

Initial Statement of Reasons

SECTIONS 19810 and the 2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting (March 1, 2015) incorporated by reference.

Specific Purpose of the Regulations

The regulation to be amended, Education Code Section 19810, is that which incorporates the audit guide by reference. The audit guide defines terms and specifies procedures to guide accountants in the conduct of statutorily required financial and compliance audits of local education agencies (LEAs). (Ed. Code §§ 14502.1, 14503, 41020.) The Education Audit Appeals Panel (EAAP) must adopt the audit guide by July 1 of the fiscal year to be audited, and must adopt any supplement to address legislative changes to the conditions of apportionment before March 1 of the audit year. (Ed. Code § 14502.1(b)).

The Controller, pursuant to Education Code Section 14502.1, has proposed amending and supplementing the audit guide for fiscal year 2014-15. After review and some amendment, EAAP proposes to amend Ed. Code section 19810 and the 2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting.

Necessity/Rationale

These amendments are necessary to implement Education Code sections 14502.1, 14503, 41020, 47612 and 47634.2. The rationale for each amendment is provided below, the overall purpose being to guide the conduct of audits and the content of audit reports consistent with Legislative intent and the Controller's proposals.

Problem to be Addressed in this Rulemaking

The proposed regulatory changes will make clarifying revisions and specify audit procedures to guide accountants in the conduct of the statutorily required financial and compliance audits of K-12 LEAs to address issues resulting from new legislation that affected conditions of apportionment.

Title 5, Division 1.5

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

Article 2 Audit Reports

§ 19810. Annual Audit Guides.

The "2014-15 Guide for Annual Audits ~~for~~ of K-12 Local Education Agencies and State Compliance Reporting" (~~July 1, 2014~~March 1, 2015), published by the Education Audit Appeals Panel, is incorporated by reference. The guide provides the audit steps, reporting requirements, and other guidance, for the required annual financial and compliance audits, subject to auditor judgment where alternative or additional audit steps may be appropriate. Each annual guide and any applicable supplement are available on www.eaap.ca.gov/audit-guide, with paper or electronic copies available on request.

Note: Authority cited: Section 14502.1, Education Code. Reference: Sections 14502.1, 14503 and 41020, Education Code.

Audit Guide Amendments

The proposed supplemental 2014-15 Audit Guide includes the following substantive changes:

- *Report Components* item (3) changes the word “date” to “data” to correct an error, and item (6)(a) adds a new code for findings related to the (Local Control Accountability Plan). Code 62000 will be used by the State Controller’s Office to designate audit finding related to the LCAP.
- *Section D Independent Study* and *Section AA Nonclassroom-based Instruction/Independent Study* are revised to reflect current law which allows independent study agreements to extend to the full school year (Educ. Code § 51747(c)(5)), and removes the requirement that LEAs sign and date pupil work products when assessing the time value of work (Educ. Code § 51747.5(c)). Revisions also add the term “independent study ratio” to add clarity to the audit step to reflect Education Code section 51745.6 and title 5, California Code of Regulations, Section 11704 which address the calculation of the ratio of independent study pupils to certificated employees. These changes are made to update the audit guidance to conform to changes in the Education Code, for which auditors check for compliance.
- *Section F Instructional Time* removes McKittrick Elementary (15-63651) and Indian Springs Elementary (45-70037) as districts that participated in longer day but did not participate in longer year incentive funding; and removes Mountain House Elementary (01-61218) as a district that did not participate in longer day but did participate in longer year incentive funding.
- *Section S California Clean Energy Jobs Act* adds a link to the California Energy Commission’s Guidelines. Public Resources Code 26235(d)(2) exempts those guidelines from the rulemaking provisions of the Administrative Procedures Act. This section also adds a link to the Department of Education’s website, which provides the amount of the total award available for planning. These links provide information that will allow the auditor to determine whether a school district or county office of education complied with the California Clean Energy Job Act requirements of Public Resources Code Section 26235, to reflect the legislative direction regarding the expenditure of Proposition 39 funds.
- *Section W Unduplicated Local Control Funding Formula Pupil Counts* adds language for the auditor to ensure that data collection procedures complied with Education Code section 42238.01(a) for designated schools. Education Code section 42238.02(b)(3)(B) requires that the State Controller propose such instructions in the audit guide. Additionally, based on recommendations from the Audit Guide Committee (including the State Controller’s Office) modifications are made to step 4 to remove the reference to the California Longitudinal Pupil Achievement Data System (CalPADS) and add a reference to the Local Control Funding Formula. The LCFF is a new funding mechanism and it was noted that adjustments to CalPADS are required to arrive at the accurate enrollment count funded under LCFF. In order for the auditors to accurately audit these counts, as required by Education Code, the LCFF must be used. Furthermore, as the new program has gone through its first round of audits, it was found that adjustments may have to be made for students enrolled at more than one school; thus, the words Enrollment Adjustments were added to *W(4)*. A reference to the Department of Education website

is also added, to ensure that auditors will use the correct data in their audits. Also W(1)(a) adds 181 to the word Free and 182 to the word Reduced to provide specificity for the NSLP designations.

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

In preparing the proposed regulations, EAAP did not rely on any technical, theoretical, or empirical studies or reports.

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.

The audit guide regulations are applicable only to certified public accountants and public accountants who audit LEAs, and indirectly to the LEAs themselves. No alternatives to these amendments have been proposed which would reduce any impact on small business; in any case, no adverse impact on small business has been identified. No other alternatives were presented to or considered by EAAP. Particularly where the Legislature has ordered that specific matters be included in the audit guide and/or stated that compliance is a condition of apportionment, there is no alternative consistent with legislative intent.

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

No other alternatives were presented to or considered by EAAP.

Prescribed Audit Procedures.

The proposed amendments clarify, revise, and make additions to, the 2014-15 audit guide to conform to legislation. These audits must be performed by licensed public accountants who must conduct the audits in accordance with generally accepted auditing standards. (Ed. 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.

EAAP has prepared the following 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. 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. In brief, any economic impact derives from the statutory audit requirement and changes in substantive law already subject to audit.

Economic Impact Assessment

Staff of the Education Audit Appeals Panel (EAAP) have performed an economic impact assessment of the proposed regulations amending section 19810 and revising the Audit Guide

which is incorporated by reference. This assessment was performed in compliance with Government Code section 11346.3(b).

What would the proposed regulations do?

This rulemaking adopts the supplemental Audit Guide for 2014-15, required by Section 14502.1, through incorporation by reference in a revised Education Code Section 19810. The audit guide provides guidance, through definitions of terms and specification of procedures, to auditors in the conduct of the annual financial and compliance audits required of K-12 local education agencies by Education Code Section 41020. The guidance facilitates auditors in conducting audits and readers of audit reports by directing the manner of presenting findings.

Creation or Elimination of Jobs Within the State of California

The activities specified in the regulations, or auditor-selected alternative activities, are necessary to implement existing Education Code sections. There will be no jobs created or eliminated as a result of these proposed regulations.

Creation of New or Elimination of Existing Businesses Within the State of California

These regulations will make only technical and conforming changes to Section 19810 and the K-12 audit guide. There will be no businesses created or eliminated as a result of these regulations.

Expansion of Businesses or Elimination of Existing Businesses Within the State of California

The proposed regulations will not expand or eliminate business. Education Code Section 41020 requires that these audits be conducted by professional accounting firms under contract to local education agencies, and requires that those firms use the standards and procedures developed pursuant to Section 14500 and following.

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

These regulations make technical and conforming changes to the K-12 audit guide to ensure its compliance with existing statutes. 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 openness and transparency in business and government.