, 01/01/75–12/30/78 (W)	345,027	345,027	—
Absentee ballots cast, 01/01/75–12/30/78 (X)	19,349	19,349	—
Ballots cast in FY 2004-05 (Y)	126,751	126,751	—
Absentee ballots cast in FY 2004-05 (Z) [1]	69,748	63,584	(6,164)
Additional absentee ballot filings ((Z) – [(X) ÷ (W) × (Y)]) [1]	62,640	56,476	(6,164)
Fiscal Year 2005-06			
Ballots cast, 01/01/75–12/30/78 (W)	345,027	345,027	—
Absentee ballots cast, 01/01/75–12/30/78 (X)	19,349	19,349	—
Ballots cast in FY 2005-06 (Y)	139,130	139,130	—
Absentee ballots cast in FY 2005-06 (Z) [1]	86,607	80,076	(6,531)
Additional absentee ballot filings ((Z) – [(X) ÷ (W) × (Y)]) [1]	78,805	72,274	(6,531)

[1] Carries forward to Revised Schedule 1, Summary of Program Costs.

Recommendation

We recommend that the county report the number of total ballots cast and the number of absentee ballots cast that its official statement of vote supports. We recommend that the county report ballots cast for all mandate-related elections that it conducts. In addition, we recommend that the county exclude mail-precinct ballots when reporting the number of absentee ballots cast on its mandated cost claims.

County's Response

In its response to our draft audit report dated February 6, 2009, the county agreed with this finding. We issued our final audit report on April 15, 2009. The county submitted the following response on August 19, 2009:

> The SCO audit determined that the number of Ballots Cast and Absentee Ballots Cast claimed by the County was not accurate. The County agrees that the audit evidence provides a reasonable basis for the audit finding.
>
> Upon review of the documentation, County adjusts by approximately 2% the number of reimbursable absentee ballots. The difference may be due to greater experience by the County in understanding the specialized abbreviations and nomenclature in Statements of Votes for the time period.
>
> The following table summarizes the County's review of the Audit Report and subsequent time study:

	FY 2002-03 through FY 2005-06				
	Actual Costs Claimed	**Allowable per Audit**	**Audit Adjustment**	**County Review**	**Review Adjustment**
Ballots cast	438,267	522,216	83,949	522,216	—
Absentee ballots cast	235,596	258,438	22,840	263,126	4,688
Reimbursable absentee ballots	211,018	229,152	18,134	233,840	4,688

In an e-mail dated October 19, 2009, a county representative stated that the "county review" figures identified above are incorrect. The county stated that the number of absentee ballots cast should be 255,931 and the number of reimbursable absentee ballots should be 226,645.

SCO's Comment

Our finding and recommendation remain unchanged. The county did not provide any documentation to support the figures that it provided in either its August 19, 2009 response or its October 19, 2009 e-mail message.

FINDING 4—
Understated offsetting savings/reimbursements

The county did not report mandate-related offsetting savings/ reimbursements totaling $162,329.

The county's records show that it received $2,672,517 for "election services" that it provided during the audit period, which includes revenue attributable to absentee ballots. However, the county did not provide documentation identifying what portion was attributable to absentee ballots.

On August 19, 2009, the county estimated offsetting savings/reimbursements for the audit period by extrapolating FY 2007-08 offsetting savings/reimbursements. The county calculated offsetting savings/reimbursements totaling $102,876. We reviewed the county's documentation and identified the following issues:

- The county indicated that it received $42,911 in offsetting savings/reimbursements from cities and special districts during FY 2007-08. The county did not provide any documentation supporting this amount.

- The county extrapolated offsetting savings/reimbursements based on FY 2007-08 data. However, the county extrapolated salaries, benefits, and services and supplies to the audit period based on its November 2008 election (FY 2008-09).

On October 29, 2009, the county revised its calculation of offsetting savings/reimbursements attributable to the audit period. The county calculated offsetting savings/reimbursements totaling $143,825. The county calculated offsetting savings/reimbursements using the following methodology:

- The county identified the November 2008 election absentee ballot costs, consisting of salaries, benefits, and services and supplies (ballot printing and mailing).

