

SPECIAL SERVICE FOR GROUPS

Audit Report

PROPOSITION 47 SAFE NEIGHBORHOODS AND SCHOOLS FUND GRANT EXPENDITURES

July 1, 2017, through June 30, 2019



BETTY T. YEE
California State Controller

December 2020



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California State Controller

December 29, 2020

Herbert Hatanaka, Executive Director
Special Service for Groups
905 S. 8th Street
Los Angeles, CA 90021

Dear Mr. Hatanaka:

This is the final report for our audit of the Special Service for Groups Proposition 47 Safe Neighborhoods and Schools Fund grant expenditures for the period of July 1, 2017, through June 30, 2019.

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.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: Veronica Lewis, Homeless Outreach Program Integrated Care System Director
Special Service for Groups
Elizabeth De Los Santos, Director of Finance
Special Service for Groups
Maricar Tuzon, Accountant
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Audit Report

Summary

The State Controller's Office (SCO) conducted a performance audit of Special Service for Groups (SSG) Proposition 47 Safe Neighborhoods and Schools Fund (SNSF) grant expenditures for the period of July 1, 2017, through June 30, 2019. The purpose of the audit was to ensure that program funds were disbursed and expended in accordance with program guidelines and grant requirements, as required by Government Code (GC) section 7599.2(c), and applicable laws and regulations.

We verified that during the period of July 1, 2017, through June 30, 2019, the California Victims Compensation Board (CalVCB) awarded SSG with \$1,369,946 in Proposition 47 SNSF grant funds. During the same period, SSG's claimed grant expenditures were \$1,191,613, comprised of \$1,182,481 in allowable costs and \$9,132 in unallowable costs (see the Schedule).

Our audit found that SSG expended its Proposition 47 SNSF grant funds as required by GC section 7599.2(c). However, SSG did not ensure that program funds were disbursed and expended in accordance with program guidelines and grant requirements. Specifically, SSG did not fully comply with the terms of its grant agreement with CalVCB, and did not maintain supporting documentation related to travel costs.

Except as noted above, SSG's claimed grant expenditures complied with applicable laws, regulations, program guidelines, and the grant agreement.

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.

Special Service for Groups

SSG was incorporated in 1952 in Los Angeles County. It was established as a non-profit organization dedicated to providing community-based programs that address the needs of vulnerable communities. SSG's Homeless Outreach Program Integrated Care System is the designated Community Assessment Service Center offering trauma recovery services, which include mental health treatment, clinical case management, crisis

intervention, and advocacy, to crime victims in South Los Angeles and surrounding areas.

On July 1, 2017, CalVCB signed Grant Agreement No. VC-G7003 with SSG to provide services to crime victims pursuant to GC Section 13963.1, and program requirements as stipulated in the Notice of Funds Available for the California Trauma Recovery Center Grant. The grant awarded to SSG totaled \$1,369,946, of which 100% was from the Safe Neighborhoods and Schools Fund. The grant agreement term was from July 1, 2017, through June 30, 2019.

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 CalVCB “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 audit was to ensure that SSG adequately accounted for Proposition 47 SNSF grant funds expenditures, and their program funds were disbursed and expended in accordance with program guidelines and grant requirements, and as required by GC section 7599.2(c) for the period of July 1, 2017, through June 30, 2019.

To achieve our objective, we:

- Identified the Proposition 47 SNSF Grants Program background, criteria, purpose, and requirements by reviewing the FY 2016-17 Governor’s Budget, GC sections 7599 through 7599.2, and the California Department of Finance fund classification and basis for the Safe Neighborhoods and Schools Fund;
- Reviewed SSG’s Proposition 47 SNSF grant files, grant agreements, program guidelines, program requirements, and claimed invoices ;
- Reviewed SSG’s claimed grant expenditures and performed analytical procedures and budgetary analysis to identify material cost components of each claim, any errors, and any unusual or unexpected variances;
- Interviewed SSG key personnel, completed internal control questionnaires, reviewed written internal policies and procedures, identified controls related to the audit objective, and performed a limited walk-through of critical controls in order to gain a general understanding of SSG’s internal controls related to the Proposition 47 SNSF Grants Program, such as accounting, timekeeping, procurement

and procedures performed by staff when preparing, reviewing and approving grant expenditures, monitoring the grants Program, and recording disbursements and expenditures in SSG's financial management system;

