

ORANGE COUNTY HEALTH CARE AGENCY

Audit Report

PROPOSITION 47 SAFE NEIGHBORHOODS AND SCHOOLS FUND GRANT EXPENDITURES

August 15, 2019, through May 15, 2023



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

October 2025



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

October 24, 2025

Dr. Veronica Kelly, Director
Orange County Health Care Agency
405 West 5th Street
Santa Ana, CA 92701

Dear Dr. Kelly:

This is the final report on our audit of the Orange County Health Care Agency's Proposition 47 Safe Neighborhoods and Schools Fund grant expenditures for the period of August 15, 2019, through May 15, 2023.

If you have any questions regarding this report, please contact Roochel Espilla, Chief, State Agency Audits Bureau by telephone at 916-323-5744. Thank you.

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

KAT/rs

Dr. Veronica Kelly

October 24, 2025

Page 2 of 2

Copy: Lorraine Daniel, Assistant Director
Orange County Health Care Agency
Ian Kemmer, LMFT, Director
Behavioral Health Services
Orange County Health Care Agency
Linda Molina, Deputy Director
Behavioral Health Services
Orange County Health Care Agency
Ana Hernandez, Service Chief II
Behavioral Health Services
Orange County Health Care Agency
Cindy Wong, Manager
Accounting Services
Orange County Health Care Agency
Cecilia Diaz-Garcia, Manager
Orange County Health Care Agency
DeeDee Franks, Manager
Financial Support, Financial and Program Support Services
Orange County Health Care Agency
Anthony Le, Manager
Program Support, Financial and Program Support Services
Orange County Health Care Agency
Juan Corral, Division Manager
Procurement and Contract Services
Orange County Health Care Agency
Colleen Curtin, Deputy Director
Board of State and Community Corrections
Juanita Reynaga, Senior Management Auditor
Board of State and Community Corrections

Contents

Audit Report

Summary	1
Background	1
Audit Authority.....	2
Objective, Scope, and Methodology	2
Conclusion	4
Follow-up on Prior Audit Findings.....	4
Views of Responsible Officials.....	4
Restricted Use	4
Schedule 1—Summary of Grant Awards, Amounts Disbursed and Expended, and Audit Adjustments.....	5
Schedule 2—Summary of Program Costs	6
Finding and Recommendation	7
Attachment—Orange County Health Care Agency’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) conducted a performance audit of Orange County Health Care Agency's (OCHCA) Proposition 47 Safe Neighborhoods and Schools Fund grant expenditures for the period of August 15, 2019, through May 15, 2023. The purpose of the audit, as required by Government Code (GC) section 7599.2(c), was to determine whether Proposition 47 grant funds were disbursed and expended in accordance with program guidelines and grant requirements, and with applicable laws and regulations.

Our audit determined that during the period of August 15, 2019, through May 15, 2023, the Board of State and Community Corrections (BSCC) awarded OCHCA with \$6,000,000 in Proposition 47 grant funds. We also determined that OCHCA expended \$5,354,329 in Proposition 47 grant funds (\$2,870 in fiscal year [FY] 2019-20, \$1,274,164 in FY 2020-21, \$2,104,104 in FY 2021-22, and \$1,973,191 in FY 2022-23).

Our audit found instances in which OCHCA did not disburse or expend Proposition 47 grant funds in accordance with program guidelines and grant requirements, or with applicable laws and regulations. Specifically, we found that OCHCA did not adequately account for \$650,628, comprised of \$619,646 in Community-Based Organization (CBO) subcontractor costs associated with Charitable Ventures of Orange County (Charitable Ventures), and \$30,982 in related indirect costs. We questioned the CBO subcontractor costs and the related indirect costs because OCHCA did not maintain sufficient financial or accounting records to support them.

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 from the General Fund 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 kindergarten through grade 12, increase victim services grants, and support substance abuse and mental health treatment and diversion programs for people in the criminal justice system.

Orange County Health Care Agency

OCHCA falls under Orange County's Community Services Program. It serves the population of Orange County through its functional areas, with over 2,800 employees. Its functional areas provide services to address community health in a variety of sectors throughout the county.

On August 29, 2019, BSCC awarded OCHCA with \$6,000,000 from the Proposition 47 Grants Program. The original grant funding period was from August 15, 2019, through May 15, 2023. In September 2023, the grant period was extended through May 15, 2024.