- The county prorated the absentee ballot costs to each jurisdiction that had ballot issues during the election (state, county, cities, school districts, and special districts).

- The county identified the jurisdictions that reimbursed the county for absentee ballot costs and the total offsetting savings/reimbursements for FY 2008-09.

- The county calculated a ratio of the FY 2008-09 offsetting savings/reimbursements versus total FY 2008-09 election services revenue. The county applied this ratio to the total election services revenue for FY 2002-03 through FY 2005-06 to calculate the offsetting savings/reimbursements for the audit period.

We reviewed the county's documentation supporting its October 29, 2009 calculation and identified the following issues:

- The county understated offsetting savings/reimbursements because it understated the November 2008 election absentee ballot costs by understating ballot printing and mailing costs. The county identified ballot printing and mailing costs totaling $136,178. The allowable costs total $161,209, as shown in Finding 2. The table below summarizes the November 2008 election absentee ballot costs:

	(A) Reported Costs	(B) Allowable Costs	Adjustment Factor (Cols. (B) ÷ (A))
November 2008 election absentee ballot costs:			
Ballot printing and mailing	$ 136,178	$ 161,209	
County employees	29,799	29,799	
Temporary staff	59,089	59,089	
Total	$ 225,066	$ 250,097	111.12%

- The county overstated offsetting savings/reimbursements attributable to the November 2008 election. The county included offsetting savings/reimbursement totaling $4,966 that was attributable to the June 2008 election.

  The following table summarizes the FY 2008-09 offsetting savings/ reimbursements that the county reported and the allowable offsetting savings/reimbursements attributable to the November 2008 election, adjusted for the understated absentee ballot printing and mailing costs:

	(A) Reported Costs	(B) Adjustment Factor	Adjustment Factor (Cols. (A) × (B)) [1]
November 2008 election	$ 64,562	111.12%	$ 71,742
June 2008 election	4,966	0.00%	—
Total	$ 69,528		$ 71,742

[1] Calculation differences due to rounding.

- The county extrapolated FY 2005-06 offsetting savings/ reimbursements based on the incorrect FY 2005-06 total election services revenue. The county extrapolated offsetting savings/ reimbursements based on total elections services revenue of $566,723; the correct amount is $817,469.

The following table summarizes offsetting savings/reimbursements as a percentage of total election services revenue for FY 2007-08 data that the county reported on August 19, 2009; FY 2008-09 data that the county reported on October 29, 2009; and the allowable November 2008 election data:

	Reported August 19, 2009, for FY 2007-08	Reported October 29, 2009, for FY 2008-09	Allowable for November 2008 Election
November 2008 election absentee ballot costs:			
Offsetting savings/reimbursements (OSR)	$ 42,911	$ 69,528	$ 71,742
Total election services revenue (ESR)	÷ 1,114,742	÷ 1,291,955	÷ 1,291,955
OSR as a percentage of ESR (OSR %)	3.849%	5.382%	5.553%

For the audit period, the following table summarizes the offsetting savings/reimbursements that the county reported on August 19, 2009, and October 29, 2009, the allowable offsetting savings/reimbursements, and the audit adjustment.

	Fiscal Year				
	2002-03	2003-04	2004-05	2005-06	Total
Offsetting savings/ reimbursements reported August 19, 2009:					
OSR %	3.849%	3.849%	3.849%	3.849%	
ESR	×$(647,034)	$ × (515,762)	×$(942,998)	×$(566,723)	
Total [1]	$ (24,907)	$ (19,854)	$ (36,300)	$ (21,815)	$ (102,876)
Offsetting savings/ reimbursements reported October 29, 2009:					
OSR %	5.382%	5.382%	5.382%	5.382%	
ESR	×$(647,034)	$ × (515,762)	×$(942,998)	×$(566,723)	
Total [1]	$ (34,821)	$ (27,756)	$ (50,749)	$ (30,499)	$ (143,825)
Allowable offsetting savings/reimbursements:					
OSR %	5.553%	5.553%	5.553%	5.553%	
ESR	×$(647,034)	$ × (515,762)	×$(942,998)	×$(817,469)	
Total [1]	(35,930)	(28,640)	(52,365)	(45,394)	(162,329)
Claimed offsetting savings/reimbursements	—	—	—	—	—
Audit adjustment	$ (35,930)	$ (28,640)	$ (52,365)	$ (45,394)	$ (162,329)

[1] Calculation differences due to rounding.

