

SAN JOAQUIN COUNTY

Audit Report

PERMANENT ABSENT VOTERS PROGRAM

Chapter 1422, Statutes of 1982

July 1, 2002, through June 30, 2005



JOHN CHIANG
California State Controller

January 2008



JOHN CHIANG
California State Controller

January 23, 2008

The Honorable Adrian J. Van Houten, CPA
Auditor-Controller
San Joaquin County
24 South Hunter Street, 1st Floor, Room 103
Stockton, CA 95202

Dear Mr. Van Houten:

The State Controller's Office audited the costs claimed by San Joaquin County for the legislatively mandated Permanent Absent Voters Program (Chapter 1422, Statutes of 1982) for the period of July 1, 2002, through June 30, 2005.

The county claimed \$427,841 (\$428,841 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$343,200 is allowable and \$84,641 is unallowable. The unallowable costs resulted primarily from the county claiming unallowable salaries, benefits, and services and supplies. The State paid the county \$178,661. Allowable costs claimed exceed the amount paid by \$164,539.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk:wm

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

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Views of Responsible Officials	2
Restricted Use	2
Schedule 1—Summary of Program Costs.....	3
Findings and Recommendations	5

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San Joaquin County for the legislatively mandated Permanent Absent Voters Program (Chapter 1422, Statutes of 1982) for the period of July 1, 2002, through June 30, 2005.

The county claimed \$427,841 (\$428,841 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$343,200 is allowable and \$84,641 is unallowable. The unallowable costs resulted primarily from the county claiming unallowable salaries, benefits, and services and supplies. The State paid the county \$178,661. Allowable costs claimed exceed the amount paid by \$164,539.

Background

Chapter 1422, Statutes of 1982, added Election Code sections 1450 through 1456 (subsequently renumbered to Election Code sections 3200 through 3206 by Chapter 920, Statutes of 1994). The law requires counties to establish a permanent absent voter program. This legislation requires county clerks to:

- Establish and maintain a list of permanent absent voters who provide evidence of physical disability;
- Mail absent voter ballots to such voters for each election in which they are eligible to vote; and
- Delete from the permanent absent voter list any person who fails to return an executed absent voter ballot for any statewide district primary or general election.

On September 21, 1989, the Commission on State Mandates (CSM) determined that Chapter 1422, Statutes of 1982, 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 March 27, 1990. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Permanent Absent Voters Program for the period of July 1, 2002, through June 30, 2005.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

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

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, San Joaquin County claimed \$427,841 (\$428,841 less a \$1,000 penalty for filing a late claim) for costs of the Permanent Absent Voters Program. Our audit disclosed that \$343,200 is allowable and \$84,641 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State made no payments to the county. Our audit disclosed that \$41,196 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payments to the county. Our audit disclosed that \$144,118 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$178,661. Our audit disclosed that \$157,886 is allowable. The State will offset \$20,775 from other mandated program payments due to the county. Alternatively, the county may remit this amount to the State.

Views of Responsible Officials

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

Restricted Use

This report is solely for the information and use of San Joaquin County, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

January 23, 2008

**Schedule 1—
Summary of Program Costs
July 1, 2002, through June 30, 2005**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Salaries	\$ 15,160	\$ 12,399	\$ (2,761)	Finding 1
Benefits	2,705	2,212	(493)	Finding 1
Services and supplies	<u>31,325</u>	<u>15,443</u>	<u>(15,882)</u>	Finding 2
Total direct costs	49,190	30,054	(19,136)	
Indirect costs	<u>13,233</u>	<u>11,142</u>	<u>(2,091)</u>	Finding 3
Total program costs	<u>\$ 62,423</u>	41,196	<u>\$ (21,227)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 41,196</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Salaries	\$ 44,440	\$ 39,605	\$ (4,835)	Finding 1
Benefits	5,201	4,652	(549)	Finding 1
Services and supplies	<u>101,120</u>	<u>67,815</u>	<u>(33,305)</u>	Finding 2
Total direct costs	150,761	112,072	(38,689)	
Indirect costs	<u>36,996</u>	<u>33,046</u>	<u>(3,950)</u>	Finding 3
Total direct and indirect costs	187,757	145,118	(42,639)	
Less late filing penalty	<u>(1,000)</u>	<u>(1,000)</u>	—	
Total program costs	<u>\$ 186,757</u>	144,118	<u>\$ (42,639)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 144,118</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Salaries	\$ 45,542	\$ 40,030	\$ (5,512)	Finding 1
Benefits	5,635	4,955	(680)	Finding 1
Services and supplies	<u>90,777</u>	<u>77,791</u>	<u>(12,986)</u>	Finding 2
Total direct costs	141,954	122,776	(19,178)	
Indirect costs	<u>36,707</u>	<u>35,110</u>	<u>(1,597)</u>	Finding 3
Total program costs	<u>\$ 178,661</u>	157,886	<u>\$ (20,775)</u>	
Less amount paid by the State		<u>(178,661)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (20,775)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Salaries	\$ 105,142	\$ 92,034	\$ (13,108)	
Benefits	13,541	11,819	(1,722)	
Services and supplies	<u>223,222</u>	<u>161,049</u>	<u>(62,173)</u>	
Total direct costs	341,905	264,902	(77,003)	
Indirect costs	<u>86,936</u>	<u>79,298</u>	<u>(7,638)</u>	
Total direct and indirect costs	428,841	344,200	(84,641)	
Less late filing penalty	<u>(1,000)</u>	<u>(1,000)</u>	—	
Total program costs	<u>\$ 427,841</u>	343,200	<u>\$ (84,641)</u>	
Less amount paid by the State		<u>(178,661)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 164,539</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salaries and benefits