OCHCA used grant funds to establish a support system for individuals in Orange County who have been incarcerated and struggle with substance abuse and mild to moderate mental health issues. The program offered “inreach” services in jails; shelter for individuals released from prison at night; and a variety of treatment, housing, and integrated supportive services to address the needs of the reentry population and reduce repeat offenses.

Audit Authority

We conducted this audit in accordance with GC section 7599.2(c), which requires the SCO, every two years, to conduct an audit of the Proposition 47 Grants Program operated by BSCC to ensure that “the funds are disbursed and expended solely according to this chapter” and to report its findings to the California State Legislature. In addition, GC section 12410 provides the SCO with general authority to audit the disbursement of state money for correctness, legality, and sufficient provisions of law for payment.

Objective, Scope, and Methodology

Our audit objective was to determine whether OCHCA disbursed and expended its Proposition 47 grant funds in accordance with program guidelines and grant requirements, and with applicable laws and regulations.

The audit period was August 15, 2019, through May 15, 2023.

To achieve our objective, we performed the following procedures:

- We identified the Proposition 47 Grants Program background, criteria, purpose, and requirements by reviewing GC sections 7599 through 7599.2, and the California Department of Finance fund classification and basis for the Safe Neighborhoods and Schools Fund.
- We reviewed OCHCA’s Proposition 47 grant files, grant agreements, program guidelines and requirements, and invoices.
- We reviewed OCHCA’s claimed Proposition 47 grant expenditures and performed analytical procedures and budgetary analyses to identify material cost components of each claim, any errors, and any unusual or unexpected variances.
- We interviewed OCHCA’s key personnel; completed internal control questionnaires; reviewed documents and records, policies and procedures, guidelines, grant agreements, and grant processes; and traced transactions and activities through the system to gain an understanding of OCHCA’s internal controls related to the Proposition 47 Grants Program; and we identified controls significant to our audit objective.
- We assessed the design and implementation of controls over OCHCA’s processes for subcontractor costs.

Our consideration of internal control was for the limited purpose described in the previous paragraph and determining the auditing procedures that were appropriate under the circumstances for the purpose of providing a conclusion based on our audit objective.

- We verified that BSCC disbursed \$5,354,329 in Proposition 47 grant funds to OCHCA, and that OCHCA expended the entire amount (\$2,870 in FY 2019-20, \$1,274,164 in FY 2020-21, \$2,104,104 in FY 2021-22, and \$1,973,191 in FY 2022-23).
- We selected a sample of transactions using judgmental (non-statistical) sampling and:
 - Traced the transactions to supporting documentation, and performed analytical procedures and budgetary analyses; and
 - Tested compliance with applicable laws, regulations, internal policies and procedures, and program requirements.

We chose judgmental sampling because it allows us to achieve our objectives for tests of compliance in an efficient and effective manner. We did not project the results to the intended (total) population.

- We examined \$360,980 of \$5,354,329 in total claimed program costs. Specifically, we tested \$360,980 (or 7.5%) of \$4,823,302 in CBO subcontractor costs.
- We assessed the reliability of computer-processed data for Proposition 47 grant expenditures by interviewing OCHCA officials knowledgeable about the data, reviewing existing information about the data and the system that produced it, and tracing data to source documents, based on judgmental sampling. We determined that the data was sufficiently reliable for the purposes of this report.

We did not examine the information-system controls or the economy, efficiency, or effectiveness of the program. Our audit of the program was related solely to program expenditures as required by GC section 7599.2(c).

We did not audit OCHCA's financial statements. We limited our audit scope to planning and performing audit procedures necessary to achieve our audit objective. In addition, our review of internal control was limited to gaining an understanding of the transaction flows and financial-management accounting system, and assessing the design and implementation of controls regarding OCHCA's ability to accumulate and segregate reasonable and allowable program costs.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

We found instances in which OCHCA did not disburse or expend Proposition 47 funds in accordance with program guidelines and grant requirements, or with applicable laws and regulations. Specifically, we found that OCHCA did not adequately account for \$650,628, comprised of \$619,646 in CBO subcontractor costs and \$30,982 in related indirect costs. We questioned these costs because OCHCA did not maintain sufficient financial or accounting records to support them.

These instances of noncompliance are quantified in Schedules 1 and 2, and described in the Finding and Recommendation section.

