

Initial Statement of Reasons

Sections 19813, 19814, 19814.1, 19815, 19816, 19819, 19824, 19828.1, 19831, 19833.5 and 19833.6.

Specific Purpose of the Regulations.

Education Code Section 14502.1 requires EAAP to review, possibly amend, and adopt the content submitted to the Education Audit Appeals Panel (EAAP) by the Controller for inclusion in the audit guide required by that statute. Local education agencies (LEAs) that serve kindergarten or any of grades 1 through 12 (K-12) are required to contract for an annual independent audit (Education Code § 41020), and the audit guide adopted by EAAP must be used in the performance of these audits (Education Code § 14503). Specifically, these regulations will provide definitions of terms and specification of audit procedures to guide accountants in the conduct of the statutorily required financial and compliance audits in the areas proposed by the Controller for inclusion in the audit guide for the 2006-07 fiscal year.

Necessity/Rationale

These regulations are necessary to implement Education Code sections 14501, 14502.1, 14503, and 41020.

Title 5, Division 1.5

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

Article 2 Audit Reports

§ 19813. Report Components.

This section specifies the format of the LEA audits. The State Controller has authority to specify the format of these audit reports (Education Code Section 41020(d)) and has proposed adding “Local education agency organization structure” to the list of Supplementary Information in new subdivision (d)(1). The subsequent elements of subdivision (d) are renumbered accordingly.

§ 19814. Definitions.

New subdivision (b) provides the description of “Local agency organization structure” specified in Section 19813(d)(1). This information is helpful to users of LEA audit reports and had been included when the audit guide was published by the State Controller’s Office prior to 2003-04.

Subdivision (e) [formerly designated (d)] is amended to correct capitalization of a word (‘Over’), and to supply a missing word (‘an’) in a report name.

Subdivision (f) [formerly (e)] is amended to add a new subparagraph (4) to specify the numbers of audit procedures proposed for inclusion in the audit guide for fiscal year 2006-07.

Subdivision (l) [formerly (k)] is amended to include a new audit finding code, as required by Education Code Section 41020(n), for findings under proposed new Section 19833.6.

§ 19814.1 Applicability of Audit Procedures by Audit Year.

This section specifies which sections of the audit guide are applicable to each audit year. New subdivision (a)(4) lists the sections in Article 3 that are applicable to audits of fiscal year 2006-07. Subdivision (b) now specifies the sections in Article 4 that are applicable to audits of fiscal year 2005-06 [newly designated subparagraph (1)], and those that are applicable to audits of fiscal year 2006-07 [new subparagraph (2)].

Article 3. State Compliance Requirements.

§ 19819. Independent Study.

New subdivision (a)(2) is added to specify how the auditor how is to verify compliance with Education Code Section 51748, which requires as a condition of apportionment that pupils participating in independent study be identified in the records of the school district or county office of education by grade level, program placement, and school of enrollment. New subdivision (a)(3) directs the auditor to calculate, consistent with the provisions of Education Code Section 46303, any inappropriately reported ADA units identified, and to include that information in the Findings and Recommendations section of the audit report.

Subdivision (a)(4) [formerly (a)(2)] is nonsubstantially amended to be parallel to the recently modified, corresponding section applicable to charter schools (Section 19851(b)).

§ 19824. Instructional Time.

This section has been revised to specify how the auditor how is to verify compliance with Education Code sections 41420 or 37670, as applicable. Education Code Section 41420(a) provides that a school district shall receive no apportionment based on ADA unless it maintains all of its regular day schools at least 175 days during the school year. Later enacted Education Code Section 37670 authorizes a school district to operate a program of multitrack year-round scheduling in one or more of its schools, in which case the school may operate for as few as 163 days in a school year.

Each day must be at least the minimum length required in statute for the various grade levels. Subdivision (a)(1) has been amended, and subdivisions (a)(2) and (a)(3), have been added to direct the auditor to ascertain whether any days in the school attendance calendars of the sampled schools are shorter than the usual length; to determine the number of days that were of at least the minimum length required by grade level; and, if all schools in the sample have fewer than the required minimum number days, to determine whether the same is true of all the regular day schools of the district.

New subdivision (a)(4) directs the reporting of a penalty under Education Code Section 41420(a) if all regular day schools of the district failed to meet the 175-[or 163]-day requirement, or under Education Code Section 41420(b) if one or more schools was not in compliance.

Subdivisions (a)(7) [formerly (a)(4)], (a)(8) [formerly (a)(5)], (b)(3), and (b)(4) are amended to correct references from ‘grade spans’ to ‘grade levels’ in accordance with Education Code sections 46200 and following.

§ 19828.1. Instructional Materials.

The language of subdivision (b)(5) is revised to conform to Education Code Section 60119, as amended (Stats. of 2005, Chapter 118 (A.B. 831), Sec. 15), with regard to alignment of textbooks and instructional materials with the content standards and curriculum framework cycles adopted by the State Board of Education, and to the percentage of pupils who lack sufficient standards-aligned materials in each subject area.

§ 19831. Gann Limit Calculation.

Section 19831 Gann Limit Calculation is amended to include verification of the accuracy of any adjustments to prior year appropriations limit data.

§ 19833.5. Excess Sick Leave.

This new section directs the auditor to determine whether excess sick leave, as defined, has been afforded to CalSTRS members. Accrued excess sick leave can be converted to retirement credit upon retirement, and CalSTRS, which brought the issue to the Controller, has advised that such excess sick leave frequently later appears as an unfunded liability.

§ 19833.6. Notification of Right to Elect California State Teachers Retirement System (CalSTRS) Membership.

This new section directs the auditor to check for compliance with LEAs' statutory duty to notify newly hired part-time or substitute teachers of their right to join CalSTRS. It is limited to a review of notifications and acknowledgment.

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.

Reasonable Alternatives to the Regulations and the Agency's Reasons for Rejecting Those Alternatives.

No other alternatives were presented to or considered by EAAP.

Reasonable Alternatives to the Regulatory Action that Would Lessen Any Adverse Impact on Any Business.

These regulations are applicable only to certified public accountants and public accountants who audit LEAs, and indirectly to the LEAs themselves. As no adverse impact on small business has been identified, there is no need to examine reasonable alternatives to lessen the impact.

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

EAAP has determined that adoption of the proposed regulations would not have a significant impact on any business in the State of California. The regulations direct accountants to conduct the steps required for audit of state-funded education programs and Education Code Section 14503 requires the use this audit guide in the performance of audits of LEAs, and provides that, if auditors do not follow the prescribed procedures, they are to state in their audit reports what other procedures were followed.