

# **SAN DIEGO 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

August 2004



**STEVE WESTLY**  
California State Controller

August 6, 2004

Ms. Tracy Sandoval  
Auditor-Controller  
San Diego County  
1600 Pacific Highway, Room 166  
San Diego, CA 92101

Dear Ms. Sandoval:

The State Controller's Office has completed an audit of the claims filed by San Diego 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 \$1,438,184 for the mandated program. Our audit disclosed that \$1,417,804 is allowable and \$20,380 is unallowable. The unallowable costs occurred primarily because the county misstated its indirect cost rate. The county was paid \$1,316,831. Allowable costs claimed in excess of the amount paid total \$100,973.

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

Sincerely,

*Original Signed By:*

VINCENT P. BROWN  
Chief Operating Officer

VPB:JVB/jj

cc: Sally McPherson  
Registrar of Voters  
San Diego County  
James Tilton, Program Budget Manager  
Corrections and General Government  
Department of Finance

# Contents

## **Audit Report**

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

# Audit Report

## Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by San Diego 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 July 10, 2003.

The county claimed \$1,438,184 for the mandated program. The audit disclosed that \$1,417,804 is allowable and \$20,380 is unallowable. The unallowable costs occurred primarily because the county misstated its indirect cost rate. The county was paid \$1,316,831. Allowable costs claimed in excess of the amount paid total \$100,973.

## Background

Chapter 77, Statutes of 1978, and Chapter 920, Statutes of 1994, 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, now the Commission on State Mandates (COSM), ruled that the legislation imposed state-mandated costs reimbursable pursuant to *Government Code* Section 17561.

*Parameters and Guidelines*, adopted by COSM on August 12, 1982 (and last amended 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 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 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 by *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, San Diego County claimed \$1,438,184 for costs of the Absentee Ballots Program. The audit disclosed that \$1,417,804 is allowable and \$20,380 is unallowable.

For fiscal year (FY) 1999-2000, the county was paid \$521,560 by the State. The audit disclosed that \$519,670 is allowable. The amount paid in excess of allowable costs claimed, totaling \$1,890, should be returned to the State.

For FY 2000-01, the county was paid \$433,191 by the State. The audit disclosed that \$449,086 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$15,895, will be paid by the State based on available appropriations.

For FY 2001-02, the county was paid \$362,080 by the State. The audit disclosed that \$449,047 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$86,967, will be paid by the State based on available appropriations.

## **Views of Responsible Officials**

The SCO issued a draft audit report on June 11, 2004. Tracy M. Sandoval, Assistant Chief Financial Officer/Auditor and Controller, responded by the attached letter dated July 7, 2004, agreeing with the audit results. The county's response is included in this final audit report.