**Follow-up on
Prior Audit
Findings**

We have not previously conducted an audit of OCHCA's Proposition 47 grant expenditures.

**Views of
Responsible
Officials**

We issued a draft report on April 10, 2025. An OCHCA representative responded by letter dated May 9, 2025, stating that OCHCA agreed with the recommendation and partially agreed with the audit results, and providing additional information and context. Our comments on OCHCA's response to the finding are included in the Finding and Recommendation section. This final audit report includes OCHCA's response as an attachment.

Restricted Use

This audit report is solely for the information and use of OCHCA, BSCC, 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 and is available on the SCO website at www.sco.ca.gov.

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

October 24, 2025

Schedule 1—
Summary of Grant Awards, Amounts Disbursed and
Expended, and Audit Adjustments
August 15, 2019, through May 15, 2023

The following table summarizes the grant award, the amounts disbursed and expended during the audit period, and the audit adjustment. All monetary amounts are rounded to the nearest whole dollar.

Fiscal Year	Amount Awarded	Amount Disbursed	Amount Expended	Amount Allowable	Audit Adjustment
2019-20	\$ 6,000,000	\$ 2,870	\$ 2,870	\$ 2,870	\$ -
2020-21	-	1,274,164	1,274,164	1,039,510	234,654
2021-22	-	2,104,104	2,104,104	1,870,098	234,006
2022-23	-	1,973,191	1,973,191	1,791,223	181,968
Total	\$ 6,000,000	\$ 5,354,329	\$ 5,354,329	\$ 4,703,701	\$ 650,628

Schedule 2— Summary of Program Costs August 15, 2019, through May 15, 2023

Program Cost Element	Amount Expended	Amount Allowable	Audit Adjustment	Reference
<u>August 15, 2019, through June 30, 2020</u>				
Direct costs:				
Subcontractor costs	\$ -	\$ -	\$ -	
Data collection	-	-	-	
Other travel and training	2,733	2,733	-	
Total direct costs	2,733	2,733	-	
Total indirect costs	137	137	-	
Total program costs	<u>\$ 2,870</u>	<u>\$ 2,870</u>	<u>\$ -</u>	
<u>July 1, 2020, through June 30, 2021</u>				
Direct costs:				
Subcontractor costs	\$ 1,187,045	\$ 963,565	\$ 223,480	Finding
Data collection	26,445	26,445	-	
Other travel and training	-	-	-	
Total direct costs	1,213,490	990,010	223,480	
Total indirect costs	60,674	49,500	11,174	Finding
Total program costs	<u>\$ 1,274,164</u>	<u>\$ 1,039,510</u>	<u>\$ 234,654</u>	
<u>July 1, 2021, through June 30, 2022</u>				
Direct costs:				
Subcontractor costs	\$ 1,947,625	\$ 1,724,762	\$ 222,863	Finding
Data collection	56,284	56,284	-	
Other travel and training	-	-	-	
Total direct costs	2,003,909	1,781,046	222,863	
Total indirect costs	100,195	89,052	11,143	Finding
Total program costs	<u>\$ 2,104,104</u>	<u>\$ 1,870,098</u>	<u>\$ 234,006</u>	
<u>July 1, 2022, through May 15, 2023</u>				
Direct costs:				
Subcontractor costs	\$ 1,688,632	\$ 1,515,329	\$ 173,303	Finding
Data collection	190,597	190,597	-	
Other travel and training	-	-	-	
Total direct costs	1,879,229	1,705,926	173,303	
Total indirect costs	93,962	85,297	8,665	Finding
Total program costs	<u>\$ 1,973,191</u>	<u>\$ 1,791,223</u>	<u>\$ 181,968</u>	

Finding and Recommendation

**FINDING—
Inadequate
accounting for
subcontractor costs
and related
indirect costs**

OCHCA did not adequately manage and account for CBO subcontractor costs totaling \$619,646 (\$223,480 in FY 2020-21; \$222,863 in FY 2021-22; and \$173,303 in FY 2022-23), and \$30,982 in related indirect costs charged to the Proposition 47 Grants Program during the audit period.

