

Initial Statement of Reasons

SECTIONS 19816, 19816.1, and 19845.2.

Specific Purpose of the Regulations.

Education Code Section 14502.1 requires the Controller, in consultation with the Department of Finance, the State Department of Education, and representatives of specified organizations, to propose the content of a guide for the required annual financial and compliance audits of school districts, offices of county superintendents of schools, and other local education agencies. Section 14502.1 further requires the Controller to submit the proposed audit guide to the Education Audit Appeals Panel for review and possible amendment. The Panel is then to adopt the audit guide, pursuant to the rulemaking procedures of the Administrative Procedure Act, by July 1 of the fiscal year to be audited (and any supplement, as authorized, before March 1 of the audit year).

This rulemaking is necessary to accomplish the annual update of the guide for 2012-13 pursuant to Education Code Section 14502.1(a) and (b). The proposed regulations make a technical change in the audit guide related to Class Size Reduction. This technical change is required to modify the applicability date of section 19845.2. to reflect the extended flexibility provision of Chapter 7, Statutes of 2011 (S.B. 70). Conforming changes and edits to improve clarity have been made in sections 19816 and 19816.1.

Necessity/Rationale

These regulations are necessary to implement Education Code sections 14501, 14502.1, 14503, and 41020, and Section 31 of Chapter 7 of the Statutes of 2011 (S.B. 70, eff. March 24, 2011).

The proposed amendments to sections 19816 and 19816.1 reflect the annual update by including the number of audit procedures proposed for inclusion in the audit guide for fiscal year 2012-13 (19816), and by specifying which sections of the audit guide are applicable to 2012-13 (19816.1).

Current state statute (Section 31 of Chapter 7 of the Statutes of 2011) extend the applicability of the Class Size Reduction Program through 2013-14. The proposed amendment to section 19845.2 would modify the introductory sentence to reflect the applicability date included in current state statute.

Title 5, Division 1.5

Chapter 3. Audits of California K - 12 Local Education Agencies

Article 2 Audit Reports

§ 19816. Definitions.

This section defines terms used in Section 19815 of these regulations that pertain to state program compliance and to federal publications referenced in Section 19815.

Subparagraph (h) is amended to number the paragraph that lists the number of procedures for 2011-12 as (1). Subparagraph (h)(2) is added to specify the numbers of audit procedures proposed for inclusion in the audit guide for fiscal year 2012-13. Subparagraph (h) added (1) to

designate the number of audit procedures for 2011-12. No other changes are made in these subparagraphs.

§ 19816.1. Applicability of Audit Procedures by Audit Year.

This section specifies which sections of the audit guide are applicable to each audit year. The sections that are applicable to audits of fiscal year 2012-13 are listed in new subparagraph (a)(10) for Article 3, new subparagraph (b)(10) for Article 3.1, and new subparagraph (c)(8) for Article 4. Subparagraph (c)(7) was edited to improve clarity.

Article 3.1. State Compliance Requirements: School Districts and Charter Schools.

§ 19845.2. Class Size Reduction

This section addresses the audit steps to be performed if a school district or charter school received Class Size Reduction Program funding for the year audited, and specifies ranges and penalty percentages to be used by the auditor. This section has been amended to modify the introductory sentence to indicate its applicability through fiscal year 2013-14 (Section 31 of Chapter 7 of the Statutes of 2011 (S.B. 70, eff. March 24, 2011)).

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

In preparing the proposed regulations, EAAP relied upon an Economic Impact Assessment prepared pursuant to Government Code Section 11346.3(b). No other technical, theoretical, or empirical studies, reports, or documents were relied on in proposing the adoption of these regulations.

Benefits of the Regulation to the Health and Welfare of California Residents.

We do not anticipate that these proposed amendments would create specific benefits for the protection of public health and safety, worker safety, or the environment, the prevention of discrimination, the promotion of fairness or social equity, nor the increase in openness and transparency in business and government. These regulations make technical and conforming changes to the K-12 audit guide to ensure its consistency and compatibility with existing state statutes and regulations.

Alternatives Proposed as Less Burdensome and Equally Effective in Achieving the Purposes.

No other alternatives were presented to or considered by EAAP.

Reasonable Alternatives to the Regulations, Including Alternatives that Would Lessen Any Adverse Impact on Small Business, and the Agency's Reasons for Rejecting Those Alternatives.

These regulations are applicable only to certified public accountants and public accountants who audit LEAs, and indirectly to the LEAs themselves. No alternatives to lessen adverse impact on small business were proposed because no adverse impact on small business has been identified. No other alternatives were presented to or considered by EAAP.

Prescribed Audit Procedures.

The proposed regulations provide definitions of terms and specification of procedures to guide accountants in the conduct of statutorily required financial and compliance audits of LEAs.

The regulations will be a part of the audit guide required by Education Code sections 14502.1, 14503, and 41020. These audits must be performed by licensed public accountants who must conduct the audits in accordance with generally accepted auditing standards. (Educ. Code §§ 14501, 14503, and 41020; Title 5, §§ 19811 and 19812.) The audit guide includes provisions that authorize an auditor to use alternative procedures if, in the exercise of professional judgment, the auditor determines other procedures are more appropriate in particular circumstances. (Title 5, §§ 19814 and 19816(h).)

Evidence Supporting Finding of No Significant Adverse Economic Impact on Any Business.

The regulations direct accountants to perform the steps necessary for the annual audits required by Education Code Section 41020. Education Code Section 14503 requires the use of this audit guide in the performance of those audits of LEAs. EAAP has prepared an Economic Impact Assessment pursuant to Government Code Section 11346.3(b) and has made an initial determination that adoption of the proposed regulations would not have a significant adverse economic impact on any business in the State of California.