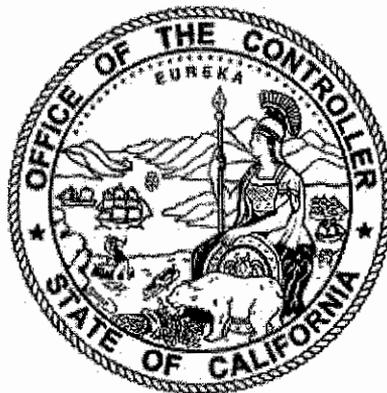


CALIFORNIA DEPARTMENT OF EDUCATION

Audit Report

EDUCATION PROTECTION ACCOUNT RECORDED IN THE STATE GENERAL FUND

July 1, 2015, through June 30, 2017



BETTY T. YEE
California State Controller

November 2018



BETTY T. YEE
California State Controller

November 15, 2018

The Honorable Tom Torlakson,
Superintendent of Public Instruction
California Department of Education
1430 N Street
Sacramento, CA 95814

Dear Mr. Torlakson:

The State Controller's Office audited the Education Protection Account (EPA), recorded in the State General Fund, for the fiscal years ended June 30, 2016, and June 30, 2017.

The EPA, administered by the California Department of Education, was created to receive and disburse revenues derived from the incremental increases in taxes imposed by the California State Constitution, Article XIII, Section 36, subdivision (f), and to provide general-purpose funding in accordance with subdivision (e)(3)(A) and (B) to local education agencies (school districts, county offices of education, and charter schools) and community college districts.

The incremental increases in taxes recorded in the EPA for the fiscal years ended June 30, 2016, and June 30, 2017, were used and accounted for in a manner consistent with the California State Constitution, Article XIII, Section 36.

If you have any questions, please contact Joel James, Chief, Financial Audits Bureau, by telephone at (916) 323-1573.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey V. Brownfield".

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Michelle Zumot, Chief Deputy Superintendent
California Department of Education
Kim Tarvin, Director of Audits and Investigations
California Department of Education
Keely Bosler, Director
California Department of Finance
Irena Asmundson, Program Budget Manager
Forecasting
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College Finance and Facilities Planning
California Community Colleges Chancellor's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the Education Protection Account (EPA), recorded in the State General Fund, for the fiscal years ended June 30, 2016, and June 30, 2017.

The EPA, administered by the California Department of Education (CDE), was created to receive and disburse revenues derived from the incremental increases in taxes imposed by the California State Constitution, Article XIII, Section 36, subdivision (f), and to provide general-purpose funding in accordance with subdivision (e)(3)(A) and (B) to local education agencies (LEAs) (school districts, county offices of education, and charter schools) and community college districts (CCDs).

The Proposition 30 incremental tax funds recorded in the EPA for the fiscal years ended June 30, 2016, and June 30, 2017, were used and accounted for in a manner consistent with the California State Constitution, Article XIII, Section 36.

Background

The EPA was established in April 2013 after California voters approved Proposition 30, also known as The Schools and Local Public Safety Protection Act of 2012, in November 2012. The EPA (Fund 3207) is recorded in the General Fund Special Account within the State of California's General Fund, which is accounted for under the modified accrual basis of accounting.

The EPA was established to ensure that public education is not harmed in the process of providing critical protection to local Public Safety Services as defined in the California State Constitution, Article XIII, Section 36, subdivision (a)(1). The California State Constitution, Article XIII, Section 36, subdivision (e)(3), states that all moneys are continuously appropriated for the support of LEAs and CCDs.

Proposition 30 provides for a one-quarter cent sales tax increase that expired on December 31, 2016, and an increase in income taxes for wealthier taxpayers that ends on December 31, 2031. The moneys that are appropriated as a result of this Act are allocated quarterly; 89% is allocated to the Superintendent of Public Instruction to provide general purpose funding to LEAs, and 11% is allocated to the Board of Governors of the California Community Colleges to provide general purpose funding to CCDs.

LEAs and CCDs are required to undergo annual independent financial and compliance audits. Specific audit procedures for verifying whether funds from the EPA have been properly disbursed and expended are included in the LEAs' and CCDs' Audit Guides.

California Department of Finance's Process for Calculating Proposition 30 Funds Available for Transfer to the Education Protection Account

The California Department of Finance's (DOF) Revenue and Taxation section is responsible for estimating the State's major General Fund and special fund tax revenues for the Governor's Budget. DOF monitors and reports on monthly receipts compared to estimates. DOF is responsible for developing the estimate of revenues for the State overall and the amount of funds that will be available for transfer into the EPA. DOF prepares the revenue estimate by forecasting expected personal income tax and sales and use tax. The Proposition 30 revenue estimates are derived from the tax increases that were enacted when California voters approved Proposition 30.

DOF calculates its estimate in May. By mid-June, DOF provides a notification letter to the California State Controller of its Proposition 30 revenue estimate, which includes three estimated amounts. DOF's first estimate is the initial estimate of Proposition 30 revenues that will be available for the following fiscal year. The second estimate revises the estimate of the Proposition 30 revenues that are available for the current fiscal year based on updated information. The third estimate is the final estimate of Proposition 30 revenues that were available for the fiscal year two years prior. The adjustments from the revenue estimate revisions could be positive or negative.

California Department of Education's Process to Account for, Allocate, and Disburse Proposition 30 Funds to County Treasurers

CDE allocates EPA funds to LEAs based on their proportionate share of the statewide revenue limit amount, which includes the allowances for Necessary Small Schools and charter school general-purpose funding. If an LEA's funding from the combined local property taxes and EPA exceeds the LEA's revenue limit or charter school general purpose entitlement, then the LEA's EPA entitlement may be reduced, provided that it receives the minimum amount of \$200 per unit of average daily attendance.