We determined that the CBO subcontractor—Charitable Ventures, acting through its fiscally sponsored project, Project Kinship—claimed program costs totaling \$4,823,302, comprised of \$4,203,656 in direct costs and \$619,646 in indirect costs. Of these amounts, we judgmentally selected and examined \$360,980 (\$301,340 in direct costs and \$59,640 in indirect costs). Based on our examination, we determined that the direct cost component of CBO subcontractor costs was allowable, supported with adequate documentation, and complied with program requirements.

However, we questioned the validity and accuracy of the \$619,646 (\$223,480 in FY 2020-21; \$222,863 in FY 2021-22; and \$173,303 in FY 2022-23) in claimed CBO subcontractor costs, representing 100% of Charitable Ventures' indirect costs, because OCHCA and Charitable Ventures could not provide adequate documentation to support the claimed costs. Charitable Ventures' claimed indirect costs were also higher than the \$370,203 in indirect costs that was proposed in the budget narrative of the grant application approved by BSCC. We also questioned the validity and accuracy of the associated \$30,982 in indirect costs (calculated at 5%) claimed by OCHCA.

We have concerns about OCHCA's lack of oversight and accountability measures for grant funds management and compliance with program guidelines concerning the CBO subcontractor's indirect costs. We determined that Charitable Ventures' indirect cost calculations shown in the monthly Expenditures and Revenues Reports were flawed. Initially, Charitable Ventures' representative stated that indirect costs had been calculated by applying a rate of between 12% and 15% to direct costs. We recalculated the indirect costs using the rates and methodology provided by Charitable Ventures, but we could not arrive at the reported total for indirect costs. Although OCHCA worked with Charitable Ventures to resolve the differences, they were unable to reconcile the reported indirect costs with our recalculation. Charitable Ventures' representative acknowledged that the reported indirect costs were miscalculated; however, OCHCA had already approved all expenditure claims and billed BSCC for reimbursement.

Moreover, OCHCA failed to secure necessary accounting records from Charitable Ventures, as required by Title 2, Code of Federal Regulations, part 225, "Cost Principles for State, Local, and Indian Tribal Governments ([Office of Management and Budget] Circular A-87)," to validate the classification of direct and indirect costs. In a letter dated December 24, 2013, the Orange County Auditor-Controller's Office highlighted this federal requirement for all contract providers and emphasized the need for such documentation.

BSCC Grant Agreement Number 545-19, Exhibit B – Budget Detail and Payment Provisions, Section 4, “Project Costs,” paragraph C. states, “Grantee is responsible for ensuring that invoices submitted to the BSCC claim actual expenditures for eligible project costs.”

Section 4, “Project Costs,” paragraph D. states:

Grantees shall, upon demand, remit to the BSCC any grant funds not expended for eligible project costs or an amount equal to any grant funds expended by the Grantee in violation of the terms, provisions, conditions or commitments of this Grant Agreement.

BSCC Grant Agreement Number 545-19, Exhibit D – Special Terms and Conditions, Section 5, “Accounting and Audit Requirements,” begins:

A. Grantee agrees that accounting procedures for grant funds received pursuant to this Grant Agreement shall be in accordance with generally accepted government accounting principles and practices, and adequate supporting documentation shall be maintained in such detail as to provide an audit trail. Supporting documentation shall permit the tracing of transactions from such documents to relevant accounting records, financial reports and invoices. . . .

Item 2, “Responsible Agency,” of Section 1.C in the BSCC *Grant Administration Guide* (July 2016) states, in part:

The Grantee . . . is the agency responsible for the implementation and administration of the Grant Project . . . and for providing all matching funds as specified in the grant budget. The Grantee may not transfer or assign the Grant Agreement to another agency or party. Additionally, the Grantee shall ensure that all subcontractors comply with the requirements of the Grant Agreement. . . .

Section 18, “Records,” of the BSCC *Grant Administration Guide* begins:

Agencies are required to maintain accurate, complete, orderly, and separate records for each BSCC-funded grant. All grant records and documents must be adequately protected from fire, theft or other damage or loss. If an agency does not store [its] records at the project’s principal office, then the agency must maintain a written index of the records and ensure that the files can be readily accessed.

Section 19.A., “Withholding or Disallowance of Grant Funds,” of the BSCC *Grant Administration Guide* begins:

The BSCC may withhold grant funds and/or disallow expenditures anytime the project fails to comply with any term or condition of the Grant Award. . . .