The parameters and guidelines state:

> Reimbursement for this mandate from any source, including but not limited to, service fees collected, federal funds, and other state funds, shall be identified and deducted from this claim.

Recommendation

We recommend that the county maintain sufficient documentation to identify the source and purpose of revenues received and deduct applicable offsetting savings/reimbursements on its mandated cost claims.

County's Response

In its response to our draft audit report dated February 6, 2009, the county disagreed with the audit finding. However, the county did not state why it disagreed, nor did it provide any additional supporting documentation. We issued our final audit report on April 15, 2009. The county submitted the following response on August 19, 2009:

> The SCO audit determined that the County understated the amount of offsetting reimbursements by $1,151,811. The County disagrees with the audit finding.
>
> The following table summarizes the County's review of the Audit Report and subsequent time study:

	FY 2002-03 through FY 2005-06				
	Actual Costs Claimed	**Allowable per Audit**	**Audit Adjustment**	**County Review**	**Review Adjustment**
Offsetting savings/ reimburse-ments	$ —	$ (1,151,811)	$ (1,151,811)	$(102,876)	$ 1,048,935

> Offsetting Reimbursements during FY 2007-08 (A)
> Election Services revenue during FY 2007-08 (B)
> Election Services revenue during FY (C)
> Offsetting Reimbursements during FY (D) = (A * (C/B))

On October 29, 2009, the district submitted revised documentation. The district extrapolated FY 2008-09 data to calculate offsetting savings/ reimbursements totaling $143,825.

SCO's Comment

Based on the additional documentation that the county submitted, we revised the finding to reduce the audit adjustment by $989,482. Our recommendation is unchanged.

FINDING 5—Understated and overstated indirect cost rates

The county understated its indirect cost rates for FY 2002-03, FY 2003-04, and FY 2004-05 and overstated its rate for FY 2005-06. The understated and overstated indirect cost rates, along with the unallowable salaries and benefits identified in Finding 1, resulted in unallowable indirect costs totaling $113,115 for the audit period.

The county understated and overstated its indirect cost rates for the following reasons:

- In all fiscal years, the county did not consistently allocate its other operating expenses to direct and indirect cost categories. We reallocated those costs to the appropriate category.
- In its FY 2004-05 indirect cost rate proposal (ICRP), the county allocated one employee's salaries and benefits to the indirect cost pool. However, on its mandated cost claim, the county claimed direct costs that included part of the employee's costs. In all other fiscal years' ICRPs, the county allocated the employee's costs as direct costs. We reallocated the employee's FY 2004-05 costs to the direct cost category.
- In its FY 2005-06 ICRP, the county reported incorrect salaries and benefits for its direct cost base. The county reported FY 2004-05 costs rather than FY 2005-06 costs.
- On December 20, 2006, the county's former Registrar of Voters pleaded no contest to embezzlement, forgery, and grand theft charges related to inappropriate county-issued credit card expenses. The credit card expenses included both legitimate and questionable expenses. The county District Attorney's Office provided a detailed list of questionable credit card expenses incurred during the audit period.

For the FY 2002-03, FY 2003-04, and FY 2004-05 ICRPs, the county reported the questionable credit card expenses as direct costs. Therefore, the questionable expenses did not affect the county's indirect cost rates for those fiscal years. During FY 2005-06, the county allocated all credit card expenses to various operating expense accounts. The various operating expense accounts included some accounts that the county included in its indirect cost pool. The county did not provide documentation to trace each credit card expense to a specific operating expense account. Therefore, we identified a percentage of questionable credit card expenses versus total credit card charges. We applied this percentage to all credit card expenses that the county allocated to indirect cost pool accounts to identify unallowable indirect cost pool expenses.