The county claimed unallowable salaries totaling \$13,108. The related benefits total \$1,722. Unallowable costs occurred for the following reasons:

- For fiscal year (FY) 2002-03, the county's documentation did not support 57 hours claimed for one employee. In addition, documentation showed that the county understated one employee's productive hourly rate. These adjustments result in overstated costs totaling \$903.
- For FY 2003-04, the county understated hours claimed for four employees. These adjustments result in understated costs totaling \$763.
- The county claimed salaries and benefits that were actually related to the Absentee Ballots Program. Rather than adjust the county's claims for both programs, we adjusted allowable costs for the Permanent Absent Voters Program claims based on the reimbursement percentage allowable for the county's Absentee Ballots Program claims. We identified allowable absentee ballots cast and additional absentee ballot filings in our audit report issued January 23, 2008, covering the county's Absentee Ballots Program claims.

The program's parameters and guidelines state, "For auditing purposes, all costs claimed must be traceable to source documents or worksheets that show evidence of and the validity of such costs."

The following table summarizes the audit adjustment for salaries:

	Fiscal Year					Total
	2002-03	2003-04		2004-05		
	Regular Salaries	Regular Salaries	Overtime Salaries	Regular Salaries	Overtime Salaries	
Salaries claimed	\$ 15,160	\$ 28,474	\$ 15,966	\$ 26,975	\$ 18,567	
(Overstated)/understated costs	(903)	763	—	—	—	
Costs applicable to the Permanent Absent Voters Program only	—	(934)	—	(927)	—	
Subtotal	14,257	28,303	15,966	26,048	18,567	
Number of allowable absentee ballots cast	÷ 47,228	÷ 80,675	÷ 80,675	÷ 64,326	÷ 64,326	
Cost per absentee ballot cast	\$ 0.3019	\$ 0.3508	\$ 0.1979	\$ 0.4049	\$ 0.2886	
Number of reimbursable absentee ballots	× 41,073	× 70,473	× 70,473	× 56,380	× 56,380	
Subtotal	\$ 12,399	\$ 24,724	\$ 13,947	\$ 22,830	\$ 16,273	\$ 90,173
Costs applicable to the Permanent Absent Voters Program only	—	934	—	927	—	1,861
Allowable costs	12,399	25,658	13,947	23,757	16,273	92,034
Salaries claimed	(15,160)	(28,474)	(15,966)	(26,975)	(18,567)	(105,142)
Audit adjustment	\$ (2,761)	\$ (2,816)	\$ (2,019)	\$ (3,218)	\$ (2,294)	\$ (13,108)

The following table summarizes the audit adjustment for benefits, based on the unallowable salaries:

	Fiscal Year					Total
	2002-03	2003-04		2004-05		
	Regular Salaries	Regular Salaries	Overtime Salaries	Regular Salaries	Overtime Salaries	
Unallowable salaries	\$ (2,761)	\$ (2,816)	\$ (2,019)	\$ (3,218)	\$ (2,294)	
Benefit rate claimed	× 17.84%	× 13.97%	× 7.66%	× 15.20%	× 8.26%	
Audit adjustment	\$ (493)	\$ (394)	\$ (155)	\$ (490)	\$ (190)	\$ (1,722)

Recommendation

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

County’s Response

The county agreed with the audit finding.

**FINDING 2—
Overstated services
and supplies**

The county claimed unallowable services and supplies totaling \$62,173. These costs are unallowable for the following reasons:

- The county claimed postage costs that its invoice documentation did not support.
- The county claimed ballot costs that it also claimed on its Absentee Ballots Program claim.
- The county claimed sales tax costs that its invoice documentation did not support. Various invoices showed no sales tax liability.
- The county overstated envelope costs. For FY 2003-04 and FY 2004-05, the county claimed a unit price of \$0.07 for outgoing and reply envelopes. However, the county’s documentation supports a unit price of \$0.06 and \$0.066, respectively. For FY 2003-04, the county claimed a unit price of \$0.05 for permanent absent voters reply envelopes. However, the county’s documentation supports a unit price of \$0.034.
- The county understated database setup, shipping, and other miscellaneous costs.
- The county claimed services and supplies that were actually related to the Absentee Ballots Program. Rather than adjust the county’s claims for both programs, we adjusted allowable costs for the Permanent Absent Voters Program claims based on the reimbursement percentage allowable for the county’s Absentee Ballots Program claims. We identified allowable absentee ballots cast and additional absentee ballot filings in our audit report dated January 23, 2008, covering the county’s absentee ballot claims.