The December 24, 2013 letter from the Orange County Auditor-Controller’s Office states:

. . . Over the last couple of years, the Auditor-Controller’s Office and the Health Care Agency Financial and Administrative staff have been working together to address certain procedural and reporting processes and requirements per federal and state guidelines both from the Agency’s and the Provider’s sides. One such effort placed an emphasis to ensure that all direct and indirect costs were properly classified per the federal regulation 2 CFR [Title 2, Code of Federal Regulations] part 225 (formerly [Office of Management and Budget] Circular A-87), Costs Principles for State, Local, and Indian Tribal Governments. . . .

Starting with FY 2014/15, the County has taken extra steps to ensure

compliance with this federal regulation and requests the information provided on the budget and supporting documentation for invoicing. . . .

It is the responsibility of the provider of the service to ensure [that] all costs are properly classified as a direct or administrative cost based on the direction provided in 2 CFR Part 225 and be able to support the amounts provided. . . .

Recommendation

We recommended that OCHCA:

- Conduct robust and comprehensive reviews of CBO subcontractor costs to ensure that its subcontractor maintains sufficient documentation to substantiate the indirect cost claims; and
- Work with BSCC and return any unallowable CBO subcontractor costs and associated indirect costs.

OCHCA's Response

OCHCA disagrees with the finding that “*OCHCA did not adequately manage and account for CBO subcontractor costs totaling \$619,646 (\$223,480 in FY 2020-21; \$222,863 in FY 2021-22; and \$173,303 in FY 2022-23), and \$30,982 in related indirect costs charged to the Proposition 47 Grants Program during the audit period.*” Subcontractor costs are tracked utilizing the Expenditure and Revenue Report (E&R) as part of OCHCA's invoice review and approval process. Contract monitoring activities also include an annual cost report close out process, annual site visits, annual program evaluations, monthly contractor provider meetings, and daily/weekly touchpoints as needed. The Community Based Organization (CBO) subcontractors in this partnership were Charitable Ventures of Orange County (CVOC) acting as the fiscal sponsor and Project Kinship (PK) providing the service delivery. Throughout the contract term, CVOC submitted detailed monthly E&R reports and invoices reflecting both direct and indirect costs. These were reviewed and processed through county approval procedures prior to payment.

The Board of State and Community Corrections (BSCC) completed a site visit on July 22, 2019, and had no concerns with OCHCA's management of or accounting for CBO subcontractor costs. BSCC completed a second site visit on September 19, 2023. At that time, BSCC verbally complimented HCA for the monitoring activities that were in place. OCHCA disagrees that “*OCHCA and Charitable Ventures could not provide adequate documentation to support the claimed costs.*” OCHCA requires that CBO subcontractors maintain back-up documentation of all costs for grants in which they are subrecipients. While the backup documentation received from CVOC was not provided at the onset of the audit, OCHCA was able to obtain and share with the State Controller's Office (SCO) audit team detailed expenditures from CVOC/PK prior to audit completion that substantiates the indirect costs and supports that the subcontractor had indirect costs which exceeded those charged to the BSCC grant. OCHCA has attached additional documentation provided by CVOC/PK since the SCO onsite visit in November 2023 for SCO consideration. The auditor found that for the period sampled, the indirect costs were not consistently calculated. The SCO audit team tested the CBO indirect costs invoiced against the county contract language of 15% rather than against the BCSS budgeted amount of \$370,203.

When the auditors were onsite in November 2023, they verbally confirmed the services by CVOC/PK were rendered in accordance with the BSCC grant. However, SCO has recommended disallowance of all indirect costs for providing the services. OCHCA disagrees with this recommendation, as the CVOC/PK and OCHCA incurred costs to administer the grant and provided supporting documentation of those actual costs to the auditor. Disallowing 100% of actual CBO's indirect costs disregards the burden to administer grant funds and discourages CBO's from partnering with the county and BCSS to create new and transformative behavioral health services in line with the state's vision for justice involved individuals.

