



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

November 29, 2006

Larry Herrera, City Clerk
City of Long Beach

We have conducted certain agreed-to procedures in connection with Agreement number 29447 between Martin and Chapman Company and the City of Long Beach (City). This agreement governs the election services provided for the April 11, 2006 Primary Nominating Election and the June 6, 2006 General Municipal Election and the related payments due for services provided. The purpose of the review was to evaluate whether submitted charges were appropriate, properly supported and covered under the agreement and to identify areas for improved efficiencies in the contract and contract monitoring.

The scope of our review was for the term of the agreement, from December 13, 2005 through the completion of services following the official canvass of the General Municipal Election held on June 6, 2006. Our procedures included the following:

- Reviewing the agreement to obtain an understanding of its key provisions including services provided, payment terms, insurance requirements and record keeping;
- Interviewing City Clerk staff and contractor management staff regarding election procedures;
- Preparing comparative schedules of actual invoice charges to estimated charges provided with the contract;
- Identifying and analyzing "new" and "additional" invoice charges;
- Analyzing invoices for accuracy and compliance under the contract;
- Reviewing City insurance requirements for vendors.

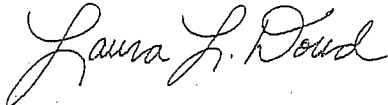
Based on the results of the procedures performed, we have identified several opportunities for enhancing support for invoice charges and improving efficiencies in the contract and contract monitoring. Detailed issues and recommendations are included in the body of this report.

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In addition, we note that our findings include a discussion of the \$24,000 postage dispute between Martin and Chapman and the City regarding a printing error. Specifically, our review found no adjustment or credit in the Martin and Chapman invoices regarding this. In light of the City's withholding of certain sums due to Martin and Chapman pending the outcome of the review, we recommend continuing to withhold the \$24,000 and seek clarification from Martin and Chapman on how, if at all, that amount was credited to the City in the subject invoices.

We appreciate and thank you and your staff for their cooperation and prompt responses to our requests, which facilitated the conduct of our review.

Sincerely,

A handwritten signature in cursive script that reads "Laura L. Doud".

Laura L. Doud, CPA
City Auditor

Attachments

cc: Alex Cherin, Assistant City Auditor

MARTIN & CHAPMAN CO.

Background

In accordance with the Long Beach City Charter, Article IV (f) the City Clerk is charged with conducting all City elections. Section 1909 of the City Charter stipulates that the City Clerk, with approval of the City Council, shall select a printing and consulting firm or firms by negotiation to provide the printed elections materials and supplies and advice necessary to assure that the election or elections be conducted in a timely manner and within the legal requirements of law. The printing and consulting firm or firms shall be selected based upon their experience in handling municipal elections and ability to produce the printed materials and supplies to ensure timely delivery and proper quality and quantity of such election materials.

The City of Long Beach (City), with the City Clerk Department, contracted with Martin & Chapman to provide support services during the April 11, 2006 Primary Nominating Election and the June 6, 2006 General Municipal Election. Martin & Chapman, a provider of election services, is listed on the California Secretary of State's approved vendor list as of May 2006 for Manufacturers and Finishers of Ballot Cards for use in California Elections, and is a provider of the OPTO-MARK type of ballot, the ballot type used by the City.

The term of the contract began December 13, 2005 and ended when Martin and Chapman completed its services following the official canvass of the General Municipal election held on June 6, 2006. Under the provisions of the contract, the City shall pay a maximum of \$706,199 for the April 11, 2006 Primary Nominating Election and a maximum of \$494,357 for the June 6, 2006 General Municipal Election for a contract total of \$1,200,556. Martin and Chapman invoiced the City \$630,819 on Invoice No. 26380 for the April 11, 2006 Primary Nominating Election and \$378,283 on Invoice No. 26381 for the June 6, 2006 General Municipal Election for a total of \$1,009,102 for both elections. An amount equal to 10% or \$100,910 has been withheld pending the results of our review.

