

# **CALIFORNIA DEPARTMENT OF EDUCATION**

Audit Report

## **PROPOSITION 47 SAFE NEIGHBORHOODS AND SCHOOLS FUND GRANTS PROGRAM**

*July 1, 2016, through June 30, 2018*



**BETTY T. YEE**  
California State Controller

October 2019



**BETTY T. YEE**  
**California State Controller**

October 10, 2019

The Honorable Tony Thurmond  
State Superintendent of Public Instruction  
California Department of Education  
1430 N Street, 5<sup>th</sup> Floor  
Sacramento, CA 95814

Dear Superintendent Thurmond:

This is the final report for our audit of the California Department of Education's Proposition 47 Safe Neighborhoods and Schools Fund Grants Program for the period of July 1, 2016, through June 30, 2018.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310, or by email at [afinlayson@sco.ca.gov](mailto:afinlayson@sco.ca.gov).

Sincerely,

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

JLS/as

cc: Kimberly Tarvin, Director  
Audits and Investigations Division  
California Department of Education  
Kelly Levario, External Audits Coordinator  
Audits and Investigations Division  
California Department of Education

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# Audit Report

## Summary

The State Controller's Office (SCO) conducted a performance audit of the California Department of Education's (CDE) Proposition 47 Safe Neighborhoods and Schools Fund (SNSF) Grants Program for the period of July 1, 2016, through June 30, 2018. The purpose of the audit was to ensure that program funds were disbursed and expended in accordance with program requirements, and as required by Government Code (GC) sections 7599.2(c) and 12410.

We verified that during the period of July 1, 2016, through June 30, 2018, CDE awarded 28 grants, totaling \$19,079,184, of which \$4,382,726 was disbursed to 20 awardees. CDE charged \$478,008 (\$80,891 in fiscal year [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, as required by GC section 7599.2(b).

Our audit found that CDE did not adequately account for the administrative costs charged to the program. Our testing of labor costs disclosed that one CDE employee who did not perform any activities related to the Proposition 47 SNSF Grants Program charged time to the program in FY 2017-18, resulting in overcharges of \$18,482 (\$11,152 in salaries and \$7,330 in benefits) to program administrative costs.

In addition, CDE failed to implement adequate fiscal monitoring control over Proposition 47 SNSF grant expenditures in accordance with the internal guidelines presented in the *CDE Funding Handbook*. Our review of the 15 selected grantees' files disclosed that there was no supporting documentation showing comprehensive monitoring and reviewing of the grantees' expenditure reports.

## 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, increase victim services grants, and support substance abuse and mental health treatment services.

### California Department of Education

CDE is one of the three state agencies responsible for administering the Proposition 47 SNSF Grants Program.

GC section 7599.2(a)(1) requires that by August 15 of each fiscal year beginning in 2016, the State Controller disburse money deposited in the Safe Neighborhoods and Schools Fund as follows:

Twenty-five percent to the State Department of Education, to administer a grant program to public agencies aimed at improving outcomes for public school pupils in kindergarten and grades 1 to 12, inclusive, by reducing truancy and supporting students who are at risk of dropping out of school or are victims of crime.

#### 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 CDE, the California Victim Compensation Board, and the Board of State and Community Corrections “to ensure the funds are disbursed and expended solely according to this chapter and shall report his or her findings to the Legislature and the Public.”

In addition, GC section 12410 states:

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 audit was to assess CDE’s implementation and administration of the Proposition 47 SNSF Grants Program, and to ensure that program funds were disbursed and expended as required by GC section 7599.2(c) for the audit period of July 1, 2016, through June 30, 2018.

