

# **CITY OF LOS ANGELES**

Audit Report

## **ABSENTEE BALLOTS PROGRAM**

Chapter 77, Statutes of 1978,  
and Chapter 1032, Statutes of 2002

*July 1, 2001, through June 30, 2003*



**JOHN CHIANG**  
California State Controller

March 2007



**JOHN CHIANG**  
**California State Controller**

March 21, 2007

Frank T. Martinez  
City Clerk  
City of Los Angeles  
200 North Spring Street, Room 285  
Los Angeles, CA 90012

Dear Mr. Martinez:

The State Controller's Office audited the costs claimed by the City of Los Angeles for the legislatively mandated Absentee Ballots Program (Chapter 77, Statutes of 1978, and Chapter 1032, Statutes of 2002) for the period of July 1, 2001, through June 30, 2003.

The city claimed \$2,007,923 for the mandated program. Our audit disclosed that \$1,929,158 is allowable and \$78,765 is unallowable. The unallowable costs occurred because the city claimed ineligible services and supplies and overstated its indirect cost rates. The State paid the city \$354,693. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,574,465, contingent upon available appropriations.

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

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/vb

cc: Arlene P. Taylor  
Chief Management Analyst, Election Division  
City of Los Angeles  
Todd Jerue, Program Budget Manager  
Corrections and General Government  
Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Los Angeles for the legislatively mandated Absentee Ballots Program (Chapter 77, Statutes of 1978, and Chapter 1032, Statutes of 2002) for the period of July 1, 2001, through June 30, 2003. The last day of fieldwork was February 9, 2006.

The city claimed \$2,007,923 for the mandated program. Our audit disclosed that \$1,929,158 is allowable and \$78,765 is unallowable. The unallowable costs occurred because the city claimed ineligible services and supplies, and overstated its indirect cost rates. The State paid the city \$354,693. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,574,465, contingent upon available appropriations.

## Background

Chapter 77, Statutes of 1978, added and amended by Chapter 920, Statutes of 1994, amended *Election Code* Section 3003. The legislation 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.

Chapter 1032, Statutes of 2002, added *Election Code* Section 3024 effective September 28, 2002. The legislation prohibits local agencies from fully or partially prorating their costs to school districts. Therefore, the law excluded 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 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 that 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, 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, 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 city'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 city'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, the City of Los Angeles claimed \$2,007,923 for costs of the Absentee Ballots Program. Our audit disclosed that \$1,929,158 is allowable and \$78,765 is unallowable.

For fiscal year (FY) 2001-02, the State paid the city \$354,693. Our audit disclosed that \$481,300 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$126,607, contingent upon available appropriations.

For the FY 2002-03 claim, the State made no payment to the city. Our audit disclosed that \$1,447,858 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,447,858, contingent upon available appropriations.

**Views of  
Responsible  
Officials**

We issued a draft audit report on June 23, 2006. Arleen P. Taylor, Chief, Election Division, responded by letter dated July 20, 2006, (Attachment) disagreeing with draft Finding 1 relating to unsupported salary costs and a portion of draft Finding 2 relating to unsupported postage costs. The district did not respond to ineligible non-absentee ballots printing costs identified in draft Finding 2 or the error in the application of indirect cost rates identified in draft Finding 3.

We reviewed and concurred with the city's responses to draft Findings 1 and 2. However, for subsequent fiscal years, the City Clerk's Office agrees to perform a time study to more accurately support program-related salary costs. Therefore, we eliminated draft Finding 1, revised draft Finding 2, and made related adjustments to draft Finding 3. As a result, allowable costs increased by \$123,941. In addition, we renumbered draft Finding 2 to Finding 1, and draft Finding 3 to Finding 2.