The purpose of our review was to address management's concern about specific items on the invoices submitted for payment, as well as to evaluate the invoices in their entirety for accuracy and contract compliance, and to identify areas of improvement. The scope of our review was limited to the term of the agreement from December 2005 through the completion of services for the June 6, 2006 election. The procedures performed were limited to testwork necessary to evaluate the invoices submitted under the terms of the agreement.

Issues and Recommendations

Issue No. 1 - Miscellaneous Services

A specific line item for \$10,000 is included in the approved estimate in the contract and the final invoices. There is no supporting documentation that outlines services rendered for the \$10,000 charged on the invoices. Martin & Chapman explained that the amount was agreed upon by the former City Clerk for a variety of services provided near to and on election night such as responding to emails, phone calls, delivering of supplies, and extra staff for ballot counting. The current agreement is silent as to requiring supporting documentation for miscellaneous services. General business practice requires a detailed documentation accompany requests for payment. By not having such detail, we do not have a good understanding of what we are paying for and are missing valuable information needed to effectively analyze operations.

Recommendation No. 1

Management should consider revising the agreement to eliminate the lump sum payment and require supporting documentation that includes quantity, description, unit price and dollar amount of all services provided be included with requests for payment.

Issue No. 2 - No Supporting Documentation of Dollar Amount of Sample Ballots

Sample Ballot/Voter Information pamphlets are required during an election. Sample ballot costs for both elections totaled \$263,250, representing over 26% of the election charges paid to Martin & Chapman. Estimated pamphlet prices are based on the number of registered voters and the number of pamphlet pages and may increase or decrease accordingly. The invoice submitted for payment lists a dollar value for each type of sample ballot; however, there is no unit price indicated. The contract only requires a unit price be provided when the supplies actually furnished do not agree with the contract estimate. Consequently, unit prices are not provided for sample ballots. By not having a unit price to calculate the cost of the sample ballots, management is unable to reach a logical conclusion to substantiate the amount being charged for sample ballots.

Recommendation No. 2

Management should require that unit prices for sample ballots be provided and supporting documentation detailing the method of calculating sample ballot costs should accompany invoices submitted for payment of services.

Issue No. 3 - Variance between Approved Estimate and Actual Invoices

Invoice No. 23680 for the April 11, 2006 Primary Nominating Election was \$75,380 less than the approved estimate of \$706,199. Invoice No. 23681 for the June 6, 2006 General Municipal Election was \$116,074 less than the approved estimate of \$494,357. Total variance for both invoices is \$191,454 or approximately 16% of estimated cost.

Election Date	Estimate	Actual	Variance	% Variance
April 11, 2006	\$ 706,199	\$ 630,819	\$ 75,380	10.7%
June 2, 2006	494,357	378,283	116,074	23.4%
Total	\$1,203,556	\$1,009,102	\$191,454	16.0%

Estimates for current election services are compared to estimates of prior elections to determine if the percentage of increase is reasonable. There is no analysis of line items within the estimate. Also, estimates of election services are based on the number of registered voters at the time the estimate is prepared. Because voters are allowed to register up to 15 days before an election, the number of registered voters is subject to change. A change in the number of registered voters may increase or decrease the number of election services resulting in an increase or decrease in charges for election services.

Recommendation No. 3

Management should implement procedures whereby a detailed evaluation of estimates submitted to the City for election services is performed to eliminate substantial variances between estimated and actual charges for election services, allowing management to appropriately plan, budget and account for election expenditures.

Issue No. 4 – New and Additional Items

The amount of new and additional invoice items for the April 11 2006 Primary Nominating Election and the June 6, 2006 General Municipal Election were \$84,416 and \$51,761 respectively, totaling \$136,177. New and additional items may or may not be approved by City Clerk staff. Pre-approving new and additional items leaves an audit trail allowing these items to be compared to the final invoice. Not requiring pre-approval can lead to payment of unauthorized items. In the current invoices, new and additional items represent approximately 13.5% of the two invoices.

