



Performance Audit
For the Contract Period Ended October 31, 2024
Proposition 64 Cohort 2
City of Merced, California

Proposition 64 Cohort 2 Program
City of Merced, California
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Independent Auditor's Report on Performance

To the California Board of State and Community Corrections,
The City Council of the City of Merced,
and Management of the City of Merced
Merced, California

We were engaged to conduct a performance audit of the City of Merced's (City) compliance with the requirements described in the July 2020 Audit Guide (Guide), published by the Board of State and Community Corrections (BSCC) in connection to the Proposition 64 Public Health & Safety Grant Cohort 2 Program (Program) for the period ended October 31, 2024.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Authority

Revenue and Taxation Code, Section 34019, subd. (f)(3)(C) states the BSCC will provide grant funds to local governments that assist with law enforcement, fire protection, or other local programming to address public health and safety associated with the implementation of the Control, Regulate and Tax Adult Use of Marijuana Act.

In 2019, language in the RTC prohibited the BSCC from making grants to any local governments that have banned all indoor and outdoor cultivation, including personal cultivation, or retail sale of marijuana or marijuana products.

However, in 2020 with the passage of Assembly Bill (AB) 1872, eligibility for Proposition 64 Public Health & Safety (Prop 64 PH&S) Grant funding solicitations have been broadened. Revenue and Taxation Code (RTC), Section 34019, subd. (f)(3)(C) now allows local governments to apply for this funding through the BSCC if they do not ban both indoor and outdoor commercial cannabis cultivation or ban retail sale of cannabis or cannabis products pursuant to Section 26200 of the Business and Professions Code or as otherwise provided by law.

Prop 64 PH&S grant projects address an array of local topics including juvenile development, prevention, and intervention activities; cannabis education curriculum including media campaigns for public health risks on the use of cannabis products for both juveniles and adults; environmental remediation; and compliance/enforcement work. All project components and activities must to be linked to local issues and needs due to the implementation of the Control, Regulate and Tax Adult Use of Marijuana Act (i.e., the legalization of adult recreational use cannabis in California).

On April 19, 2021, the City Council accepted a grant award up to a maximum of \$885,546 from the BSCC for a three-year pilot program ending on October 31, 2024. On May 16, 2024, the BSCC extended the term of the grant period by six (6) months ending on April 30, 2025.

Pursuant to the BSCC Agreement, Section 8, Financial Audit, Grantees are required to provide the BSCC with a financial audit no later than the end of the contract term.

Purpose

The BSCC Agreement would be used to fund a three-year youth mentorship pilot program that creates a collaboration between the City and County of Merced Behavioral Health, to serve at-risk youth through a cannabis intervention program.

Objectives of the Audit

Our audit was limited to the objectives listed below, including verification of management's compliance with the BSCC Guide and the grant agreement, which requires that grant proceeds only be used for the approved program. Management is responsible for the City's compliance with those requirements.

In accordance with the Guide, audit procedures included:

1. Gaining an understanding of the City's system of internal controls as it relates to the program.
2. Performing a risk assessment to determine what testing will need to be performed. The test shall be representative of all costs categories in the BSCC Agreement and is to determine whether the charges:
 - a. Conform to any limitations or exclusions in the award of state financing;
 - b. Include only eligible costs and did not include ineligible costs or other costs properly chargeable to other programs or accounts;
 - c. Were properly recorded (i.e., correct amount, date) and supported by source documentation;
 - d. Reported expenditures were incurred within the appropriate period; and
 - e. Were approved in advance, if they involved a modification subject to prior approval in accordance with the BSCC Agreement.
3. Providing the results of the work performed in appropriate written reports.
4. Identifying any program-related claims by or against the City pending at the time the audit is conducted.
5. Testing reports to ensure they were filed timely and accurately.

Scope of the Audit

The scope of our performance audit covered the period starting with the execution of the agreement with the BSCC (May 1, 2021) through the project completion date (October 31, 2024). The population of expenditures tested included all costs associated with the project. Expenditures incurred subsequent to October 31, 2024, were not reviewed or included within the scope of our audit or in this report.

In planning and performing our performance audit, we obtained an understanding of the City's internal control in order to determine if the internal controls were adequate to help ensure the City complied with the requirements described in the BSCC Guide, in connection with expending program funds only for eligible costs in accordance with applicable laws, regulations, and BSCC Agreement requirements,

but not for the purpose of expressing an opinion of the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Management remains responsible for the proper implementation and operation of an adequate internal control system. Due to the inherent limitations of any internal control structure, errors, or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions or that the degree of compliance with the procedure may deteriorate.

Methodology

We obtained the general ledger and the project expenditure reports prepared by the City for the project period ended October 31, 2024. We obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the BSCC Agreement. We performed the following procedures:

1. We selected a sample of expenditures using the following criteria for the program period:
 - a. We considered all cost categories.
 - b. We selected all expenditure that were individually significant. Individually significant expenditures were identified based on our assessment of materiality.
 - c. For all items below the individual significant threshold identified in item 1b., we judgmentally selected expenditures based on risk assessment and consideration of coverage of all object codes.
2. Our sample included transactions totaling \$275,699, or 55 percent, of the \$504,900 total State funding. Refer to Exhibit A for a detailed breakdown of budgeted state funding compared to actual expenditures.
3. We examined the actual invoices and supporting documentation to determine that:
 - a. Expenditures conform to any limitation or exclusions in the award of state financing;
 - b. Include only eligible costs and did not include ineligible costs or other costs properly chargeable to other programs or accounts;
 - c. Were properly recorded (i.e. correct amount, date, etc.) and supported by source documentation;
 - d. Reported expenditures were incurred within the appropriate period; and
 - e. Were approved in advance, if they involved a modification subject to prior approval in accordance with the BSCC Agreements.
4. We tested a sample of 1 (100% of the population) procurement transactions. We verified that each change order included documentation of the City's internal controls and adherence to City policy.
5. We inquired as to the existence of any program-related claims by or against the City pending at the time this audit was conducted. None were noted.
6. We tested 6 quarterly reports out of 15 submitted, 6 quarterly narrative reports out of 15 reports submitted, and 1 local evaluation plan out of 1 plan for accuracy and timeliness.

Audit Results

The results of our tests indicated that, in all significant respects, the City has expended grant proceeds only for eligible costs in accordance with applicable laws, regulations and BSCC Agreement and Audit Guide.

This report is intended solely for the information and use of the California Board of State and Community Corrections, the City of Merced City Council, and Management of City of Merced. This report is not intended to be, and should not be, used by anyone other than these specified parties. This limitation is not intended to limit distribution.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Sacramento, California

April 29, 2025

None reported.

Proposition 64 Cohort 2 Program
 City of Merced, California
 Exhibit A – State Funding Budget vs Actual
 For the Contract Period Ended October 31, 2024

Budget Line Item	BSCC 952-21			
	Original Budget	Final Budget	Expenditures Incurred	(Over)/Under
Salaries & Benefits	\$ 274,002	\$ 274,002	\$ 256,278	\$ 17,724
Services and Supplies	123,500	123,200	20,513	102,687
Professional Services	355,094	347,594	189,063	158,531
Equipment / Fixed Assets	5,450	5,750	5,699	51
Program Evaluation	35,000	35,000	-	35,000
Other	85,000	85,000	33,347	51,653
Financial Audit	7,500	15,000	-	15,000
Total costs	\$ 885,546	\$ 885,546	\$ 504,900	\$ 380,646