- Assessed SSG's internal controls related to the Proposition 47 SNSF Grants Program by reviewing policies and procedures, guidelines, grant agreements, contracts, expenditure reports and supporting documents; and conducted limited tests of those controls related to the audit objective in order to determine whether the controls were functioning as intended; and whether SSG was in compliance with written internal policies and procedures, applicable provisions of laws, regulations, and established criteria;
- Verified that, during the audit period, CalVCB awarded SSG with \$1,369,946 in Proposition 47 SNSF grant funds. In addition, verified that SSG expended \$1,191,613 in Proposition 47 SNSF grant funds (\$561,361 in FY 2017-18, and \$630,252 in FY 2018-19);
- Conducted a risk assessment and reviewed internal controls for Proposition 47 SNSF grants expenditures to determine the nature, timing, and extent of substantive testing;
- To reduce audit risk, we tested sample transactions, traced those transactions to supporting documentation, and performed analytical procedures and budgetary analysis;
 - We used a judgmental (non-statistical) 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; and
 - 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;
- We tested \$410,172 of \$1,191,613 in total claimed program costs as follows:
 - Salaries and Wages – We tested \$349,579 (or 43%) of \$804,367;
 - Subcontractors (psychiatrists and psychologists) Costs – We tested \$14,700 (or 58%) of \$25,275;
 - Client Incentive Costs – We tested \$2,182 (or 39%) of \$5,553;
 - Rent and Utilities Costs – We tested \$33,104 (or 38%) of \$87,208;
 - Outreach Costs – We tested \$9,519 (or 81%) of \$11,747; and
 - Travel Costs – We tested \$1,088 (or 48%) of \$2,256.

Errors found, if any, were not projected to the intended (total) population

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 SSG'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 SSG'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 verified that during the period of July 1, 2017, through June 30, 2019, CalVCB awarded SSG with \$1,369,946 in Proposition 47 SNSF grant funds. In addition, we verified that SSG expended its Proposition 47 SNSF grant funds as required by GC section 7599.2(c).

However, our audit found that SSG did not:

- Adequately account for labor costs and operating costs;
- Ensure that program funds were disbursed and expended in accordance with program guidelines and grant requirements.

The finding is quantified in the Schedule and described in the Finding and Recommendation section of this report.

Except as noted above, SSG's claimed grant expenditures complied with applicable laws, regulations, program guidelines, and the grant agreement.

Follow-up on Prior Audit Findings Views of Responsible Officials

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

We discussed our audit results with SSG representatives during an exit conference conducted on September 10, 2020. Beth De Los Santos, Director of Finance, and Maricar Tuzon, Accountant, agreed with the audit results. Ms. De Los Santos declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This audit report is intended solely for the information and use of SSG, CalVCB, 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.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

December 29, 2020

**Schedule 1—
Summary of Grant Awards, Amounts Disbursed and
Expended, and Audit Adjustments¹
July 1, 2017, through June 30, 2019**

