

CALIFORNIA DEPARTMENT OF EDUCATION

Audit Report

EDUCATION PROTECTION ACCOUNT RECORDED IN THE STATE GENERAL FUND

July 1, 2017, through June 30, 2019



BETTY T. YEE
California State Controller

August 2022



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California State Controller

August 12, 2022

The Honorable Tony Thurmond,
State Superintendent of Public Instruction
California Department of Education
1430 N Street
Sacramento, CA 95814

Dear Mr. Thurmond:

The State Controller's Office audited the Education Protection Account (EPA), recorded in the State of California's General Fund, for the fiscal years ended June 30, 2018, and June 30, 2019.

Our audit found that the Proposition 30 incremental tax funds recorded in the EPA during the audit period were used and accounted for in a manner consistent with Article XIII, Section 36 of the California Constitution.

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

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/lb

The Honorable Tony Thurmond,
State Superintendent of Public Instruction

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August 12, 2022

cc: Mary Nicely, Chief Deputy Superintendent
California Department of Education
Alice Lee, Director
Audits and Investigations Division
California Department of Education
Keely Martin Bosler, Director
California Department of Finance
Christopher Ferguson, Program Budget Manager
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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 of California's General Fund, for the fiscal years ended June 30, 2018, and June 30, 2019.

Our audit found that the Proposition 30 incremental tax funds recorded in the EPA during the audit period were used and accounted for in a manner consistent with Article XIII, Section 36 of the California Constitution.

Background

In November 2012, California voters approved Proposition 30, also known as "The Schools and Local Public Safety Protection Act of 2012." The measure, enacted in Article XIII, Section 36, subdivision (f) of the California Constitution, imposed temporary, incremental tax increases to stabilize funding for public education. The EPA was created to receive the funds generated by Proposition 30, and to provide local education agencies (LEAs) and community college districts (CCDs) with general-purpose state aid funding pursuant to Article XIII, Section 36, subdivision (e)(3), paragraphs (A) and (B), of the California Constitution.¹

The EPA is administered by the California Department of Education (CDE). It is a Special Account recorded in the State of California's General Fund, and is accounted for under the modified accrual basis of accounting. Pursuant to Article XIII, Section 36, subdivision (e)(3) of the California Constitution, all money in the EPA is continuously appropriated for the support of LEAs and CCDs.

Proposition 30 provided 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. Proposition 30 funds are allocated quarterly; 89% is allocated to the State 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 have 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 to Calculate 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 estimating revenues for the State as a whole, and estimating the amount of funds that will be available for transfer into the EPA. DOF prepares the estimate by forecasting expected personal income tax and sales and use tax revenues.

¹ LEAs include school districts, county offices of education, and charter schools.

DOF calculates its estimate in May. In 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 funds that will be available for the following fiscal year. The second estimate revises the prior fiscal year's estimate of Proposition 30 funds based on updated information. The third estimate is the final estimate of Proposition 30 funds estimated 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 allowances for Necessary Small Schools and charter school general-purpose funding. If an LEA's funding from local property taxes and the 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. Each quarter, CDE also prepares a Notice of Apportionment, which includes a payment summary schedule by county of the amount transferred to each county treasurer. On its website, CDE provides 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. The total computational revenue 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. On its website, CCCCCO provides a schedule 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 the Proposition 30 incremental tax funds recorded in the EPA for the fiscal years ended June 30, 2018, and June 30, 2019, were used and accounted for in a manner consistent with Article XIII, Section 36 of the California Constitution.

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

- We 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.
- We 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.
- We traced DOF's calculations to supporting documentation and verified the accuracy of its estimates.
- We verified the accuracy of the EPA allocations to CDE and CCCCCO in accordance with the California State Constitution.
- We verified the accuracy of CDE's allocation to LEAs and disbursement of funds to county treasurers for individual LEAs.
- We randomly selected representative, non-statistical samples of payments from county treasurers to individual LEAs to verify that payments were made correctly and in a timely manner. We did not project the results of testing to the intended (total) population.
- We verified the accuracy of CCCCCO's allocation to CCDs and disbursement of funds to county treasurers for individual CCDs.
- We applied analytical procedures to all payments from county treasurers to individual CCDs, in lieu of sampling, to verify that payments were made correctly and in a timely manner. We did not project the results to the intended (total) population.

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

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

Our audit scope did not include assessing 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 Article XIII, Section 36, subdivision (g)(1) of the California Constitution, which requires SCO to 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 the Proposition 30 incremental tax funds recorded in the EPA for the fiscal years ended June 30, 2018, and June 30, 2019, were used and accounted for in a manner consistent with Article XIII, Section 36 of the California Constitution.

We also found that \$6.3 million of disbursed EPA funds was illicitly obtained through fraud perpetrated by an organization falsifying enrollment data. CDE disallowed the funding, and, as a result of indictment allegations and arraignment cooperation, the \$6.3 million in EPA funds was fully recovered. Final settlement hearings are in process.

**Views of
Responsible
Officials**

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

Restricted Use

This audit report is solely for the information and use of CDE, CCCCO, 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 audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

August 12, 2022

Schedule—
Education Protection Account – Transfers In, Expenditures, and
Changes in Account Balances
for Fiscal Years Ended June 30, 2018, and June 30, 2019

	<u>June 30, 2018</u>	<u>June 30, 2019</u>
Transfers In		
To CDE for LEAs:		
Personal Income Tax	\$ 6,809,114,100	\$ 7,697,384,830
Sales and Use Tax	-	-
Subtotal	<u>6,809,114,100</u>	<u>7,697,384,830</u>
To CCCCCO for CCDs:		
Personal Income Tax	841,575,900	951,362,170
Sales and Use Tax	-	-
Subtotal	<u>841,575,900</u>	<u>951,362,170</u>
Total Transfers In	<u>7,650,690,000</u>	<u>8,648,747,000</u>
Expenditures		
Disbursements to County Treasurers:		
For LEAs	6,809,346,829	7,697,381,721
For CCDs	<u>841,575,900</u>	<u>951,362,170</u>
Total Expenditures	<u>7,650,922,729</u>	<u>8,648,743,891</u>
Excess (Deficiency) of Transfers In Over Expenditures	(232,729)	3,109
Beginning Account Balance	<u>232,749</u>	<u>20</u>
Ending Account Balance ¹	<u>\$ 20</u>	<u>\$ 3,129</u>

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

**State Controller's Office
Division of Audits
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Sacramento, CA 94250**

<http://www.sco.ca.gov>