

ORANGE COUNTY

Audit Report

ABSENTEE BALLOTS PROGRAM

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

July 1, 2001, through June 30, 2003



STEVE WESTLY
California State Controller

July 2005



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California State Controller

July 22, 2005

The Honorable David E. Sundstrom
Auditor-Controller
Orange County
P.O. Box 567
Santa Ana, CA 92702-0567

Dear Mr. Sundstrom:

The State Controller's Office audited the claims filed by Orange County for costs of 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, 2001, through June 30, 2003.

The county claimed \$1,012,069 for the mandated program. Our audit disclosed that \$1,005,721 is allowable and \$6,348 is unallowable. The unallowable costs occurred because the county overstated salaries, benefits, and indirect costs and understated offsetting revenues. The State paid the county \$83,012. The State will pay allowable costs claimed that exceed the amount paid, totaling \$922,709, contingent upon available appropriations.

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

Sincerely,

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/ams

cc: Steven Rodermund
Registrar Of Voters
Orange County
James Tilton, Program Budget Manager
Corrections and General Government
Department of Finance

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Officials	2
Restricted Use	3
Schedule 1—Summary of Program Costs.....	4
Findings and Recommendations	6
Attachment—County’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the claims filed by Orange County for costs of 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, 2001, through June 30, 2003. The last day of fieldwork was July 20, 2004.

The county claimed \$1,012,069 for the mandated program. Our audit disclosed that \$1,005,721 is allowable and \$6,348 is unallowable. The unallowable costs occurred because the county overstated salaries, benefits, and indirect costs and understated offsetting revenues. The State paid the county \$83,012. The State will pay allowable costs claimed that exceed the amount paid, totaling \$922,709, contingent upon available appropriations.

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 Absentee Ballots mandated 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 [COSM]) 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.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted *Parameters and Guidelines* on August 12, 1982, and last amended it on February 27, 2003. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, in order 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, 2001, through June 30, 2003.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, not funded by another source, and 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* Section 17558.5. 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, Orange County claimed \$1,012,069 for costs of the Absentee Ballots Program. Our audit disclosed that \$1,005,721 is allowable and \$6,348 is unallowable.

For fiscal year (FY) 2001-02, the State paid the county \$83,012. Our audit disclosed that \$431,346 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$348,334, contingent upon available appropriations.

For FY 2002-03, the State made no payment to the county. Our audit disclosed that \$574,375 is allowable, which the State will pay contingent upon available appropriations.

**Views of
Responsible
Officials**

We issued a draft audit report on May 13, 2005. David E. Sundstrom, Auditor-Controller, responded by letter dated June 8, 2005 (Attachment), agreeing with the audit results. This final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Orange 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.

JEFFREY V. BROWNFIELD
Chief, Division of Audits

**Schedule 1—
Summary of Program Costs
July 1, 2001, through June 30, 2003**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 61,973	\$ 59,946	\$ (2,027)	Finding 1
Benefits	6,136	5,817	(319)	Finding 1
Materials and supplies	<u>357,681</u>	<u>357,681</u>	<u>—</u>	
Subtotal	425,790	423,444	(2,346)	
Indirect costs	<u>75,793</u>	<u>73,314</u>	<u>(2,479)</u>	Finding 1
Total cost of absentee ballots	501,583	496,758	(4,825)	
Number of absentee ballots cast	<u>÷ 152,651</u>	<u>÷ 152,651</u>	<u>÷ 152,651</u>	
Cost per absentee ballot cast	\$3.28582	\$3.25421	\$(0.03161)	
Number of reimbursable absentee ballots	<u>× 133,207</u>	<u>× 133,207</u>	<u>× 133,207</u>	
Total cost of reimbursable absentee ballots	437,694	433,484	(4,210)	
Less reimbursements	<u>—</u>	<u>(2,138)</u>	<u>(2,138)</u>	Finding 2
Amount claimed	<u>\$ 437,694</u>	431,346	<u>\$ (6,348)</u>	
Less amount paid by the State		<u>(83,012)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 348,334</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries	\$ 111,533	\$ 111,533	\$ —	
Benefits	11,751	11,751	—	
Materials and supplies	<u>337,923</u>	<u>337,923</u>	<u>—</u>	
Subtotal	461,207	461,207	—	
Indirect costs	<u>201,630</u>	<u>201,630</u>	<u>—</u>	
Total cost of absentee ballots	662,837	662,837	—	
Number of absentee ballots cast	<u>÷ 214,934</u>	<u>÷ 214,934</u>	<u>÷ 214,934</u>	
Cost per absentee ballot cast	\$3.08391	\$3.08391	\$0.99543	
Number of reimbursable absentee ballots	<u>× 190,332</u>	<u>× 190,332</u>	<u>× 190,332</u>	
Total cost of reimbursable absentee ballots	586,967	586,967	—	
Less reimbursements	<u>(12,592)</u>	<u>(12,592)</u>	<u>—</u>	
Total costs ²	<u>\$ 574,375</u>	574,375	<u>\$ —</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 574,375</u>		
<u>Summary: July 1, 2001, through June 30, 2003</u>				
Total cost of reimbursable absentee ballots	\$ 1,024,661	\$ 1,020,451	\$ (4,210)	
Less offsetting savings/reimbursements	<u>(12,592)</u>	<u>(14,730)</u>	<u>(2,138)</u>	
Total costs	<u>\$ 1,012,069</u>	1,005,721	<u>\$ (6,348)</u>	
Less amount paid by the State		<u>(83,012)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 922,709</u>		

