

Table 5
Two Grantees Could Not Substantiate That All of Their Grant Fund Spending Was Appropriate During the Grant Program’s First Year

GRANTEE	ISSUE	REASON	OUTCOME	AUDITEE RESPONSE	
INAPPROPRIATE SPENDING	City of Commerce	The city reported to DCC that about one-third, or nearly \$20,000, of the grant funds it used in 2022 were for existing employees and contract staff, but the city could not demonstrate that these individuals spent additional hours on grant-related tasks. For example, underlying documentation indicated that the city had not increased the hours for existing contract staff as it had committed to doing in its grant agreement. In fact, on average, the contractor’s hours devoted to this purpose decreased in the six months after the city began using the grant funds to pay for a portion of these expenditures. Thus, the city could not substantiate that it had not used grant funds to supplant funding for preexisting activities.	The city did not have a method to track the actual time that city staff spent on grant-related tasks, so the city was unable to demonstrate that it had not simply used funds on existing staff without increasing the hours they spent on grant-related tasks.	The city’s use of grant funds may have violated the supplanting prohibition in state law.	Commerce disagreed that it had supplanted existing cannabis funding with its grant funds. However, it did not explain its reasoning. Ultimately, it is DCC’s responsibility to determine whether supplanting occurred and to recapture any misspent funds. DCC issued guidance to the grantees in October 2023 that it would perform a comprehensive analysis of grantees’ budgets, expenditures, and supporting documentation to determine whether any funds are subject to recapture. Funds subject to recapture include funds used for ineligible purposes.
	City of San Diego	The city used more than \$6,000 in grant funds to rent meeting space and provide translation services for the development of its equity program. However, developing an equity program is not an allowable use of these grant funds.	The city stated that it understood the language in its grant agreement with DCC to mean that it could use the grant funds to support future equity applicants and develop its equity program.	DCC stated that grant funds should not be used for these purposes. Thus, the city may have to return these grant funds based on the law and the October 2023 guidance issued by DCC.	San Diego stood by its perspective that DCC approved it to use funds in this way. There is some ambiguity in the grant agreement about whether San Diego intended to use the funds to establish a local equity program. Nevertheless, the purpose of this program is to help existing provisional license holders obtain annual state licenses.

Source: Expenditure reports from grantees’ financial management systems, grantees’ biannual progress reports and expenditure documentation, and interviews with DCC and grantee staff.