**Restricted Use**

This report is solely for the information and use of San Diego 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 <sup>1</sup>
<u>July 1, 1999, through June 30, 2000</u>				
Salaries	\$ 302,366	\$ 302,366	\$ —	
Benefits	45,571	45,571	—	
Services and supplies	<u>192,443</u>	<u>192,443</u>	<u>—</u>	
Subtotals	540,380	540,380	—	
Indirect costs	<u>189,591</u>	<u>156,154</u>	<u>(33,437)</u>	Finding 2
Total cost of absentee ballots	729,971	696,534	<u>\$ (33,437)</u>	
Number of absentee ballots cast	<u>÷ 218,368</u>	<u>÷ 218,368</u>		
Cost per absentee ballots cast	3.34	3.19		
Number of absentee ballots	<u>× 188,971</u>	<u>× 188,971</u>		
Total cost of reimbursable absentee ballots	631,163	602,817	(28,346)	
Less offsetting savings/reimbursements	<u>(109,603)</u>	<u>(83,147)</u>	<u>26,456</u>	Finding 3
Total costs	<u>\$ 521,560</u>	519,670	<u>\$ (1,890)</u>	
Less amount paid by the State		<u>(521,560)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (1,890)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries	\$ 349,101	\$ 349,101	\$ —	
Benefits	55,239	55,239	—	
Materials and supplies	<u>271,392</u>	<u>267,019</u>	<u>(4,373)</u>	Finding 1
Subtotals	675,732	671,359	(4,373)	
Indirect costs	<u>247,577</u>	<u>222,832</u>	<u>(24,745)</u>	Finding 2
Total cost of absentee ballots	923,309	894,191	<u>\$ (29,118)</u>	
Number of absentee ballots cast	<u>÷ 305,705</u>	<u>÷ 305,705</u>		
Cost per absentee ballots cast	3.03	2.92		
Number of reimbursable absentee ballots	<u>× 264,168</u>	<u>× 264,168</u>		
Total cost of absentee ballot filings	800,429	771,371	(29,058)	
Less offsetting savings/reimbursements	<u>(332,852)</u>	<u>(322,285)</u>	<u>10,567</u>	Finding 3
Total costs	<u>\$ 467,577</u>	449,086	<u>\$ (18,491)</u>	
Less amount paid by the State		<u>(433,191)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 15,895</u>		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 261,996	\$ 261,996	\$ —	
Benefits	38,543	38,543	—	
Materials and supplies	<u>180,390</u>	<u>180,390</u>	<u>—</u>	
Subtotals	480,929	480,929	—	
Indirect costs	<u>159,255</u>	<u>187,476</u>	<u>28,221</u>	Finding 2
Total cost of absentee ballots	640,184	668,405	<u>\$ 28,221</u>	
Number of absentee ballots cast	<u>÷ 116,987</u>	<u>÷ 116,987</u>		
Cost per absentee ballots cast	5.48	5.72		
Number of reimbursable absentee ballots	<u>× 98,909</u>	<u>× 98,909</u>		
Total cost of additional absentee ballots	542,021	565,759	23,738	
Less offsetting savings/reimbursements	<u>(92,974)</u>	<u>(59,345)</u>	<u>33,629</u>	Finding 3
Subtotal	<u>\$ 449,047</u>	506,414	<u>\$ 57,367</u>	
Allowable costs in excess of amount claimed		<u>(57,367)</u>		
Total costs		449,047		
Less amount paid by the State		<u>(362,080)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 86,967</u>		
<u>Summary: July 1, 1999, through June 30, 2002</u>				
Total cost of reimbursable absentee ballots	\$ 1,973,613	\$ 1,939,948	\$ (33,665)	
Less offsetting savings/reimbursements	<u>(535,429)</u>	<u>(464,777)</u>	<u>70,652</u>	
Subtotals	1,438,184	1,475,171	36,987	
Allowable costs in excess of amount claimed	<u>—</u>	<u>(57,367)</u>	<u>(57,367)</u>	
Total costs	<u>\$ 1,438,184</u>	1,417,804	<u>\$ (20,380)</u>	
Less amount paid by the State		<u>(1,316,831)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 100,973</u>		

<sup>1</sup> See the Findings and Recommendations section.



# Findings and Recommendations

## **FINDING 1— Misstated indirect costs**

The county misstated the indirect cost rates on its claims for the Absentee Ballot Program. As a result, the county overstated indirect costs by \$33,437 for FY 1999-2000 and by \$24,745 for FY 2000-01, and understated indirect costs by \$28,221 for FY 2001-02. The error occurred because the county prepared its indirect cost rate proposal using estimated costs for the portion of indirect costs attributed to the Registrar of Voters Department.

For FY 1999-2000, the county claimed indirect costs based on indirect cost rates of 48.47% and 55.22%. The higher rate was applied to costs incurred during the second half of the fiscal year. When using actual costs, the correct rate for the year should have been 44.88%.

For FY 2000-01, the county claimed indirect costs based on an indirect cost rate of 61.23%. When using actual costs, the indirect cost rate should have been 55.11%.

For FY 2001-02, the county claimed indirect costs based on an indirect cost rate of 52.99%. When using actual costs, the indirect cost rate should have been 62.38%.

*Parameters and Guidelines* for the Absentee Ballots Program states that claims for indirect costs are to be filed in the manner prescribed by the SCO.

The SCO claiming instructions for the Absentee Ballots Program state that if an indirect cost rate greater than 10% is used, each department involved in the mandated program must have its own indirect cost rate proposal (ICRP). ICRPs are governed by Office of Management and Budget (OMB) Circular A-87 (*Cost Principles for State, Local, and Indian Tribal Governments*). OMB Circular A-87 defines four possible types of indirect cost rates: provisional, final, fixed, and predetermined. None of these methodologies allow for the use of estimated costs without retroactive adjustment unless the ICRP is submitted to a cognizant government agency for negotiation.

### Recommendation

We recommend the county claim indirect costs using an ICRP prepared in accordance with OMB Circular A-87.

### County's Response

We concur with this finding. To provide clarification, we request that the following text be added to the last sentence of the first paragraph in the final report: "for the portion of indirect costs attributed to the department." The department will ensure that the Indirect Cost Rate Proposal (ICRP) is computed using actual, rather than estimated costs, in accordance with OMB Circular A-87.

SCO's Comment

The fiscal effect of the finding remains unchanged.

The finding was edited to include additional information requested by the county.

**FINDING 2—  
Overstated material  
and supply costs**

The county overstated postage costs by \$4,373 for FY 2000-01. The overstatement resulted from a calculation error made when allocating labor costs incurred for the mailing of absentee ballots.

