

CITY AND COUNTY OF SAN FRANCISCO

Audit Report

ABSENTEE BALLOTS PROGRAM

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

July 1, 2000, through June 30, 2002



STEVE WESTLY
California State Controller

March 2004



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California State Controller

March 17, 2004

Edward M. Harrington, Controller
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 316
San Francisco, CA 94102-4694

Dear Mr. Harrington:

The State Controller's Office has completed an audit of the claims filed by the City and County of San Francisco 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, 2000, through June 30, 2002.

The city and county claimed \$2,683,160 for the mandated program. Our audit disclosed that \$2,377,568 is allowable and \$305,592 is unallowable. The unallowable costs occurred because the city and county overstated claimed costs. The city and county was paid \$842,033. Allowable costs claimed in excess of the amount paid, totaling \$1,535,535, will be paid by the State based on available appropriations.

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:jj

cc: Ara Minasian, Deputy Director
Department of Administrative Services
City and County of San Francisco
James Tilton, Program Budget Manager
Corrections and General Government
Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by the City and County of San Francisco 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, 2000, through June 30, 2002. The last day of fieldwork was August 1, 2003.

The city and county claimed \$2,683,160 for the mandated program. The audit disclosed that \$2,377,568 is allowable and \$305,592 is unallowable. The unallowable costs occurred because the city and county overstated claimed costs. The city and county was paid \$842,033. Allowable costs claimed in excess of the amount paid, totaling \$1,535,535, will be paid by the State based on available appropriations.

Background

Chapter 77, Statutes of 1978, and Chapter 920, Statutes of 1994, required that absentee ballots be available to any registered voter without the prerequisite of certain conditions as required under prior law. Under prior law, absentee ballots were provided only when one of the following conditions were met: illness, absence from the precinct on the day of election, physical handicap, conflicting religious commitments, or a voter's residence more than ten miles from his/her polling place.

On June 17, 1981, the State Board of Control (now the Commission on State Mandates) ruled that Chapter 77, Statutes of 1978, resulted in state-mandated costs that are reimbursable pursuant to Title 2, Division 4, Part 7, of the *Government Code*.

Parameters and Guidelines, adopted by the Commission on State Mandates, establishes state mandates 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 legislatively mandated Absentee Ballots Program (Chapter 77, Statutes of 1978, and Chapter 920, Statutes of 1994) for the period of July 1, 2000, through June 30, 2002.

The auditors 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. The SCO did not audit the city and 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 city and 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, the City and County of San Francisco claimed \$2,683,160 for costs of the legislatively mandated Absentee Ballots Program. The audit disclosed that \$2,377,568 is allowable and \$305,592 is unallowable.

For fiscal year (FY) 2000-01, the city and county was paid \$426,975 by the State. The audit disclosed that \$866,133 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$439,158, will be paid by the State based on available appropriations.

For FY 2001-02, the city and county was paid \$415,058 by the State. The audit disclosed that \$1,511,435 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$1,096,377, will be paid by the State based on available appropriations.

Views of Responsible Officials

The audit results were discussed with the city and county's representatives during an exit conference held on August 1, 2003. Ara Minasian, Deputy Director, Department of Administrative Services; Gary Bates, Principal Auditor; and Fusako Hara, Principal Financial Analyst, Controller's Office, agreed with the audit results. These officials further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This report is solely for the information and use of the City and County of San Francisco, 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, 2000, through June 30, 2002**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference¹</u>
<u>July 1, 2000, through June 30, 2001</u>				
Salaries	\$ 544,237	\$ 562,736	\$ 18,499	Finding 1
Benefits	96,042	77,543	(18,499)	Finding 1
Services and supplies	<u>353,336</u>	<u>353,336</u>	<u>—</u>	
Total direct costs	993,615	993,615	—	
Indirect costs	<u>316,298</u>	<u>190,163</u>	<u>(126,135)</u>	Finding 2
Total costs of absentee ballots cast	1,309,913	1,183,778	<u>(126,135)</u>	
Divided by number of absentee ballots cast	<u>130,756</u>	<u>130,756</u>		
Cost per absentee ballot (rounded)	10.02	9.05		
Times number of reimbursable absentee ballots cast	<u>95,670</u>	<u>95,670</u>		
Total reimbursable costs	<u>\$ 958,424</u>	866,133	<u>\$ (92,291)</u>	
Less amount paid by the State		<u>(426,975)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 439,158</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 544,237	\$ 552,938	\$ 8,701	Finding 1
Benefits	96,042	62,425	(33,617)	Finding 1
Services and supplies	<u>1,038,166</u>	<u>1,054,843</u>	<u>16,667</u>	Finding 1
Total direct costs	1,678,445	1,670,206	(8,239)	
Indirect costs	<u>568,184</u>	<u>298,588</u>	<u>(269,596)</u>	Finding 2
Total costs of absentee ballots cast	2,246,629	1,968,794	<u>(277,835)</u>	
Divided by number of absentee ballots cast	<u>119,701</u>	<u>119,701</u>		
Cost per absentee ballot (rounded)	18.77	16.45		
Times number of reimbursable absentee ballots cast	<u>91,894</u>	<u>91,894</u>		
Total reimbursable costs	<u>\$ 1,724,736</u>	1,511,435	<u>\$(213,301)</u>	
Less amount paid by the State		<u>(415,058)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,096,377</u>		
<u>Summary: July 1, 2000, through June 30, 2002</u>				
Total reimbursable costs	<u>\$ 2,683,160</u>	2,377,568	<u>\$(305,592)</u>	
Less amount paid by the State		<u>(842,033)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,535,535</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Claimed costs
unsupported**