OCHCA agrees with the finding that the claimed indirect costs for Charitable Ventures were higher than the \$370,203 proposed in the grant application budget narrative approved by BSCC. OCHCA's contract with Charitable Ventures allowed for an indirect rate of 15% of total direct expenses which was greater than the \$370,203 of indirect costs approved by BSCC in the proposal. OCHCA did not request a budget modification to shift funding between categories to allow for claiming the actual indirect costs incurred by Charitable Ventures to provide the grant services. OCHCA understands that the difference between the \$619,646 of CBO indirect costs invoiced and the \$370,203 approved indirect cost resulted in the overclaiming of \$249,443 may be considered for disallowance by BCSS. Because OCHCA did provide documentation which supports more than \$370,203 in indirect costs for the CBO, OCHCA respectfully requests SCO recommend a partial disallowance of \$249,443 for CBO's costs plus the related indirect costs of \$12,472 (5% of \$249,443) for a total of \$261,915, rather than blanket disallowance of \$650,628 for all CBO's costs and the related indirect costs.

Finally, OCHCA respectfully requests that SCO reconsider the following language in the draft report:

"We have significant concerns about OCHCA's lack of oversight and accountability measures for grant funds management and compliance with program guidelines concerning the CBO subcontractor's indirect costs."

OCHCA acknowledges that CBO's costs invoiced exceeded the amount approved by BSCC for this grant by \$249,443. SCO did not note any findings related to the majority of the remaining invoiced costs totaling \$4,703,701. OCHCA requests that the word "significant" be reconsidered given that the finding relates to a small portion of the grant funds. . . .

SCO Comments

OCHCA agreed with the recommendation, partially agreed with the finding, and provided additional information and context. After consideration of OCHCA's response to the draft report, we modified the description of our concerns regarding OCHCA's lack of oversight and accountability measures for grant funds management and compliance with program guidelines, as regards the CBO subcontractor's indirect costs, by removing the term "significant." However, this modification does not change the significance of the finding.

OCHCA also stated that the supporting documentation for \$619,646 in claimed CBO subcontractor costs was provided to SCO auditors during the audit. We agree with this statement. We reviewed the supporting

documentation during the audit and reflected it in our audit results. The finding correctly describes that we questioned the validity and accuracy of the \$619,646 in claimed CBO subcontractor costs, representing 100% of Charitable Ventures' indirect costs, because OCHCA and Charitable Ventures could not provide adequate documentation to support the claimed costs, including documentation required by Title 2, Code of Federal Regulations, part 225, "Cost Principles for State, Local, and Indian Tribal Governments" ([Office of Management and Budget] Circular A-87).

In its response, OCHCA agreed that Charitable Ventures' claimed indirect costs were also higher than the \$370,203 in indirect costs proposed in the budget narrative of the grant application approved by BSCC. OCHCA also requested that we only partially disallow the excess indirect costs of \$249,443 and the associated \$12,472 in indirect costs (calculated at 5%) claimed by OCHCA. We appreciate OCHCA's willingness to implement corrective actions to return unallowable CBO subcontractor costs and associated indirect costs. However, as we recommended, OCHCA should work with BSCC on returning any allowable CBO subcontractor costs and associated indirect costs.

**Attachment—
Orange County Health Care Agency's
Response to Draft Audit Report**



VERONICA KELLEY, DSW, LCSW
AGENCY DIRECTOR

LORRAINE DANIEL, MPA
ASSISTANT AGENCY DIRECTOR

405 W. 5th STREET, 7th FLOOR
SANTA ANA, CA 92701
www.ochalthinfo.com

OFFICE OF THE DIRECTOR

May 9, 2025

Roochel Espilla, Chief
State Controller's Office, State Agency Audit Bureau, Division of Audits
Post Office Box 942850
Sacramento, California 94250

Re: S24P470001 Orange County Health Care Agency

Dear Mr. Espilla,

The County of Orange Health Care Agency (OCHCA) acknowledges receipt of the draft audit report on the Orange County Health Care Agency's Proposition 47 Safe Neighborhoods and Schools Fund grant expenditures for the period of August 15, 2019, through May 15, 2023. OCHCA further acknowledges that this audit was related solely to program expenditures as required by Government Code (GC) section 7599.2(c) and not the economy, efficiency, or effectiveness of the program.

