

**Revised**  
**Final Statement of Reasons**  
**March 2006 Supplement to 2005-2006 Audit Guide**

**Sections 19814, 19814.1, 19827, 19836, 19851, and 19853**

The Initial Statement of Reasons is included in the file. The information contained therein is supplemented as set forth below.

At the February 6, 2006, meeting of the Education Audit Appeals Panel (EAAP), the Panel considered regulations for the audit guide for K-12 local education agency (LEA) audits for the 2005-06 fiscal year. The Panel adopted emergency regulations and authorized staff to begin the regular rulemaking process for the eventual adoption of permanent regulations.

The Notice of Proposed Rulemaking for the permanent regulations was published in the California Notice Register on February 17, 2006. At the public hearing on the proposed permanent supplemental regulations, held April 6, 2006, three persons made oral comments; one of them submitted written comments. A transcript of the hearing and the written submission are included in the rulemaking file.

At the April 24, 2006, EAAP meeting, the Panel considered the public comments and adopted final supplemental audit guide regulations for fiscal year 2005-06, making only non-substantial changes. In addition to the changes delineated in the Response to Comments, the Panel also renamed section 19817 and 19817.1 from “Attendance Reporting” to the narrower referent, “Regular and Special Day Classes.”

**Technical, Theoretical, or Empirical Studies, Reports, or Documents.**

EAAP did not rely on any technical, theoretical, or empirical studies, reports, or documents in proposing the adoption of these regulations.

**Request That Regulations Become Effective Upon Filing**

EAAP requests that the regulations in the current rulemaking file become effective upon filing. Education Code Section 14502.1 requires EAAP to adopt audit guide regulations pursuant to the rulemaking procedures of the Administrative Procedure Act by March 1 of the audit year. These regulations will replace the emergency audit guide regulations that became effective February 17, 2006. Together with the remainder of Chapter 3 of Division 1.5 of Title 5 of the California Code of Regulations, these regulations constitute the LEA audit guide for fiscal year 2005-06.

**Alternatives Determination**

The Education Audit Appeals Panel has determined that no alternative would be more effective in carrying out the purpose for which these regulations are proposed or would be as effective and less burdensome than the proposed regulations.

**Local Mandate Determination**

The proposed regulations do not impose any mandate on local agencies or school districts.

**Response to Comments Received During the Public Notice Period  
Ending April 6, 2006**

At the public hearing on April 6, 2006, the following persons gave oral testimony:

Eric Premack, Co-Director of CharterVoice.

Brad Strong, Legislative Director, EdVoice.

Colin A. Miller, Director, Policy and Research, California Charter Schools Association.

Mr. Miller also submitted his comments in writing.

No one commented on proposed new Section 19827 or the proposed amendments to sections 19814 and 19814.1.

**§ 19853. Determination of Funding for Nonclassroom-Based Instruction.**

**Comments:** Mr. Premack and Mr. Strong commented that the originally proposed amendment to subdivision (c)(4) of Section 19853 did not clearly state that charter schools may choose between two alternative pupil-to-teacher ratios as provided in statute and regulation (Education Code Section 51745.6(e) and Title 5 Section 11704).

**Response:** EAAP agrees that this section, as well as Section 19851(b), could be more clear and has removed the ambiguity from both sections by adopting a nonsubstantial change that simply refers to Section 11704.

**Title of Article 4.**

**Comments:** All three commenters stated that the proposed change of the title of Article 4 from simply “Charter Schools” to “Different or Additional Provisions for Charter Schools” causes uncertainty as to which sections of the audit guide apply to charter schools. Mr. Premack contended that only Article 4 applies to charter schools, while Mr. Strong and Mr. Miller suggested that a further change was needed to clarify what “different or additional” matters apply to charter schools. Mr. Miller also stated that changing the title near the end of the regulatory process was “fairly unnecessary.” Mr. Miller’s written comments reflected his oral testimony.