Program Cost Element	SNSF Grant Awarded	SNSF Grant Disbursed ³	SNSF Grant Expended	Allowable per Audit	Audit Adjustments	Reference ⁴
<u>FY 2017-18</u>						
Special Service for Groups ²	\$ 1,369,946	N/A	N/A	N/A	N/A	
Total for FY 2017-18	<u>\$ 1,369,946</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	
<u>FY 2017-18</u>						
Salaries and Benefits	N/A	\$ 385,338	\$ 385,338	\$ 378,315	\$ 7,023	Finding 1
Fringe Benefits	N/A	78,816	78,816	77,379	1,437	Finding 1
Subcontractor - Psychiatrist	N/A	7,425	7,425	7,425	N/A	
Subcontractor - Psychologist	N/A	3,120	3,120	3,120	N/A	
Client Incentives	N/A	2,182	2,182	2,182	N/A	
Rent/Utilities	N/A	43,764	43,764	43,764	N/A	
Communication	N/A	2,361	2,361	2,361	N/A	
Office Supplies	N/A	3,081	3,081	3,081	N/A	
Prof. Development / Training	N/A	1,485	1,485	1,485	N/A	
Outreach Costs (Events/Vendors)	N/A	317	317	317	N/A	
Outreach Costs (Supplies)	N/A	5,493	5,493	5,493	N/A	
Travel Costs (Travel/Mileage)	N/A	1,237	1,237	1,023	214	Finding 2
Automobile Related	N/A	N/A	N/A	N/A	N/A	
Indirect Costs	N/A	26,742	26,742	26,309	434	Finding 1 and 2
Total for FY 2017-18	<u>N/A</u>	<u>\$ 561,361</u>	<u>\$ 561,361</u>	<u>\$ 552,253</u>	<u>\$ 9,108</u>	
<u>FY 2018-19</u>						
Salaries and Benefits	N/A	\$ 419,029	\$ 419,029	\$ 419,029	N/A	
Fringe Benefits	N/A	101,209	101,209	101,209	N/A	
Subcontractor - Psychiatrist	N/A	17,850	17,850	17,850	N/A	
Subcontractor - Psychologist	N/A	5,520	5,520	5,520	N/A	
Client Incentives	N/A	3,372	3,372	3,372	N/A	
Rent/Utilities	N/A	43,444	43,444	43,444	N/A	
Communication	N/A	1,048	1,048	1,048	N/A	
Office Supplies	N/A	911	911	911	N/A	
Prof. Development / Training	N/A	686	686	686	N/A	
Outreach Costs (Events/Vendors)	N/A	5,572	5,572	5,572	N/A	
Outreach Costs (Supplies)	N/A	365	365	365	N/A	
Travel Costs (Travel/Mileage)	N/A	1,018	1,018	995	23	Finding 2
Automobile Related	N/A	N/A	N/A	N/A	N/A	
Indirect Costs	N/A	30,229	30,229	30,227	1	Finding 2
Total for FY 2018-19	<u>N/A</u>	<u>\$ 630,252</u>	<u>\$ 630,252</u>	<u>\$ 630,228</u>	<u>\$ 24</u>	
Grand Total	<u>\$ 1,369,946</u>	<u>\$ 1,191,613</u>	<u>\$ 1,191,613</u>	<u>\$ 1,182,481</u>	<u>\$ 9,132</u>	

¹Numbers rounded to the nearest whole dollar.

²For the period of July 1, 2017, through June 30, 2019, CalVCB awarded SSG with \$1,369,946 in Proposition 47 SNSF grant funds, of which \$561,361 was disbursed in FY 2017-18 and \$630,252 was disbursed in FY 2018-19.

³We verified the accuracy of Proposition 47 SNSF grants disbursed and expended by reconciling Proposition 47 SNSF grant records to SSG's financial and accounting reports.

⁴See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable labor costs

SSG did not adequately account for the labor costs charged to the Proposition 47 SNSF Grants Program. The unallowable salaries and benefits total \$8,460 and unallowable related indirect costs total \$423.

Our testing of labor costs disclosed that SSG erroneously charged an employee's time to the program in the fourth-quarter FY 2017-18 invoice (April through June 2018 pay period). The timesheet and Personnel Action Form indicated that this employee transferred to another program in the second pay period of April 2018. We also found that this employee's time for May and June 2018 was charged to the program although the employee resigned on April 30, 2018.

