

PROPOSITION 47 SAFE NEIGHBORHOODS AND SCHOOLS FUND

Report to the California State Legislature

**GRANTS PROGRAM OPERATED BY
THE BOARD OF STATE AND COMMUNITY
CORRECTIONS, CALIFORNIA VICTIM
COMPENSATION BOARD, AND CALIFORNIA
DEPARTMENT OF EDUCATION**

July 1, 2017, through June 30, 2020



BETTY T. YEE
California State Controller

July 2020



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California State Controller

July 2, 2020

Members of the California State Legislature and the People of California
State Capitol Building
Sacramento, CA 95814

Dear Senators, Assembly Members, and the People of California:

I am pleased to present you with the State Controller's Office biennial report concerning the Proposition 47 Safe Neighborhoods and Schools Fund Grants Program operated by the Board of State and Community Corrections, the California Victim Compensation Board, and the California Department of Education. This report has been prepared pursuant to Government Code section 7599.2(c).

During this reporting period, State Controller's Office completed the following:

- Audits of the three administrative agencies that operate the grants program; and
- Audits of three grantees that received grants from these administrative agencies.

We reviewed \$1,667,078 in program expenditures related to administrative costs and grantee expenditures. We found \$316,131 in unallowable and questioned costs.

Please direct any questions regarding this report to Jim L. Spano, CPA, Chief of our Division of Audits, at (916) 324-1696.

Sincerely,

Original signed by

BETTY T. YEE

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Audit Report

Summary

This report summarizes the results of the State Controller's Office (SCO) audit of the Proposition 47 Safe Neighborhoods and Schools Fund (SNSF) Grant Program during the period of July 1, 2018, through June 30, 2020. This report has been prepared pursuant to Government Code (GC) section 7599.2(c).

SCO completed audits of three agencies that administer and oversee the grant program. The agencies audited are the Board of State and Community Corrections (BSCC), the California Victim Compensation Board (CalVCB), and the California Department of Education (CDE).

SCO completed audits of the following grantees for the period of FY 2017-18 through FY 2019-20:

- The Grace Network (TGN)
- Oakland Unified School District (OUSD)
- Yolo County Health Care Services Agency (Yolo County HCSA)

The purpose of these audits were to determine whether program funds were disbursed and expended in accordance with program guidelines and grant requirements, as required by GC section 7599.2(c), and applicable laws and regulations.

We reviewed \$1,667,078 in program expenditures related to administrative costs and grantee expenditures. We found \$316,131 in unallowable and questioned costs.

The audit report findings are broadly classified as follows:

Findings of Administrative Agencies (BSCC, CalVCB, and CDE)

- Unallowable program costs;
- Paid expenditures were not supported by sufficient financial and/or accounting documentation;
- Lack of adequate accounting policies and procedures to ensure that invoices are properly reviewed and approved;
- Ineligible administrative costs; and
- Inadequate fiscal-monitoring control over grant expenditures.

Findings of Grantees (TGN, OUSD, and Yolo County HCSA)

- Non-compliance with established criteria;
- Unallowable labor costs;
- Unsupported program expenditures;
- Unallowable program expenditures;
- Lack of adequate accounting policies and procedures to ensure that invoices are properly reviewed and approved; and

- Ineligible administrative costs.

Except for the issues described in the results, we found that the administrative agencies and grantees were generally in compliance with the program guidelines and grant requirements, and that program funds were disbursed and expended legally, properly, and in accordance with program requirements.

Background

Proposition 47 – Safe Neighborhoods and Schools Fund

On November 4, 2014, California voters approved Proposition 47, which reduces penalties for certain offenders convicted of non-serious and nonviolent property and drug crimes. It also allows some offenders to apply for reduced sentences. Proposition 47 established the Safe Neighborhoods and Schools Fund, which is funded by savings that accrue to the State from implementation of the measure. This mandate is expected to save significant state corrections dollars annually.

Savings resulting from Proposition 47 are transferred to the Safe Neighborhoods and Schools Fund to be used in support of truancy reduction and drop-out prevention programs for public school pupils in grades K through 12, increase victim services grants, and support substance abuse and mental health treatment and diversion programs for people in the criminal justice system.

The FY 2019-20 governor’s budget summary estimates net General Fund savings of \$78.5 million from Proposition 47 in FY 2018-19, an increase of \$13.8 million over the estimated savings in FY 2017-18.

Audit Authority

The legal authority to conduct this audit is provided by GC section 7599.2(c), which requires the Controller, every two years, to conduct an audit of the Proposition 47 SNSF Grants Program operated by BSCC, CalVCB, and CDE “to ensure the funds are disbursed and expended solely according to this chapter” and to “report his or her findings to the Legislature and the Public.”

In addition, GC section 12410 states, in part:

The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment.