To achieve our objective, we:

- Identified the Proposition 47 SNSF Grants Program background, criteria, purpose, and requirements by reviewing the FY 2016-17 and FY 2017-18 Governor’s Budget, GC sections 7599 through 7599.2, California Education Code sections 33430 through 33436, and the California Department of Finance fund classification and basis for the Safe Neighborhoods and Schools Fund;
- Interviewed key personnel to gain a general understanding of CDE’s internal controls, such as procedures performed by staff when awarding grants, reviewing and approving expenditures, monitoring the Proposition 47 SNSF Grants Program, and recording disbursements and program expenditures in the agency’s financial management system;
- Examined CDE’s internal controls related to the Proposition 47 SNSF Grants Program by reviewing policies and procedures, guidelines, grant agreements, and grant processes; direct testing of claimed costs, invoices, and supporting documentation; and verifying CDE’s compliance with applicable provisions of laws, regulations, and established criteria;

- Identified 28 grants totaling \$19,079,184 that were awarded by CDE during the audit period, \$4,382,726 of which was disbursed to 20 awardees;
- Selected a sample of 15 out of 28 grants awarded to local educational agencies to determine whether sampled grants were approved by CDE; whether CDE administered a fair and open grant award process, whether grant agreements specified standard contract language established by the California Department of General Services, such as scope of work, budgets, terms and conditions, and services to be provided; whether grant agreements were in compliance with program requirements, CDE internal control policies and procedures, guidelines, and criteria established by California Education Code sections 33430 through 33436; and whether CDE implemented adequate fiscal monitoring and oversight over the grantees' grant expenditures;
  - We verified that CDE's administrative costs of \$ 478,008 charged to the Proposition 47 SNSF Grants Program during the audit period were within the 5% threshold as required by GC section 7599.2(b); and performed audit tests to determine whether CDE's internal control policies and procedures for Proposition 47 SNSF Grants Program expenditures and disbursements were adequate and were being followed by program staff;
    - We tested transactions and performed analytical procedures and budgetary analysis. We used a non-statistical (judgmental) sampling approach to select samples that supported our audit conclusions, and to ensure that the samples selected were representative of the population and provided sufficient, appropriate evidence;
    - We also tested compliance with applicable laws, regulations, internal policies and procedures, and program requirements. Our audit procedures included interviewing appropriate personnel and inspecting documents, records, and grant agreements;
- Verified the accuracy of the Proposition 47 SNSF Grants Program financial information reported by CDE, such as:
  - Agency fund reconciliation reports submitted to SCO;
  - Proposition 47 SNSF Grants Program disbursement and activity reports;
  - General ledger activity reports, detail ledger reports, and trial balance reports; and
  - Budget detail expense reports.

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 CDE'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 performing limited tests of controls regarding CDE'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 obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## **Conclusion**

Our audit found that CDE did not adequately account for administrative costs charged to the program, resulting in overcharges of \$18,482 (\$11,152 in salaries and \$7,330 in benefits) to program administrative costs.

In addition, CDE failed to implement adequate fiscal monitoring control over Proposition 47 SNSF grant expenditures in accordance with the internal guidelines presented in the *CDE Funding Handbook*.

## **Follow-up on Prior Audit Findings**

There are no prior audits of CDE's Proposition 47 SNSF Grants Program; therefore, we did not perform any follow-up activity.

## **Views of Responsible Officials**

We issued a draft report on June 28, 2019. Lupita Cortez Alcalá, Chief Deputy Superintendent of Public Instruction, responded by letter dated July 17, 2019 (Attachment), agreeing with the audit findings. This final audit report includes CDE's response.

## **Restricted Use**

This audit report is intended solely for the information and use of CDE 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 audit report, which is a matter of public record and is available on the SCO website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

October 10, 2019

**Schedule—**  
**Summary of Grant Awards, Amount Disbursed and**  
**Expended, and Audit Adjustments<sup>1</sup>**  
**July 1, 2016, through June 30, 2018**