**Response:** EAAP disagrees with Mr. Premack’s contention that only Article 4 of the audit guide applies to charter schools. EAAP addressed that issue in response to comments received during the initial development of regulations for fiscal year 2005-2006, titled “Audits of K-12 Local Education Agencies FY 05-06” (OAL File No. 05-0826-02C, Final Statement of Reasons). The current proceeding concerns subsequent, “supplemental” regulations (see Education Code § 14502.1(b)) for that year. EAAP reiterates that Education Code Section 47634.2(d) made charter schools, with regard to certain specified provisions of the Education Code, subject “to audits conducted pursuant to Section 41020,” and that Education Code Section 41020 requires audits to

be conducted in accordance with this audit guide.<sup>1</sup> The audit guide sets forth the format, standards, and procedures applicable to audits conducted pursuant to Section 41020 (sections 19810 through 19816).

EAAP agrees that the proposed title of Article 4 does not have the effect of increasing clarity. Therefore, EAAP makes the following nonsubstantial changes to clarify the applicability of the components of the audit guide regulations to audits of charter schools:

First, regulations relating to auditing standards are consolidated in Article 1, “General Provisions,” as follows: sections 19812, “Auditing Standards” (relocated from Article 2); 19815, “Materiality Levels for Compliance Auditing” (relocated from Article 3 and renumbered 19813); and 19816, “Auditor Judgment” (relocated from Article 3 and renumbered 19814). These changes require the renumbering of sections in Article 2, “Audit Reports,” as follows: 19813, “Report Components,” 19814, “Definitions,” and 19814.1, “Applicability of Audit Provisions by Audit Year,” to 19815, 19816, and 19816.1, respectively. Articles 1 and 2 set forth provisions that are applicable without reference to fiscal years, pursuant to Education Code sections 14502.1(a), 14503(a), and 41020(b)(4) and (d).

Second, the title of Article 3 is changed from “State Compliance Requirements” to “State Compliance Procedures: Local Education Agencies Other Than Charter Schools”; a new Article 3.1, “State Compliance Procedures: School Districts and Charter Schools,” is added. Sections 19826 and 19826.1, both titled “Class Size Reduction,” (the former being applicable only to fiscal year 2003-2004) are renumbered 19845 and 19845.1 respectively and relocated to Article 3.1. Education Code Section 52121.5 provides that charter schools are eligible for funding under Chapter 6.10, Class Size Reduction Program (commencing with Education Code § 52120), and that charter schools shall comply with the requirements of the chapter, stating further that “For the purposes of this chapter, any reference to school districts shall be deemed to include charter schools.” Education Code Section 52124.5(a) requires that instructions for auditing compliance with the Class Size Reduction Program be included in this audit guide.

Additional conforming, nonsubstantial changes are made as follows:

- § 19816: The reference in the first line to “Section 19813” is changed to 19815.
- § 19816(e)(1), (2), (3): The sequence of audit procedures in these three subparagraphs is reordered in conformance with the renumbering of the sections regarding Class Size Reduction, from 19826 and 19826.1 to 19845 and 19845.1, respectively.
- § 19816.1(a)(1), (2), (3): Reference to sections 19815, 19816, 19826, and 19826.1 is deleted to reflect the relocation of these sections from Article 3.

---

<sup>1</sup> Education Code 41020, subdivision (d) “All audit reports for each fiscal year shall be developed and reported using a format established by the Controller after consultation with the Superintendent and the Director of Finance”; and subdivision (g)(1) “The auditor’s report shall include each of the following: (A) A statement that the audit was conducted pursuant to standards and procedures developed in accordance with Chapter 3 (commencing with Section 14500) of Part 9 of Division 1 of Title 1.”

- § 19816.1: A new subdivision (b) is added to specify the applicability of the sections of new Article 3.1.
- § 19816.1: The applicability of the sections in Article 4 is now specified in redesignated subdivision (c).
- Section 19836: The reference in the first paragraph to “Section 19815” is changed to 19813.

Finally, the title of Article 4 is changed to “State Compliance Procedures: Charter Schools.”