Objective, Scope, and Methodology

The objective of our audits of administrative agencies and grantees is to ensure that grant funds expenditures are adequately accounted for, and disbursed and expended as required, in compliance with applicable laws, regulations, and agreement terms and conditions.

The audits of the administrative agencies also determined if they:

- Provided proper oversight of Proposition 47 grantees;

- Had adequate and fair contract awarding processes in place; and
- Had adequate financial management systems and proper controls in place to segregate Proposition 47 funds.

None of these audits included objectives related to economy and efficiency measures.

To achieve our objective for auditing administrative agencies and grantees, we:

- Identified the Proposition 47 SNSF Grants Program background, criteria, purpose, and requirements by reviewing the FY 2017-18, FY 2018-19, and FY 2019-20 Governor's Budgets, GC sections 7599 through 7599.2, and the California Department of Finance fund classification and basis for the Safe Neighborhoods and Schools Fund;
- Interviewed key personnel, completed internal control questionnaires, and performed a limited walk-through of critical controls in order to gain a general understanding of internal controls related to the Proposition 47 SNSF Grants Program, such as procedures performed by staff when awarding grants, reviewing and approving expenditures, monitoring the Proposition 47 SNSF Grants Program, and recording disbursements and expenditures in financial management system;
- Assessed internal controls related to the Proposition 47 SNSF Grants Program by reviewing policies and procedures, guidelines, grant agreements, and grant processes; identified controls critical to our audit objective; and conducted limited tests of those controls to determine whether the controls were functioning as intended, and whether agencies were in compliance with applicable provisions of laws, regulations, and established criteria; and
- Performed various audit procedures on grant dollars awarded, disbursed and expended.

The administrative agencies awarded 56 grants with a total of \$126,587,928, of which \$4,680,599 was disbursed. Total administrative costs of \$1,162,200 charged by these agencies were within the 5% threshold required by GC section 7599.2(b). The grantees were awarded a total of \$20,460,940, of which \$6,139,701 was disbursed. Total grantee expenditures were \$4,918,839.

Audit Results

The audit results and finding of the audit of the three administrative agencies (BSCC, CalVCB, and CDE) and three grantees (TGN, OUSD, and Yolo County HHS) are summarized below. Auditee's responses, if received, to the audit results and recommendation are also summarized. The full audit reports for the six audits summarized below are available online at www.sco.ca.gov.

Audits of Administrative Agencies

BSCC – Audit of FY 2016-17

- Awarded 23 grants, totaling \$103,651,000, during the audit period of FY 2016-17. We verified that no funds were disbursed to grantees

during that period. BSCC charged \$765,083 in administrative costs to the Proposition 47 SNSF Grants Program that were within the 5% threshold required by GC section 7599.2(b); and

- Our audit found that BSCC has adequate internal control over administration and implementation of the Proposition 47 SNSF Grants Program, and ensured that program funds were properly disbursed and expended as required by GC section 7599.2(c).

CalVCB – Audit of FY 2016-17

- Awarded five grants, totaling \$3,857,744, of which \$292,873 was disbursed to two awardees during the audit period of FY 2016-17. CalVCB did not charge any administrative costs to the Proposition 47 SNSF Grants Program for that period; and
- Our audit found that CalVCB lacks adequate internal control over the invoice review and approval process for grant recipients, resulting in the reimbursement of \$6,341 in unallowable costs. We recommended that CalVCB:
 - Ensure that all expenditures reimbursed to trauma recovery centers with Proposition 47 SNSF grant funds are program-related, allowable costs in accordance with Proposition 47 SNSF Grants Program requirements; and
 - Either seek reimbursement of unallowable expenditures from the grantees (\$6,102 from TGN and \$239 from St. Francis Medical Center Foundation), or offset and deduct the unallowable costs from the grantees' future claims as required by GC sections 13965 through 13966.
- Also, our audit found \$223,342 of costs without adequate supporting documentation, totaling \$229,683. We recommended that CalVCB:
 - Ensure that all program expenditures that are reimbursed to trauma recovery centers with Proposition 47 SNSF Grants Program funds are supported by sufficient financial and/or accounting documentation; and
 - Establish adequate policies and procedures to ensure that grant recipients are in compliance with such requirements.
- In addition, our audit recommended that CalVCB develop and implement adequate accounting policies and procedures to ensure that invoices are properly reviewed and approved.
- CalVCB agreed with our audit result except CalVCB believed it was not necessary to develop new accounting policies and procedures, but agreed to strengthen existing policies and procedures.