The parameters and guidelines require that the county prepare its indirect cost rate proposals according to Office of Management and Budget (OMB) Circular A-87 (Title 2, *Code of Federal Regulations*, Part 225). OMB Circular A-87 provides the following guidance:

- Attachment A, Part C, states that a cost is allocable to a particular cost objective in accordance with the relative benefit received.
- Attachment A, Part D, states, "it is essential that each item of cost be treated consistently in like circumstances either as a direct or indirect cost."

- Attachment E, Part A, states that a cost may not be allocated as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been charged as a direct cost.

The following table summarizes the indirect cost rate audit adjustments:

	Costs Reported	Allowable Costs	Audit Adjustment
Fiscal Year 2002-03			
Direct costs:			
Salaries and benefits (A)	$ 477,967	$ 477,967	$ —
Indirect costs:			
Graphics charges	$ 5,809	$ —	$ (5,809)
Equipment rental – general	—	3,737	3,737
Computer software, upgrades, licensing, and maintenance	—	79,130	79,130
Other	364,816	364,816	—
Total indirect costs (B)	$ 370,625	$ 447,683	$ 77,058
Indirect cost rate ((B) ÷ (A))	77.54%	93.66%	
Fiscal Year 2003-04			
Direct costs:			
Salaries and benefits (C)	$ 483,632	$ 483,632	$ —
Indirect costs:			
Graphics charges	$ 6,227	$ —	$ (6,227)
Equipment rental–general	—	9,223	9,223
Computer software, upgrades, licensing, and maintenance	—	71,884	71,884
Other	297,110	297,110	—
Total indirect costs (D)	$ 303,337	$ 378,217	$ 74,880
Indirect cost rate ((D) ÷ (C))	62.72%	78.20%	
Fiscal Year 2004-05			
Direct costs:			
Salaries and benefits (E)	$ 357,799	$ 434,108	$ 76,309
Indirect costs:			
Salaries and benefits	$ 76,309	$ —	$ (76,309)
Building rental	—	209,058	209,058
Data processing services	—	4,817	4,817
Other	193,346	193,346	—
Total indirect costs (F)	$ 269,655	$ 407,221	$ 137,566
Indirect cost rate ((F) ÷ (E))	75.37%	93.81%	
Fiscal Year 2005-06			
Direct costs:			
Salaries and benefits (G)	$ 434,108	$ 535,758	$ 101,650
Indirect costs:			
Books and periodicals	$ 2,382	$ —	$ (2,382)
Employee travel	11,512	—	(11,512)
Employee training	10,320	—	(10,320)
Data processing–outside vendors	—	5,718	5,718
Data processing services	—	6,431	6,431
Audio-visual services and supplies	2,462	—	(2,462)
Recruitment advertising	1,053	—	(1,053)
Unallowable credit card expenses	—	(16,974)	(16,974)
Other	672,656	672,656	—
Total indirect costs (H)	$ 700,385	$ 667,831	$ (32,554)
Indirect cost rate ((H) ÷ (G))	161.34%	124.65%	

Based on the allowable salaries, benefits, and indirect cost rates, the following table summarizes the audit adjustment:

	Fiscal Year				
	2002-03	2003-04	2004-05	2005-06	Total
Allowable salaries	$ 14,546	$ 38,079	$ 32,789	$ 42,876	$ 128,290
Allowable benefits	2,410	—	—	—	2,410
Total salaries and benefits	16,956	38,079	32,789	42,876	$ 130,700
Allowable indirect cost rate	× 93.66%	× 78.20%	× 93.81%	×124.65%	
Allowable indirect costs	15,881	29,778	30,759	53,445	$ 129,863
Indirect costs claimed	(55,787)	(28,367)	(8,630)	(150,194)	(242,978)
Audit adjustment	$ (39,906)	$ 1,411	$ 22,129	$ (96,749)	$(113,115)

Recommendation

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

- Consistently allocate similar costs in like circumstances as direct or indirect costs in each fiscal year.
- Ensure that the indirect cost pool does not include any costs that the county has charged directly to any state or federal programs, including mandated cost programs.
- Ensure that ICRP costs reported agree with the county's financial records for the applicable fiscal year.
- Exclude any unallowable costs from the indirect cost pool.