## **Restricted Use**

This report is solely for the information and use of the City of Los Angeles, 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, 2001, through June 30, 2003**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 216,156	\$ 216,156	\$ —	
Benefits	3,709	3,709	—	
Services and supplies	48,568	23,159	(25,409)	Finding 1
Subtotal	268,433	243,024	(25,409)	
Indirect costs	295,334	285,240	(10,094)	Finding 2
Total costs of absentee ballots	563,767	528,264	\$ (35,503)	
Number of absentee ballots cast	÷ 19,767	÷ 19,765		
Cost per absentee ballot cast	\$ 28.52	\$ 26.73	\$ (1.79)	
Number of reimbursable absentee ballots	× 18,006	× 18,006	× 18,006	
Total cost of reimbursable absentee ballots	513,531	481,300	(32,231)	
Amount claimed	<u>\$ 513,531</u>	481,300	<u>\$ (32,231)</u>	
Less amount paid by the State		(354,693)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 126,607</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries	\$ 802,580	\$ 802,580	\$ —	
Benefits	21,402	21,402	—	
Services and supplies	409,020	409,020	—	
Subtotal	1,233,002	1,233,002	—	
Indirect costs	392,221	341,580	(50,641)	Finding 2
Total costs of absentee ballots	1,625,223	1,574,582	\$ (50,641)	
Number of absentee ballots cast	÷ 144,592	÷ 144,592		
Cost per absentee ballot cast	\$ 11.24	\$ 10.89	\$ (.35)	
Number of reimbursable absentee ballots	× 132,953	× 132,953	× 132,953	
Total cost of reimbursable absentee ballots	1,494,392	1,447,858	(46,534)	
Amount claimed	<u>\$ 1,494,392</u>	1,447,858	<u>\$ (46,534)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,447,858</u>		
<u>Summary: July 1, 2001, through June 30, 2003</u>				
Total cost of reimbursable absentee ballots	\$ 2,007,923	\$ 1,929,158	\$ (78,765)	
Amount claimed	<u>\$ 2,007,923</u>	1,929,158	<u>\$ (78,765)</u>	
Less amount paid by the State		(354,693)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,574,465</u>		

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

# Findings and Recommendations

## **FINDING 1— Unallowable services and supplies**

The city overstated services and supplies by \$25,409 for FY 2001-02.

The city claimed costs of \$32,751 for printing votes for mail ballots. Our review of the invoices disclosed that only \$7,342 was related to absentee ballots and \$25,409 was incurred for activities not related to absentee ballots.

*Parameters and Guidelines* allows reimbursement of 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.

### Recommendation

We recommend that the city ensure that all costs claimed are eligible increased costs incurred as a result of the mandate, and that the claimed costs are supported by its accounting records.

### City's Response

We agree that the auditors were unable to verify the postage costs because our supporting documents are incomplete. But, we would like to request that the City be allowed to claim postage, based on the number of absentee voters during this period. The City mails absentee ballots to all declared absentee voters and to voters who apply during the election. Total number of ballots mailed was 31,135, thus the amount of claim is \$10,585.90.

### SCO's Comment

Upon reviewing other corroborating evidence provided by the City Clerk's staff, we concur with the city's comments. Consequently, we reduced the finding by \$12,129, from \$37,538 to \$25,409. The city did not respond to the \$25,409 adjustment.

## **FINDING 2— Unallowable indirect cost rates**

The city overstated the indirect cost rates by \$56,950 for the audit period.

The city applied the rates—using the gross annual salaries base excluding overtime—to the total claimed salaries, which included overtime charges. The City Controller's Office calculated the rates and advised the departments not to apply the indirect cost rates to overtime charges. The City Controller's Office also calculated an adjusted rate in which an extensive overtime was charged.

*Parameters and Guidelines* states that indirect costs are eligible for reimbursement when allocated in accordance with the provisions of federal Office of Management and Budget (OMB) Circular A-87 (Cost Principles for State, Local, and Indian Tribal Government). OMB Circular A-87, Attachment E, Part B-4, specifies that indirect costs must be distributed on the same basis as they are computed.

We recomputed the indirect costs using the adjusted rates (including overtime) from the City Controller’s Office. The overstated indirect costs are summarized as follows.

	Fiscal Year		Total
	2001-02	2002-03	
Allowable indirect cost rate	131.96%	42.56%	
Claimed indirect cost rate	(136.63)%	(48.87)%	
Overstated indirect cost rate	(4.67)%	(6.31)%	
Allowable salaries	× \$216,156	× \$802,580	
Audit adjustment	\$ (10,094)	\$ (50,641)	\$ (60,735)

Recommendation

We recommend that the city ensure that indirect costs claimed are supported by an acceptable indirect cost rate proposal prepared in accordance with OMB Circular A-87.

City’s Response

The city did not respond to this finding.

SCO’s Comment

As a result of eliminating Finding 1 reported in the draft report, allowable salaries and benefits increased by \$62,691. We applied the increased salaries and benefits to the overstated indirect cost rates. As a result, the finding increased by \$3,785—from \$9,615 to \$10,094 for FY 2001-02 and from \$47,335 to \$50,641 for FY 2002-03.