*Parameters and Guidelines* for the Absentee Ballots Program and *Government Code* Section 17560 allow only reimbursement of actual increased costs incurred in the performance of mandated activities.

Recommendation

We recommend the county properly support all claimed costs that are eligible for reimbursement.

County's Response

We concur with this finding. The department will ensure costs and revenues are calculated correctly by providing an additional level of review within the department. Claims will be prepared by our Administrative Analyst II, and reviewed by our Principal Administrative Analyst. In addition, the Department of Revenue and Cost Accounting provides oversight to County Departments for SB90 claims and will conduct the final level of review.

SCO's Comment

The finding and recommendation remain unchanged.

**FINDING 3—  
Overstated offsetting  
revenues**

The county overstated offsetting revenues received from various local agencies of \$26,456 in FY 1999-2000, \$10,567 for FY 2000-01, and \$33,629 for FY 2001-02. The overstatements occurred because of adjustments to indirect costs described in Finding 1 and mathematical errors made by the county that affected the costs per absentee ballot for FY 1999-2000 and FY 2001-02.

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

Recommendation

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

County's Response

We concur with this finding. The department will ensure costs and revenues are calculated correctly by providing an additional level of review within the department. Claims will be prepared by our Administrative Analyst II, and reviewed by our Principal Administrative Analyst. In addition, the Department of Revenue and Cost Accounting provides oversight to County Departments for SB90 claims and will conduct the final level of review.

SCO's Comment

The finding and recommendation remain unchanged.

**OTHER ISSUE—  
Offset**

In its response (Attachment), the county addressed the following issue not specifically related to the findings. The SCO's comment follows the district's response.

County's Response

We request that you consider an offset of the unallowable \$20,380 from the total amount claimed for these fiscal years of \$1,438,184 to the allowable \$1,417,804. Based on the recorded payments from the State for this period, this offset would result in a net of \$100,972 due to the County of San Diego.

SCO's Comment

Subsequent to the issuance of the final report, the SCO will request that the county return the \$1,890 overpayment for FY 1999-2000. If this amount is not returned by the county, the SCO will reduce subsequent payments to the county by \$1,890.

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

---



## County of San Diego

DONALD F. STEUER  
CHIEF FINANCIAL OFFICER  
(619) 531-5413  
FAX (619) 531-5215

AUDITOR AND CONTROLLER  
1600 PACIFIC HIGHWAY STE 166, SAN DIEGO, CALIFORNIA 92101-2478

TRACY M. SANDOVAL  
ASST. CHIEF FINANCIAL OFFICER/  
AUDITOR & CONTROLLER  
(619) 531-5412  
FAX (619) 531-5219

July 7, 2004

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

Dear Mr. Spano:

### COUNTY OF SAN DIEGO RESPONSE TO THE ABSENTEE BALLOTS PROGRAM AUDIT

Thank you for the opportunity to review and submit our comments on the draft audit report on Absentee Ballots Claims submitted by the County of San Diego for the period July 1, 1999 through June 30, 2002. We are submitting the following comments.

#### Finding 1 – Misstated Indirect Costs:

The County misstated the indirect cost rates on the claims for the Absentee Ballot Program.

#### Response:

We concur with this finding. To provide clarification, we request that the following text be added to the last sentence of the first paragraph in the final report: "for the portion of indirect costs attributed to the department." The department will ensure that the Indirect Cost Rate Proposal (ICRP) is computed using actual, rather than estimated costs, in accordance with OMB Circular A-87.

#### Finding 2 – Overstated material and supply costs/Finding 3 Overstated offsetting revenues:

The County overstated postage costs and overstated local agency revenues.

#### Response to Findings 2 and 3:

We concur with this finding. The department will ensure costs and revenues are calculated correctly by providing an additional level of review within the department. Claims will be prepared by our Administrative Analyst II, and reviewed by our Principal Administrative Analyst. In addition, the Department of Revenue and Cost Accounting provides oversight to County Departments for SB90 claims and will conduct the final level of review.

#### Conclusion:

We request that you consider an offset of the unallowable \$20,380 from the total amount claimed for these fiscal years of \$1,438,184 to the allowable \$1,417,804. Based on the recorded payments from the State for this period, this offset would result in a net of \$100,972 due to the County of San Diego.

County of San Diego Response to the  
Absentee Ballots Program Audit  
Page Two  
July 7, 2004

If you have questions, please contact Ruby Hjorth, Principal Administrative Analyst, Registrar of Voters, at (858) 694-3424 or Gina Surgeon, Cost Analyst, of Revenue and Cost Accounting at (619) 531-4825.

Sincerely,



TRACY M. SANDOVAL  
Assistant Chief Financial Officer/Auditor and Controller

RCA:GS:lc

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, California 94250-5874**

**<http://www.sco.ca.gov>**