OCHCA disagrees with the finding that "*OCHCA did not adequately manage and account for CBO subcontractor costs totaling \$619,646 (\$223,480 in FY 2020-21; \$222,863 in FY 2021-22; and \$173,303 in FY 2022-23), and \$30,982 in related indirect costs charged to the Proposition 47 Grants Program during the audit period.*" Subcontractor costs are tracked utilizing the Expenditure and Revenue Report (E&R) as part of OCHCA's invoice review and approval process. Contract monitoring activities also include an annual cost report close out process, annual site visits, annual program evaluations, monthly contractor provider meetings, and daily/weekly touchpoints as needed. The Community Based Organization (CBO) subcontractors in this partnership were Charitable Ventures of Orange County (CVOC) acting as the fiscal sponsor and Project Kinship (PK) providing the service delivery. Throughout the contract term, CVOC submitted detailed monthly E&R reports and invoices reflecting both direct and indirect costs. These were reviewed and processed through county approval procedures prior to payment.

The Board of State and Community Corrections (BSCC) completed a site visit on July 22, 2019, and had no concerns with OCHCA's management of or accounting for CBO subcontractor costs. BSCC completed a second site visit on September 19, 2023. At that time, BSCC verbally complimented HCA for the monitoring activities that were in place.

OCHCA disagrees that "*OCHCA and Charitable Ventures could not provide adequate documentation to support the claimed costs.*" OCHCA requires that CBO subcontractors maintain back-up documentation of all costs for grants in which they are subrecipients. While the backup documentation received from CVOC was not provided at the onset of the audit, OCHCA was able to obtain and share with the State Controller's Office (SCO) audit team

State Controller's Office, State Agency Audit Bureau, Division of Audits
S24P470001 Orange County Health Care Agency

May 9, 2025

Page 2 of 3

detailed expenditures from CVOC/PK prior to audit completion that substantiates the indirect costs and supports that the subcontractor had indirect costs which exceeded those charged to the BSCC grant. OCHCA has attached additional documentation provided by CVOC/PK since the SCO onsite visit in November 2023 for SCO consideration. The auditor found that for the period sampled, the indirect costs were not consistently calculated. The SCO audit team tested the CBO indirect costs invoiced against the county contract language of 15% rather than against the BCSS budgeted amount of \$370,203.

When the auditors were onsite in November 2023, they verbally confirmed the services by CVOC/PK were rendered in accordance with the BSCC grant. However, SCO has recommended disallowance of all indirect costs for providing the services. OCHCA disagrees with this recommendation, as the CVOC/PK and OCHCA incurred costs to administer the grant and provided supporting documentation of those actual costs to the auditor. Disallowing 100% of actual CBO's indirect costs disregards the burden to administer grant funds and discourages CBO's from partnering with the county and BCSS to create new and transformative behavioral health services in line with the state's vision for justice involved individuals.

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Finally, OCHCA respectfully requests that SCO reconsider the following language in the draft report:

"We have significant concerns about OCHCA's lack of oversight and accountability measures for grant funds management and compliance with program guidelines concerning the CBO subcontractor's indirect costs."

OCHCA acknowledges that CBO's costs invoiced exceeded the amount approved by BSCC for this grant by \$249,443. SCO did not note any findings related to the majority of the remaining invoiced costs totaling \$4,703,701. OCHCA requests that the word "significant" be reconsidered given that the finding relates to a small portion of the grant funds.

OCHCA agrees with SCO recommendations to:

- Continue conducting robust and comprehensive reviews of all CBO subcontractor costs to ensure that its subcontractor maintains sufficient documentation to substantiate cost claims through enhanced processes that include
 - Financial review of expenditures during annual site visit

State Controller's Office, State Agency Audit Bureau, Division of Audits
S24P470001 Orange County Health Care Agency

May 9, 2025

Page 3 of 3

- Monitoring of indirect expenses in relation to overall cost to ensure claimed percentages are within allowable amounts on a monthly basis
- Work with BSCC and return any unallowable CBO subcontractor costs and associated indirect costs

Thank you for your consideration,

DocuSigned by:

E8B80965A4EC417...
Veronica Kelley
Agency Director

VK:DF

Attachment

cc: Veronica Orozco - State Controller's Office, State Agency Audits Bureau, Division of Audits
Lorraine Daniel, Assistant Agency Director - Orange County Health Care Agency
Ian Kemmer, Deputy Agency Director Behavioral Health Services - Orange County Health Care Agency
Linda Molina, Deputy Director Behavioral Health Services - Orange County Health Care Agency
Dee Dee Franks, Financial Services Manager - Orange County Health Care Agency
Cindy Wong, Accounting Services Manager - Orange County Health Care Agency
Juan Corral, Procurement & Contract Services Manager - Orange County Health Care Agency

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

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