**Other Issue—  
Mandate  
reimbursement**

City’s Response

The city stated that it only received \$338,854 for FY 2001-02 and not the \$354,693 reported by the SCO in the audit report, a difference of \$15,839.

SCO’s Comment

The \$338,854 payment we identified in the audit report is accurate. The \$338,854 was paid by warrant and \$15,839 was an offset credited to the Absentee Program because of overpayments in other programs.

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

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RANK T. MARTINEZ  
CITY CLERK

KAREN E. KAUFMAN  
EXECUTIVE OFFICER

CITY OF LOS ANGELES  
CALIFORNIA



ANTONIO R. VILLARAIGOSA  
MAYOR

OFFICE OF THE  
CITY CLERK  
ELECTION DIVISION

ROOM 285  
200 N. SPRING STREET  
LOS ANGELES, CA 90012  
(213) 978-0444  
FAX (213) 978-0376

ARLEEN P. TAYLOR  
CHIEF OF ELECTIONS

July 20, 2006

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

Subject: Audit Report- Absentee Ballots Program

Dear Mr. Spano:

We have received the State Controller's Office draft report for the mandated Absentee Ballots Program for the period July 1, 2001 through June 30, 2003. We also want to thank you for agreeing to extend our response deadline to July 21, 2006.

We have reviewed our records against the report and would like to comment on each finding:

Finding #1:

- The City overstated by \$127,455 salaries and benefit costs, and related indirect costs claimed. For Fiscal Year (FY) 01-02, the City claimed 30% of the salary for one full-time employee, and for FY 02-03, the City claimed 10% and 100% of the salary for two full-time employees.

Comment:

- In September 2002, during the audit of the Absentee Ballots Program for FY 00-01, the rate that we used for the salary of the full-time employee was discussed. At that time, the auditor requested that we submit a letter (attached) certifying the validity of the administrative time used by the employee. The auditors did not require our office to maintain any records that will show the actual time spent by each full-time employee involved in the mandated ballot activities.
- During the February 9, 2006 exit conference; the auditors advised us to maintain a distribution record to show the actual time spent by full-time employees on mandated ballot activities in the upcoming election cycle. After completing these records, we will then be reimbursed for the salaries claimed in FY 01-03, and be able to use this distribution record as the basis for future reimbursements.



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Finding #2:

- The City overstated services and supplies for FY 01-02. The City did not support claimed postage costs.

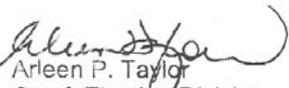
Comment:

- We agree that the auditors were unable to verify the postage costs because our supporting documents are incomplete. But, we would like to request that the City be allowed to claim postage, based on the number of absentee voters during this period. The City mails absentee ballots to all declared absentee voters and to voters who apply during the election. Total number of ballots mailed was 31,135, thus the amount of claim is \$10,585.90.

The audit report stated that the State Controller's Office paid the City the amount of \$354,693 for FY 01-02. Our records indicate that we received the amount of \$338,854.

Therefore, we request that the audit report be modified to include our above comments. If you have any questions, please contact Amy Milo of my staff at (213) 978-0440.

Sincerely,

  
Arleen P. Taylor  
Chief, Election Division

AT/am

Attachment

cc: Art Luna, Audit Manager  
Division of Audits, State Controller's Office

J. MICHAEL CAREY  
CITY CLERK  
FRANK T. MARTINEZ  
EXECUTIVE OFFICER

CITY OF LOS ANGELES  
CALIFORNIA



JAMES K. HAHN  
MAYOR

OFFICE OF THE  
CITY CLERK  
ELECTION DIVISION  
ROOM 285  
200 N. SPRING STREET  
LOS ANGELES, CA 90012  
(213) 978-0444  
FAX: (213) 978-0376

ARLEEN P. TAYLOR  
CHIEF MANAGEMENT ANALYST

July 15, 2002

State Controller's Office  
Jim L. Spano, Chief  
Compliance Audit Bureau  
600 Corporate Pointe, Suite 1000  
Culver City, CA 90230

Dear Mr. Spano:

During the 2000-2001 Election Year, our former Assistant Chief, Thomas Moutes allocated 30% of his administrative time to supervising the Vote By Mail operation. Mr. Moutes promoted out of his position in April 2001 and was replaced by Harry M. Jacobs, Assistant Chief for Operations. Mr. Jacobs reported that he spent the same percentage of time supervising the VBM Section from April to June 2001.

Sincerely,

  
Arleen P. Taylor, Chief  
Election Division

ATP:hj

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

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