¹ See the Findings and Recommendations section.

² The county filed its initial claim on 1/15/04 for \$397,505. An amended claim was filed on 12/30/04 for \$574,375.

Findings and Recommendations

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

The county overstated employee salaries and benefits totaling \$2,346 for the audit period. The related indirect costs amount, based on the claimed indirect cost rate for each fiscal year, is \$2,479.

Understated salary and benefit costs, and the related indirect costs, are summarized as follows.

	Fiscal Year 2001-02
Salaries	\$ (2,027)
Benefits	(319)
Subtotal	(2,346)
Related indirect costs	(2,479)
Audit adjustment	<u>\$ (4,825)</u>

The county overstated its salary and benefit costs by \$2,346 for fiscal year (FY) 2001-02 because claimed productive hourly rates were overstated. The county deducted authorized break time rather than actual break time taken in the computation of productive hours. Break time was not separately identified on employee timesheets nor does the county's time recording system record actual break time taken. Therefore, the county cannot deduct authorized break time from productive hours.

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

SCO's *Mandated Cost Manual for Local Agencies* provides guidance in developing the productive hourly rate. This manual states that a productive hourly rate may be computed for each job title (rather than for each individual) for which labor is directly related to claimed reimbursable costs.

Recommendation

We recommend that the county review its current mandated cost claiming procedures to ensure that employee salaries and benefits are calculated correctly.

County's Response

On p. 5 in margin heading says "**Understated** salaries...." The text says "The county **overstated** employee salaries..." According to the exit conference, "overstated" is correct. The Registrar of Voters concurs with this finding.

SCO's Comments

The fiscal effect of the finding and the recommendation remain unchanged. The margin heading has been corrected to say "overstated."

**FINDING 2—
Understated offsetting
revenues**

The county understated offsetting revenues received from various local agencies by \$2,138 for FY 2001-02. The error occurred because the county understated indirect cost rates used in billings to local agencies. The county explained that estimated indirect cost rates were used in the billings because an ICRP based on actual costs was not yet available.

Parameters and Guidelines states that reimbursements for this mandate received from any source shall be identified and deducted from the claim.

Recommendation

We recommend that the county calculate cost recoveries by using revenues and costs applicable to the Absentee Ballots Program.

County's Response

The Registrar of Voters concurs with this finding.

SCO's Comments

The finding and the recommendation remain unchanged.

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



**AUDITOR-CONTROLLER
COUNTY OF ORANGE**

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June 8, 2005

Mr. Jim L. Spano, Chief
State Controller's Office
Compliance Audits Bureau
Division of Audits
Post Office Box 942850
Sacramento, Ca 94250-5874

Subject: Draft Audit Report Response
Absentee Ballots Program

We have examined the draft audit report regarding the claim filed by Orange 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, 2001 through June 30, 2003. Our comments on the findings are as follows:

Finding 1 – Overstated salaries, benefits, and related indirect costs

On p. 5 the margin heading says "**Understated** salaries...." The text says "The county **overstated** employee salaries..." According to the exit conference, "overstated" is correct. The Registrar of Voters concurs with this finding.

Finding 2 – Understated offsetting revenues

The Registrar of Voters concurs with this finding.

Should you have any questions regarding this response, please contact Jennifer Mitchell, Financial Reporting and Mandated Costs Unit Supervisor, at (714) 834-5252.

David E. Sundstrom
Auditor-Controller

cc: Steven Rodermund, Registrar of Voters
Kate Gold, Registrar of Voters
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