Program Cost Element	SNSF Grant Awarded	SNSF Grant Disbursed <sup>3</sup>	CDE Administrative Expenditures	Allowable per Audit	Audit Adjustments	Reference <sup>4</sup>
<b><u>FY 2016-17</u></b>						
Local Educational Agencies <sup>2</sup>	\$ 9,369,000	\$ 3,796,259	N/A	N/A	N/A	
CDE Administrative costs:						
Salaries and benefits	N/A	N/A	\$ 60,485	\$ 60,485	N/A	
Operating expenses	N/A	N/A	20,405	20,405	N/A	
<b>Total for FY 2016-17</b>	<b><u>\$ 9,369,000</u></b>	<b><u>\$ 3,796,259</u></b>	<b><u>\$ 80,891</u></b>	<b><u>\$ 80,891</u></b>	<b><u>N/A</u></b>	
<b><u>FY 2017-18</u></b>						
Local Educational Agencies <sup>2</sup>	\$ 9,710,184	\$ 586,467	N/A	N/A	N/A	
CDE Administrative costs:						
Salaries and benefits	N/A	N/A	\$ 307,393	\$ 288,911	\$ (18,482)	Finding 1
Operating expenses	N/A	N/A	89,724	89,724	N/A	
<b>Total for FY 2017-18</b>	<b><u>\$ 9,710,184</u></b>	<b><u>\$ 586,467</u></b>	<b><u>\$ 397,117</u></b>	<b><u>\$ 378,635</u></b>	<b><u>\$ (18,482)</u></b>	
<b>Grand Total</b>	<b><u>\$ 19,079,184</u></b>	<b><u>\$ 4,382,726</u></b>	<b><u>\$ 478,008</u></b>	<b><u>\$ 459,526</u></b>	<b><u>\$ (18,482)</u></b>	

<sup>1</sup>Numbers rounded to the nearest dollar.

<sup>2</sup>For the period of July 1, 2016, through June 30, 2018, CDE awarded 28 grants totaling \$19,079,184 (19 in FY 2016-17 and nine in FY 2017-18), \$4,382,726 of which was disbursed to 20 awardees.

<sup>3</sup>We verified the accuracy of SNSF grants awarded and disbursed by reconciling SNSF grant records to the CDE's financial and accounting reports.

<sup>4</sup>See the Findings and Recommendations section.



# Findings and Recommendations

## **FINDING 1— Ineligible administrative costs**

CDE did not adequately account for the administrative costs charged to the Proposition 47 SNSF Grants Program. Our testing of labor costs disclosed that one CDE employee who did not perform any activities related to the Proposition 47 SNSF Grants Program charged time to the program in FY 2017-18.

These ineligible Proposition 47 SNSF Grant Program costs occurred because CDE staff and management did not follow policies and procedures. As a result, CDE overcharged \$18,482 (\$11,152 in salaries and \$7,330 in benefits) to program administrative costs.

GC section 7599.2 states:

(b) For each program set forth in paragraphs (1) to (3), inclusive, of subdivision (a), the agency responsible for administering the programs shall not spend more than 5 percent of the total funds it receives from the Safe Neighborhoods and Schools Fund on an annual basis for administrative costs.

(c) Every two years, the Controller shall conduct an audit of the grant programs operated by the agencies specified in paragraphs (1) to (3), inclusive, of subdivision (a) to ensure the funds are disbursed and expended solely according to this chapter and shall report his or her findings to the Legislature and the public.

*State Administrative Manual* (SAM) section 20060 – Internal Control states, in part, “All levels of management must be involved in assessing and strengthening the systems of internal control to minimize fraud, errors, abuse, and waste of government funds.”

### Recommendation

We recommend 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.

## **FINDING 2— Inadequate fiscal monitoring control over grant expenditures**

CDE failed to implement adequate fiscal monitoring control over Proposition 47 SNSF grant expenditures in accordance with the internal guidelines presented in the *CDE Funding Handbook*. Our review of the 15 grantees’ files disclosed that there was no supporting documentation showing comprehensive monitoring and reviewing of the grantees’ expenditure reports. According to CDE’s program staff, the reviews were merely 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 they were actual, accurate, and allowable program costs; however, CDE program staff approved all expenditure reports.

*CDE Funding Handbook* – Managing the Program, Financial Reports states, in part:

The format for financial reports should be consistent with the budget detail provided in the RFA. As with progress reports, staff should promptly review financial reports. A checklist for the review will ensure consistency and appropriate documentation of the monitoring effort. At a minimum, the review should include the following:

- Completeness
- Promptness
- Accuracy
- Allowability
- Potential problems

Program staff should review financial reports in conjunction with progress reports to ensure that the two present consistent data. Expenditures should be supportable and traceable to a level that is adequate to establish that the funds have not been used in violation of any statutory restrictions or prohibitions, Budget Act provisions, or regulations governing the program.