The city and county’s FY 2000-01 and FY 2001-02 claims were not supported by its accounting records and differed from costs it actually incurred. The differences appeared to be the result of mathematical and other errors made by the city and county’s consultant who prepared its claims.

Parameters and Guidelines for the Absentee Ballots Program specifies that only actual increased costs incurred in the performance of the mandated activities and supported by appropriate documentation are reimbursable.

Claimed costs have been adjusted as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Salaries	\$ 18,499	\$ 8,701	\$ 27,200
Benefits	(18,499)	(33,617)	(52,116)
Services and supplies	—	16,677	16,677
Audit adjustment	\$ —	\$ (8,239)	\$ (8,239)

Recommendation

The city and county should ensure that all costs claimed are eligible increased costs incurred as a result of the mandate, and are supported by accounting records.

**FINDING 2—
Indirect costs
overclaimed**

The city and county overstated its indirect cost rates on its FY 2000-01 and FY 2001-02 claims. The indirect cost rate proposals (ICRPs) submitted by the city and county with its claims included ineligible countywide cost allocation plan (COWCAP) costs totaling \$3,017,480. Of this amount, \$2,722,214 of direct project costs and \$295,266 of direct labor costs were erroneously classified as indirect countywide costs. The city and county concurred with the SCO auditor that these costs should not have been included in its COWCAPs and ICRPs.

Parameters and Guidelines states that indirect costs are eligible for reimbursement when allocated in accordance with the provisions of Office of Management and Budget (OMB) Circular A-87 (*Cost Principles for State, Local, and Indian Tribal Governments*). OMB Circular A-87 specifies that indirect costs are allowable only when those costs cannot reasonably be identified to a particular program, and are allocated to each program relative to the benefits received.

The SCO recomputed the county's allowable indirect rates and costs after adjusting for the ineligible COWCAP costs as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Total departmental indirect costs per ICRPs	\$1,982,113	\$4,608,030	\$6,590,143
Less ineligible COWCAP costs:			
Direct project costs	(635,394)	(2,086,920)	(2,722,314)
Direct labor costs	<u>(155,385)</u>	<u>(139,881)</u>	<u>(295,266)</u>
Allowable departmental indirect costs	1,191,334	2,381,229	<u>\$3,572,563</u>
Divided by total departmental direct costs	<u>4,011,471</u>	<u>4,411,774</u>	<u>\$8,423,245</u>
Allowable indirect cost rate	29.7%	54.0%	
Allowable allocation base	<u>640,279</u>	<u>552,938</u>	<u>\$1,193,227</u>
Total allowable indirect costs	190,163	298,588	488,753
Less indirect costs claimed	<u>(316,298)</u>	<u>(568,184)</u>	<u>(884,482)</u>
Audit adjustment			
(unallowable indirect costs)	<u>\$ (126,135)</u>	<u>\$ (269,596)</u>	<u>\$ (395,729)</u>

Recommendation

The county should ensure that indirect costs claimed are supported by an acceptable ICRP prepared in accordance with OMB Circular A-87.

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