CDE performs its allocation and disbursement calculations on a quarterly basis, factoring in the EPA funding requirement criteria; it prepares a Notice of Apportionment, which includes a payment summary schedule by county of the amount transferred to each county treasurer. CDE also provides on its website a schedule of the EPA amounts that are to be disbursed by the county treasurers to each LEA.

California Community Colleges Chancellor's Office's Process to Account for, Allocate, and Disburse Proposition 30 Funds to County Treasurers

The California Community Colleges Chancellor's Office (CCCCO) allocates EPA funds to CCDs based on their proportionate share of the statewide total computational revenue (TCR). The TCR is the amount that CCDs are guaranteed to receive in state aid, offset by enrollment fees, local property taxes, and EPA revenues. The CCD's EPA entitlement amount is a minimum of \$100 per full-time equivalent student for those

CCDs that receive more than their state entitlement amount from local property taxes and enrollment fees.

CCCCO performs its allocation and disbursement calculations on a quarterly basis, factoring in the EPA funding requirement criteria. Each quarter, CCCCCO also prepares a notification letter for the EPA's apportionment, which includes a payment summary schedule by county of the amount transferred to each county treasurer. CCCCCO also provides a schedule on its website of the EPA amounts that are to be disbursed by the county treasurers to each CCD.

Objective, Scope, and Methodology

We conducted this performance audit to determine whether specified incremental increases in taxes recorded in the EPA for the fiscal years ended June 30, 2016, and June 30, 2017, were used and accounted for in a manner consistent with the California State Constitution, Article XIII, Section 36, subdivision (e).

To achieve our audit objective, we performed the following procedures:

- Interviewed employees, completed internal control questionnaires, and performed walk-throughs of the processes used by DOF to calculate Proposition 30 funds available for transfer to the EPA;
- Interviewed employees, completed internal control questionnaires, and performed walk-throughs of the processes used by CDE and CCCCCO to account for, allocate, and disburse Proposition 30 funds to county treasurers;
- Traced DOF's calculations to supporting documentation and verified the validity of its estimates;
- Verified the accuracy of the EPA allocations to CDE and CCCCCO in accordance with the California State Constitution;
- Verified the accuracy of CDE's allocation to LEAs and disbursement of funds to county treasurers for individual LEAs;
- Randomly sampled payments from county treasurers to individual LEAs to verify that payments were made correctly and in a timely manner;
- Verified the accuracy of CCCCCO's allocation to CCDs and disbursement of funds to county treasurers for individual CCDs; and
- Randomly sampled payments from county treasurers to individual CCDs to verify that payments were made correctly and in a timely manner.

We limited our review of internal control to gaining an understanding of the processes established by:

- DOF to calculate Proposition 30 funds available for transfer to the EPA;
- CDE to account for, allocate, and disburse the Proposition 30 funds to the county treasurers; and

- CCCCCO to account for, allocate, and disburse the Proposition 30 funds to the county treasurers.

Our audit scope did not assess the efficiency or effectiveness of program operations. We did not audit the EPA's financial statements.

The legal authority to conduct this audit is set forth in the California State Constitution, Article XIII, Section 36, subdivision (g)(1), which states that the State Controller shall audit the EPA "to ensure that those funds are used and accounted for in a manner consistent with this section." We conducted this 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 incremental increases in taxes recorded in the EPA for the fiscal years ended June 30, 2016, and June 30, 2017, were used and accounted for in a manner consistent with the California State Constitution, Article XIII, Section 36.

Follow-up on Prior Audit Findings

DOF has satisfactorily resolved the finding noted in our prior audit report, issued August 12, 2016.

Views of Responsible Officials

In separate emails to each agency, the CDE, CCCCCO, and DOF indicated that they had no comments related to the information presented in the report.

Restricted Use

This audit report is solely for the information and use of the CDE, CCCCCO, DOF, and 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 final audit report, which is a matter of public record.



JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

November 15, 2018

Schedule—
Education Protection Account – Transfers In, Expenditures,
and Changes in Account Balances
for Fiscal Years Ended June 30, 2016, and June 30, 2017

	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Transfers In		
<i>To CDE for LEAs:</i>		
Personal Income Tax	\$ 5,848,829,910	\$ 5,896,565,950
Sales and Use Tax	1,353,067,000	812,019,090
Subtotal	<u>7,201,896,910</u>	<u>6,708,585,040</u>
<i>To CCCCCO for CCDs:</i>		
Personal Income Tax	722,889,090	728,789,050
Sales and Use Tax	167,233,000	100,361,910
Subtotal	<u>890,122,090</u>	<u>829,150,960</u>
Total Transfers In	<u>\$ 8,092,019,000</u>	<u>\$ 7,537,736,000</u>
Expenditures		
<i>Disbursements to County Treasurers:</i>		
For LEAs	\$ 7,201,980,669	\$ 6,708,352,291
For CCDs	890,122,090	829,150,960
Total Expenditures	<u>8,092,102,759</u>	<u>7,537,503,251</u>
Excess (Deficiency) of Transfers In Over Expenditures	(83,759)	232,749
Beginning Balance	<u>83,759</u>	<u>-</u>
Ending Balance ¹	<u>\$ -</u>	<u>\$ 232,749</u>

¹Ending balance resulted from adjustments to LEA payments that were subsequently reallocated to other LEAs.

**State Controller's Office
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<http://www.sco.ca.gov>