County's Response

In its response to our draft audit report dated February 6, 2009, the county agreed with the audit finding. We issued our final audit report on April 15, 2009. The county's response dated August 19, 2009, states "The County agrees with Finding 5."

SCO's Comment

Our final audit report dated April 15, 2009, identified all claimed indirect costs as unallowable in Finding 1. In this revised final audit report, we revised Finding 1 based on additional documentation that the county submitted. We revised this finding to identify all unallowable indirect costs that resulted from overstated and understated indirect cost rates and unallowable salaries and benefits that we identified in Finding 1. Our recommendation is unchanged.

Attachment 1—
County's Response to
Revised Final Audit Report

MONTEREY COUNTY

AUDITOR - CONTROLLER
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MICHAEL J. MILLER, CPA, CISA
AUDITOR-CONTROLLER

ALFRED R. FRIEDRICH, CGFM
ASSISTANT AUDITOR-CONTROLLER

March 20, 2009

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

SUBJECT: Absentee Ballots Program
July 1, 2002, through June 30, 2006

Please accept this letter as Monterey County's initial response to the State Controller's Draft Audit Report for the subject claims. As described in the draft report, the audit disallows the entire claim total of $1,068,002, due to unsupported and non-mandate-related costs, incorrectly reported total ballots cast and absentee ballots cast, and failure to report offsetting revenues received. Of the unallowable total, the State has paid $709,575, which the State proposes to offset from other mandated program payments due the County.

At this time, we are in agreement that the evidence obtained through the audit provides a reasonable basis for each of the findings, excepting Finding 4, and the overall conclusions in the draft audit report. Due to factors described in the audit report, since remedied, we concur that adequate documentation was not provided to support the subject claims. As we have discussed with State Controller's audit staff, it is our intent to document actual mandate-related time spent during the November 2008 general election and to request the time study be re-opened in order to apply the results to the subject claims period. It is our understanding that if the County submits time study results validated by source documentation, the final audit report will be revised as warranted. We anticipate that new documentation will be submitted for reconsideration by no later August 20, 2009. We respectfully request that the State defer proposed withholding of other mandated program payments through at least this additional period.

We understand that this response will be included as part of the final audit report, to be issued by your office within the next five to seven weeks. We appreciate the professionalism and courtesy afforded by State Audit staff throughout the course of the subject audit, as well as the ongoing

advice and assistance in allowing Monterey County the opportunity to develop and submit appropriate documentation in support of these claims.

Sincerely,

Michael J. Miller
Monterey County Auditor-Controller

Sincerely,

Linda Tulett
Monterey County Registrar of Voters

cc: Lew C. Bauman, County Administrative Officer
Rosie Pando, Assistant County Administrative Officer- Budget & Analysis Division

Attachment 2—
County's Response to
Final Audit Report

MONTEREY COUNTY

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MICHAEL J. MILLER, CPA, CISA
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August 19, 2009

Jim L. Spano, Chief
Mandated Cost Audits Bureau
Division of Audits
California State Controller's Office
300 Capitol Mall, 5th Floor
Sacramento, California 95814

SUBJECT: Absentee Ballots Program
July 1, 2002, through June 30, 2006

On April 15, 2009, the State Controller's Office (SCO) released the results of an audit of Monterey County for the Absentee Ballots Program (Chapter 77, Statues of 1978, Chapter 920; Statues of 1994; and Chapter 1032, Statutes of 2002) for the Fiscal Years (FY) 2002-03 through 2005-06. The April 15, 2009 Audit Report also includes an initial response from Monterey County, including a letter indication the County would be conducting a time study during the November 2008 Presidential General Election and would submit additional documentation for reconsideration of the results of the Audit Report by the SCO. This letter, including supportive documentation, serves as the County's results of the time study reflecting that the County under claimed during the 2002 – 2006 years.