SSG claimed ineligible and unsupported salaries of \$7,023 and related fringe benefits of \$1,437. We found that these salaries and benefits were unallowable. We also found that the 5% indirect costs, totaling \$423, associated with the unallowable salaries and benefits were unallowable. Therefore, a total of \$8,883 in unallowable labor costs was charged to the Proposition 47 SNSF Grants Program.

SSG did not comply with the terms of its grant agreement with CalVCB. Grant Agreement No. VC-G7003, Section IV: Invoicing and Payment, states, in part:

For services satisfactorily rendered, and upon receipt and approval of the invoices, the Board agrees to compensate the Awardee for actual expenditures permitted by the terms of this contract in accordance with the approved budget.... Eligible costs include:

Direct Costs:

- Salaries and benefits for personnel providing direct treatment, including:
 - Activities such as mental health treatment, clinical supervision, social work, victim advocacy, and case management
 - Administrative salaries related to the support of direct treatment and other eligible activities.

Grant Agreement No. VC-G7003, Attachment 4 – TRC Invoice Instructions, states, in part:

Grant funds will be released retrospectively on a quarterly basis upon receipt of the required invoice.... Invoice batches received shall include the following.... Supporting documentation for all direct costs including receipts and explanations of atypical expenses.

Recommendation

We recommend that SSG:

- Ensure that all labor costs charged to the Proposition 47 SNSF Grants Program are program-related, eligible, allowable, supported, reasonable, and in accordance with the grant agreement and program requirements;

- Make necessary accounting corrections for the labor costs of \$8,883 charged to the Proposition 47 SNSF Grants Program; and
- Reimburse \$8,883 to CalVCB for the unallowable labor costs claimed, or request that CalVCB offset SSG’s future claims by \$8,883.

**FINDING 2—
Unallowable travel costs**

SSG did not adequately account for travel costs charged to the Proposition 47 SNSF Grants Program in FY 2017-18 and FY 2018-19. The unallowable travel costs total \$237 and unallowable indirect costs total \$12.

SSG charged travel costs as follows:

Cost Element	Unallowable Operating Expense
Travel Costs, FY 2017-18	\$ 402
Travel Costs, FY 2018-19	\$ 23
Subtotal	\$ 425
Less CalVCB adjustment	(188)
Grand Total	<u>\$ 237</u>

SSG was unable to provide travel expense claim forms or other supporting documentation (stating the purpose of the trip, location, time of travel, and other information) that corresponded to the billed receipts. Therefore, we were unable to determine whether the claimed costs were for performing eligible program activities. We found that the \$237 in travel costs was unallowable. We also found that \$12 in related indirect costs was unallowable. Therefore, a total of \$249 in unallowable operating expenses was charged to the Proposition 47 SNSF Grants Program.

SSG did not comply with the terms of its grant agreement with CalVCB.

Grant Agreement VC-G7003, Attachment 4 –TRC Invoice Instructions, “Travel Costs,” states:

Travel will be paid according to the state policy in effect at the time the cost is incurred. Allowable travel expenses are costs for transportation, lodging, meals, and incidental items incurred by the TRC staff to attend training on evidence-based practices, conferences, meetings, workshops, or hearings. Out-of-state travel is not authorized. Describe the purpose of the trip and list all personnel who made the trip.

Recommendation

We recommend that SSG:

- Maintain adequate supporting documentation for all claims for program reimbursement;
- Make necessary accounting corrections for the travel costs of \$249 charged to the Proposition 47 SNSF Grants Program;

- Provide adequate training to program staff who process invoices billed to the Proposition 47 SNSF Grants Program to ensure that they understand the grant requirements;
- Ensure that staff members comply with state policies for travel claims; and
- Reimburse \$249 to CalVCB for the unallowable travel costs claimed, or request that CalVCB offset SSG's future claims by \$249.

**State Controller's Office
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