SAM section 20060 – Internal Control states, in part, “All levels of management must be involved in assessing and strengthening the systems of internal control to minimize fraud, errors, abuse, and waste of government funds.”

#### Recommendation

To ensure that the program funds are disbursed and expended according to program requirements, we recommend 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.

**Attachment—  
California Department of Education’s Response  
to Draft Audit Report**

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**CALIFORNIA DEPARTMENT  
OF EDUCATION**

**TONY THURMOND**  
STATE SUPERINTENDENT OF  
PUBLIC INSTRUCTION

1430 N STREET, SACRAMENTO, CA 95814-5901 • 916-319-0800 • WWW.CDE.CA.GOV

July 17, 2019

Andrew Finlayson, Chief  
State Agency Audits Bureau  
State Controller's Office, Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250

Dear Mr. Finlayson:

The California Department of Education (CDE) appreciates the opportunity to comment and provide proposed corrective actions for the recommendations outlined in the State Controller's Office (SCO) Audit Report titled, *Proposition 47 Safe Neighborhoods and Schools Fund Grants Program – July 1, 2016 through June 30, 2018*.

**Recommendation 1**

We recommend 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.

CDE's Comments and Corrective Actions

Concur. The CDE will ensure that future administrative costs are program-related, eligible, allowable, reasonable, and in accordance with program requirements. Specifically, the CDE will strengthen internal control processes by: (1) reviewing ledger information and additional SNSF grant reports to monitor and ensure costs charged to the program are accurate and allowable; and (2) verifying all labor costs are properly supported by time and effort records that accurately reflect the work performed by CDE staff for the benefit of the SNSF grant.

- Make necessary accounting corrections for the labor costs of \$18,482 overcharged to the program.

CDE's Comments and Corrective Actions

Concur. The CDE is currently in the process of correcting the overcharges made to the Proposition 47 SNSF grant for labor costs in the amount of \$18,482.08.

**Recommendation 2**

To ensure that the program funds are disbursed and expended according to program requirements, we recommend that CDE:

- Strengthen its fiscal monitoring efforts by ensuring that it conducts comprehensive reviews of grantees' expenditure reports.

CDE's Comments and Corrective Actions

Concur. To strengthen fiscal monitoring efforts, the CDE has: (1) developed fiscal guidance training, which includes the development of budget documents and a checklist; (2) developed and implemented an expenditure report form, which includes a requirement that grantees provide their SNSF general ledger; (3) updated the process to include the verification of all questionable expenses through the request of additional back-up documentation; (4) continued to provide technical assistance to grantees through calls, web resources, and a dedicated e-mail box for use by all SNSF grantees; (5) provided fiscal guidance webinars to cohorts 1 and 2 on March 13, 2019 and May 8, 2019 (future webinars will be provided twice a year for all additional cohorts); and (6) posted the training on the Learning Communities for School Success Program (LCSSP) Technical Assistance (TA) Forum page on the California Digital Chalkboard.

- Obtain adequate and sufficient financial and accounting reports from grantees to support the grant expenditure reports.

CDE's Comments and Corrective Actions

Concur. As noted above, the CDE has already taken steps to strengthen its fiscal monitoring processes; specifically, an expenditure report form was developed and implemented, which requires that grantees provide their SNSF general ledger to support the costs charged to the program. Additionally, documentation will be requested for all questionable costs identified in the expenditure report and general ledger. Training on the updated process was provided on March 13, 2019 and May 8, 2019; ongoing training will be provided two times a year for all new grantees. The training is also posted on the LCSSP TA Forum page on the California Digital Chalkboard.

Mr. Andrew Finlayson, Chief  
July 17, 2019  
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If you have any questions regarding the CDE's comments and/or corrective actions, please contact Kimberly Tarvin, Director, Audits and Investigations Division, by phone at 916-323-1547 or by email at [ktarvin@cde.ca.gov](mailto:ktarvin@cde.ca.gov).

Sincerely,



Lupita Cortez Alcalá  
Chief Deputy Superintendent of Public Instruction

LCA:kl

**State Controller's Office  
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