The County filed claims of program costs of $1,068,002 – $1,070,002 in expenses less a $2,000 late filing fee less $0 in offsetting reimbursements.

The SCO audit determined allowable program costs of $0 – $411,227 in expenses less a $2,000 late filing fee less $1,151,811 in offsetting reimbursements.

The County's application of the time study resulted in program costs of $928,974 – $1,033,851 in expenses less a $2,000 late filing fee less $102,876 in offsetting reimbursements.

The State has paid the County $709,575 for claims in this time period. The County respectfully requests that the State pay the remaining $219,399 ($928,974 less $709,575) when appropriations are available.

Finding 1
Salaries, Benefits, and related Indirect Costs

The SCO audit disallowed all of the County claimed Salaries, Benefits, and related Indirect Costs due to lack of supporting time records. The County agrees that the audit evidence provides a reasonable basis for the audit finding.
The SCO advised that the County may apply appropriate time spent during the November 2008 election to the audit period. When the County submits documentation to the SCO, the SCO agreed to revise the audit report as warranted.

The following table summarizes the County's review of the Audit Report and subsequent time study:

FY 2002-03 through FY 2005-06

	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	County Review	Review Adjustment
Salaries	$ 212,417.00	$ -	$ (212,417.00)	$ 280,493.13	$ 280,493.13
Benefits	$ 9,298.00	$ -	$ (9,298.00)	$ -	$ -
Indirect Costs	$ 242,977.73	$ -	$ (242,977.73)	$ 278,758.90	$ 278,758.90
Total	**$ 464,692.73**	**$ -**	**$ (464,692.73)**	**$ 559,252.04**	**$ 559,252.04**

The Salaries and Benefits amounts were calculated with the following formulas:

Mandate Hours Worked during the November 2008 election (A)
Absentee Ballots Cast during November 2008 election (B)
Absentee Ballots Cast during an election in the time period (C)
Mandate Hours Worked during election (D) = (A * (C/B))

Mandate Hours Worked during election (D)
Employee Salary and Benefit Rate during an election in the time period (E)
Salaries and Benefits cost for election (F) = (D * E)

County used the indirect cost rate as determined by the SCO in Finding 5 of the audit.
The County agrees with Finding 5.

Finding 2
Services and Supplies

For FY 2002-03, 2004-05, and 2005-06, the SCO audit found less allowable Services and Supplies costs than claimed by the County. For FY 2003-04, the SCO audit found more allowable costs than claimed by the County. The County agrees that the audit evidence provides a reasonable basis for the audit finding.

The County agrees with Finding 2 for FY 2002-03 and 2003-04. The County applied Services and Supplies costs for the November 2008 election to the audit time period for FY 2004-05 and 2005-06.

The following table summarizes the County's review of the Audit Report and subsequent time study:

FY 2002-03 through FY 2005-06

	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	County Review	Review Adjustment
Services and Supplies	$ 728,372.00	$ 464,805.00	$(263,567.00)	$602,791.86	$137,986.86

The Services and Supplies amounts were calculated with the following formulas:

Mandate costs during the November 2008 election (A)
Absentee Ballots Voters during November 2008 election (B)
Absentee Ballots Voters during an election in the time period (C)
Mandate cost in 2008 dollars during election (D) = (A * (C/B))

Mandate cost in 2008 dollars during election (D)
Consumer Price Index (CPI) conversion factor for year (E)
Mandate cost in appropriate dollars for election (F) = (D * E)

Finding 3
Ballots Cast and Absentee Ballots Cast

The SCO audit determined that the number of Ballots Cast and Absentee Ballots Cast claimed by the County was not accurate. The County agrees that the audit evidence provides a reasonable basis for the audit finding.

Upon review of the documentation, County adjusts by approximately 2% the number of reimbursable absentee ballots. The difference may be due to greater experience by the County in understanding the specialized abbreviations and nomenclature in Statements of Votes for the time period.