Election Date	Invoice Total	New & Additional Items	% Invoice
April 11, 2006	\$ 630,819	\$ 84,416	13.7%
June 6, 2006	378,283	51,761	13.7%
Total	\$1,009,102	\$ 136,177	13.5%

Recommendation No. 4

Management should implement procedures requiring pre-approval of new and additional items to the contract. Ongoing new and additional costs should be incorporated into the contract estimate. Language should be added to the contract stating that the City will not pay for items that were not approved.

Issue No. 5 – Unit Price

There are items on the Invoice for the April 11, 2006 Primary Nominating Election and the June 6, 2006 General Municipal Election that do not have an associated unit price but have an associated dollar value. Current contract language requires a unit price for new and additional items but does not address a unit price for all other items. Unit prices allow for the verification of dollar amounts being requested for payment. By not having a unit price we are unable to determine how the dollar value of an item was calculated.

Recommendation No. 5

Language should be added to the contract requiring an associated unit price for each item on the invoice.

Issue No. 6 - Insurance

There was no insurance on file with the City's Risk Manager at the time of this review. The current agreement requires Martin and Chapman, Co. to have General Liability, Workers Compensation, Professional or Errors and Omissions Liability, and Commercial Automobile liability insurance. The contractor is out of compliance with this requirement. Not having required insurances in place puts the City at substantial risk.

Recommendation No. 6

Management should verify and require that insurance required by the contract is in place prior to the performance of services or payment.

Issue No. 7 – Audit Clause

There is no audit clause in the current agreement. Audit clauses have become standard in most contracts because it allows access to information that can be used in performing financial analysis and making business decisions. Lack of an audit prevents the City from obtaining detailed data related to the invoices submitted for payment.

Recommendation No. 7

Include an audit clause in the language of future agreements.

Issue No. 8 – Service Cutoff Date

The current agreement does not include a final cutoff date for completion of services. A cutoff date eliminates paying for vendor charges incurred beyond a reasonable time frame necessary to complete election services.

Recommendation No. 8

Include a final cutoff date for completion of vendor services.

Issue No. 9 – Inventory of Election Supplies

At the completion of an election, there are unused election supplies remaining which are reusable, such as the Gray/Secrecy envelopes. Remaining supplies are returned to Martin and Chapman, however, the invoices do not reflect an adjustment for returned supplies and it is unclear whether the City is paying for returned supplies. An inventory of election supplies should be performed to document returned supplies, and the vendor invoice should be reduced by the value of the returned supplies.

Recommendation No. 9

An inventory of election supplies should be performed before and after each election. The inventory used should be compared to the invoice to confirm that the City is only paying for supplies used.

Issue No. 10 – Mathematical Verification of Invoices

Mathematical verification of Invoice No. 26830 for the April 11, 2006 Primary Nominating Election and Invoice No. 26831 for the June 6, 2006 General Municipal Election lead to a \$76 variance. Invoices should be mathematically verified for accuracy. Not verifying invoices for accuracy may lead to overpayment.

Recommendation No. 10

Management should deduct \$76 from the balance due to the vendor and require invoices to be mathematically verified for accuracy prior to submission for payment.

Issue No. 11 - Postage

The City Clerk paid \$24,000 for postage associated with the mailing of correction notices to Sample Ballots, Official Ballots and the Official 2006 Primary Nominating Election ballot. The contract requires the use of the contractor's bulk mail permit for the mailing of the City's sample ballots. Due to a printing error in the sample ballots and the timing deadlines for the mailing of the correction notices, the City paid for the mailing of the correction notices and was not able to take advantage of the bulk mail rate in accordance with the contract. There was no adjustment in the invoice submitted for payment for the cost of mailing the correction notices.

Recommendation No. 11

Deduct \$24,000 for the cost of mailing the correction notices from the \$100,910 balance due Martin & Chapman along with the \$76 adjustment (Issue No. 10) above and remit \$76,834 as final payment for services rendered under Agreement No. 29447.