The program’s parameters and guidelines state that counties may claim only actual costs. They also state, “Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to reimbursable activities.”

The following table summarizes the audit adjustment:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Services and supplies claimed	\$ 31,325	\$ 101,120	\$ 90,777	
Unsupported postage costs	(7,907)	(19,299)	—	
Duplicate costs claimed	(6,303)	—	—	
Unsupported sales tax	—	(3,033)	(1,592)	
Overstated envelope costs	—	(2,260)	(430)	
Understated database set-up, shipping, and miscellaneous costs	—	738	—	
Costs applicable to the Permanent Absent Voters Program only	(4,285)	(2,534)	—	
Costs related to absentee ballots	12,830	74,732	88,755	
Number of allowable absentee ballots cast	÷ 47,228	÷ 80,675	÷ 64,326	
Cost per absentee ballot cast	\$ 0.2717	\$ 0.9263	\$ 1.3798	
Number of reimbursable absentee ballots	× 41,073	× 70,473	× 56,380	
Subtotal	\$ 11,158	\$ 65,281	\$ 77,791	\$ 154,230
Costs applicable to the Permanent Absent Voters Program only	4,285	2,534	—	6,819
Allowable costs	15,443	67,815	77,791	161,049
Services and supplies claimed	(31,325)	(101,120)	(90,777)	(223,222)
Audit adjustment	\$ (15,882)	\$ (33,305)	\$ (12,986)	\$ (62,173)

Recommendation

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

County's Response

The county agreed with the audit finding.

FINDING 3— Overstated indirect costs

The county overstated indirect costs claimed by \$7,638 because it overstated and understated costs included in its indirect cost pool for each fiscal year. These overstated and understated costs resulted in understated indirect cost rates. However, the county overstated total claimed indirect costs because it claimed indirect costs applicable to unallowable salaries identified in Finding 1.

The county overstated and understated indirect cost pool costs for the following reasons:

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

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

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

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

	Costs Reported	Allowable Costs	Audit Adjustment
<u>FY 2002-03</u>			
Direct costs:			
Regular salaries	\$ 542,109	\$ 559,651	\$ 17,542
Overtime salaries	—	40,790	40,790
Total direct costs (A)	<u>\$ 542,109</u>	<u>\$ 600,441</u>	<u>\$ 58,332</u>
Indirect costs:			
Regular salaries	\$ 96,498	\$ 78,956	\$ (17,542)
Overtime salaries	40,790	—	(40,790)
Benefits	28,815	23,576	(5,239)
Other	307,118	437,020	129,902
Total indirect costs (B)	<u>\$ 473,221</u>	<u>\$ 539,552</u>	<u>\$ 66,331</u>
Indirect cost rate (B ÷ A)	<u>87.29%</u>	<u>89.86%</u>	
<u>FY 2003-04</u>			
Direct costs:			
Regular salaries	\$ 689,331	\$ 701,932	\$ 12,601
Overtime salaries	—	54,511	54,511
Total direct costs (A)	<u>\$ 689,331</u>	<u>\$ 756,443</u>	<u>\$ 67,112</u>
Indirect costs:			
Regular salaries	\$ 96,498	\$ 83,897	\$ (12,601)
Overtime salaries	54,511	—	(54,511)
Benefits	30,134	26,201	(3,933)
Other	392,757	521,059	128,302
Total indirect costs (B)	<u>\$ 573,900</u>	<u>\$ 631,157</u>	<u>\$ 57,257</u>
Indirect cost rate (B ÷ A)	<u>83.25%</u>	<u>83.44%</u>	
<u>FY 2004-05</u>			
Direct costs:			
Regular salaries	\$ 748,308	\$ 753,545	\$ 5,237
Overtime salaries	—	38,640	38,640
Total direct costs (A)	<u>\$ 748,308</u>	<u>\$ 792,185</u>	<u>\$ 43,877</u>
Indirect costs:			
Regular salaries	\$ 95,530	\$ 90,293	\$ (5,237)
Overtime salaries	38,640	—	(38,640)
Benefits	33,908	32,045	(1,863)
Other	435,095	572,458	137,363
Total indirect costs (B)	<u>\$ 603,173</u>	<u>\$ 694,796</u>	<u>\$ 91,623</u>
Indirect cost rate (B ÷ A)	<u>80.60%</u>	<u>87.71%</u>	

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

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Allowable salaries	\$ 12,399	\$ 39,605	\$ 40,030	
Allowable indirect cost rate	× 89.86%	× 83.44%	× 87.71%	
Allowable indirect costs	11,142	33,046	35,110	\$ 79,298
Less indirect costs claimed	<u>(13,233)</u>	<u>(36,996)</u>	<u>(36,707)</u>	<u>(86,936)</u>
Audit adjustment	<u>\$ (2,091)</u>	<u>\$ (3,950)</u>	<u>\$ (1,597)</u>	<u>\$ (7,638)</u>

Recommendation

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

County's Response

The county agreed with the audit finding.

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

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