The following table summarizes the County's review of the Audit Report and subsequent time study:

FY 2002-03 through FY 2005-06

	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	County Review	Review Adjustment
Ballots cast	438,267	522,216	83,949	522,216	-
Absentee ballots	235,596	258,438	22,842	263,126	4,688

cast					
Reimbursable absentee ballots	211,018	229,152	18,134	233,840	4,688

Finding 4
Offsetting Reimbursements

The SCO audit determined that the County understated the amount of offsetting reimbursements by $1,151,811. The County disagrees with the audit finding.

The following table summarizes the County's review of the Audit Report and subsequent time study:

FY 2002-03 through FY 2005-06

	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	County Review	Review Adjustment
Offsetting savings/reimbursements	-	(1,151,811)	(1,151,811)	(102,876)	1,048,935

Offsetting Reimbursements during FY 2007-08 (A)
Election Services revenue during FY 2007-08 (B)
Election Services revenue during FY (C)
Offsetting Reimbursements during FY (D) = (A * (C/B))

We would like to thank the SCO staff for their ongoing advice and assistance in allowing Monterey County the opportunity to develop and submit appropriate documentation in support of these claims.

Sincerely,

Michael J. Miller
Monterey County Auditor-Controller

Sincerely,

Linda Tulett
Monterey County Registrar of Voters

cc: Lew C. Bauman, County Administrative Officer
Rosie Pando, Assistant County Administrative Officer- Budget & Analysis Division

Attachment 3—
County's Response to
Revised Final Audit Report

MONTEREY COUNTY

AUDITOR - CONTROLLER
(831) 755-5040 • FAX (831) 755-5098 • P.O. BOX 390 • SALINAS, CALIFORNIA 93902

MICHAEL J. MILLER, CPA, CISA
AUDITOR-CONTROLLER

ALFRED R. FRIEDRICH, CGFM
ASSISTANT AUDITOR-CONTROLLER

May 28, 2010

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

SUBJECT: Absentee Ballots Program
July 1, 2002, through June 30, 2006

Please accept this letter as Monterey County's (County) response to the State Controller Office's (SCO) Revised Audit Report for the subject claims, dated May 19, 2010.

The initial Audit Report, released April 15, 2009, disclosed that the entire claimed amount of $1,068,002 was disallowed. Monterey County subsequently provided additional supporting documentation. The State Controller's Office, in the Revised Audit Report, increases the allowable amount from $0 to $531,652.

In **Finding 1 - Unsupported salaries and benefits**, section Permanent Employees, the Audit Report states:

> "… timesheets indicate that [an] employee performed non-mandate-related activities during the period from August 30, 2008, through September 12, 2008. The employee confirmed that he did not perform mandate-related activities during that period" (page 6).

The County maintains that the hours are allowable. The employee's timesheet for the relevant period indicate that the employee performed mandate-related activities. The employee does not remember what activities he performed during the time period.

In **Finding 1- Unsupported salaries and benefits**, section Temporary Employees, the Audit Report disallowed 1,786 hours worked by temporary staff. The stated reason is that, "… the county did not provide timesheets to document the activity performed" (page 6).

The County maintains that these hours are also allowable. The SCO and the County disagree over whether the level of detail on the provided timesheets meets the SCO's requirements. The temporary staff that performed the claimed hours are assigned only to mandate-related tasks. In addition, hours are discounted 10% to account for nominal exceptions.

The County requests that the SCO provide the County with an electronic copy of the spreadsheets and other documents used to calculate the allowable amounts in the Revised Audit Report.

The County reserves the right to file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM) no later than three (3) years following the date of the SCO's final audit report.

Sincerely,

Michael J. Miller
Monterey County Auditor-Controller

Sincerely,

Linda Tulett
Monterey County Registrar of Voters

cc: Lew C. Bauman, County Administrative Officer
Rosie Pando, Assistant County Administrative Officer- Budget & Analysis Division

State Controller's Office
Division of Audits
Post Office Box 942850
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http://www.sco.ca.gov

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