CDE – Audit of FY 2016-17 and FY 2017-18

- Awarded 28 grants, totaling \$19,079,184, of which \$4,382,726 was disbursed to 20 awardees during the audit period of FY 2016-17 and FY 2017-18. CDE charged \$478,008 (\$80,891 in FY 2016-17, and \$397,117 in FY 2017-18) in administrative costs to the Proposition 47 SNSF Grants Program that were within the 5% threshold required by GC section 7599.2(b); and

- Our audit found that CDE is properly awarding grants and providing oversight of the Proposition 47 SNSF Grants Program. However, CDE did not adequately account for the administrative costs charged to the program. Our testing of labor costs disclosed that CDE erroneously charged an employee's time to the program in FY 2017-18, although this employee did not perform any activities related to the Proposition 47 SNSF Grants Program. As a result, CDE over-claimed \$18,482 (\$11,152 in salaries and \$7,330 in benefits) in program administrative costs. We recommended that CDE:
 - Ensure that all administrative costs charged to the Proposition 47 SNSF Grants Program are program-related, eligible, allowable, reasonable, and in accordance with program requirements; and
 - Make necessary accounting corrections for the labor costs of \$18,482 overcharged to the program.
- In addition, CDE failed to implement adequate fiscal monitoring control over SNSF grant expenditures in accordance with the internal guidelines presented in the *Funding Handbook*. Our review of the 15 selected grantees' files disclosed that there was no monitoring documentation such as checklists showing comprehensive reviews of the grantees' expenditure reports. According to CDE program staff, reviews of grantee expenditures were limited to a comparison of the grantees' approved budgets to their actual expenditures. Furthermore, the reported expenditures were not supported by financial and/or accounting records (such as general ledger expenditure reports, timesheets, and payroll records, etc.) to provide reasonable assurance that expenditures were actual, accurate, and allowable program costs. Despite the lack of such records, CDE program staff approved all expenditure reports. We recommended that CDE:
 - Strengthen its fiscal monitoring efforts by ensuring that it conducts comprehensive reviews of grantees' expenditure reports; and
 - Obtain adequate and sufficient financial and accounting reports from grantees to support the grant expenditure reports.
- CDE concurred with the audit findings and recommendations.

Audits of Grantees

TGN – Audit of FY 2016-17 and FY 2017-18

- TGN received \$733,333 in Proposition 47 SNSF grant funds from CalVCB, and disbursed a total of \$667,423. The amount disbursed was comprised of \$604,297 in allowable costs and \$63,129 that was adjusted and/or disallowed by CalVCB during the audit period of July 1, 2016, through June 30, 2018. The unallowable costs occurred primarily because the claimed grant expenditures were not expended in compliance with the grant agreement and/or approved budget and established criteria; and
- Our audit found that TGN did not comply with the disciplinary staffing provisions as specified in the grant agreement, program requirements, and established criteria. Specifically, no psychologists were employed during the grant term to provide mental health services

to crime victims as required by law. In addition, the staff psychiatrist at TGN worked only from December 2016 through October 2017, instead of throughout the entire grant period of September 1, 2016, through June 30, 2018. We recommended that TGN comply with the specific terms of its grant agreement and applicable laws and regulations.

- TGN agreed with the findings and recommendations.

OUSD – Audit of FY 2016-17 and FY 2017-18

- OUSD received \$1,759,400 in Proposition 47 SNSF grant funds from CDE, and disbursed a total of \$586,467 in FY 2017-18. We verified that OUSD expended \$33,028 in FY 2017-18, and did not expend any grant funds in FY 2016-17; and
- Our audit found that OUSD adequately accounted for Proposition 47 SNSF grant expenditures and ensured that program funds were properly disbursed and expended in accordance with program guidelines and grant agreements, and as required by GC section 7599.2 (c).

Yolo County HHSA – Audit of FY 2016-17 through FY 2018-19

- The Yolo County HHSA received \$5,968,214 in Proposition 47 SNSF grant funds from BSCC, and disbursed \$733,385 (\$238,430 in FY 2017-18, and \$494,955 in FY 2018-19). We verified that the Yolo County HHSA expended \$733,385 in Proposition 47 SNSF grant funds (\$238,430 in FY 2017-18, and \$494,955 in FY 2018-19), and expended no Proposition 47 SNSF grant funds during FY 2016-17 as required by GC section 7599.2(c); and
- Our audit found that the Yolo County HHSA did not adequately account for the labor costs charged to the Proposition 47 SNSF Grants Program. Our testing of labor costs disclosed that the Yolo County HHSA erroneously charged an employee's time to the program in FY 2018-19, although this employee did not perform any activities related to the Proposition 47 SNSF Grants Program. As a result, the Yolo County HHSA over-claimed \$4,837 in labor costs. We recommended that Yolo County HHSA:
 - Ensure that all labor costs charged to the Proposition 47 SNSF Grants Program are program-related, eligible, allowable, reasonable, and in accordance with program requirements;
 - Make necessary accounting corrections for the labor costs of \$4,837 over-claimed to the Proposition 47 SNSF Grants Program; and
 - Reimburse \$4,837 to the BSCC for the unallowable labor costs claimed, or request that the BSCC offset Yolo County HHSA's future claims by \$4,837.
- Yolo County HHSA agreed with the finding and recommendation.

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

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