

**TITLE 5. Education**  
**Education Audit Appeals Panel**

Notice of Proposed Rulemaking

*Supplement to Audits of K-12 Local Education Agencies*  
Fiscal Year 2014-15

The Education Audit Appeals Panel (EAAP) proposes to amend the Audit Guide regulations as described below after considering all comments, objections, and recommendations regarding the proposed action.

**Public Hearing:**

A public hearing regarding this proposal is not currently scheduled. Not later than 15 days prior to the close of the written comment period, any interested person, or his or her authorized representative, may make a written request for a public hearing pursuant to Government Code section 11346.8, and a public hearing will be held. Requests for a public hearing should be addressed to Timothy Morgan.

**Written Comment Period:**

Any interested person, or his or her authorized representative, may submit written comments relevant to the proposed regulatory action. The written comment period closes at **5:00 p.m. on Monday, May 11, 2015**. EAAP will consider only written comments received by that time. Written comments for EAAP's consideration should be directed to:

Christine Pentoney  
Education Audit Appeals Panel  
770 L Street, Suite 1100  
Sacramento, CA 95814

Fax: (916) 445-7626  
e-mail: [cpentoney@eaap.ca.gov](mailto:cpentoney@eaap.ca.gov)

**Authority and Reference:**

Authority cited: Section 14502.1, Education Code.

Reference: Sections 14501, 14502.1, 14503, and 41020 of the Education Code.

**Informative Digest/Policy Statement Overview:**

This rulemaking, and the emergency adoption already made, amends title 5, California Code of Regulations, section 19810 to clarify the incorporation by reference language and make reference to the supplemental audit guide. It also adopts the supplemental audit guide for 2014-15 which makes clarifying revisions and addresses legislative changes in the conditions of apportionment of school funding.

This rulemaking meets the requirements of Education Code section 14502.1, which mandates that an annual audit guide be adopted by the EAAP. The purpose of the audit guide is to define terms and specify procedures to guide accountants in the conduct of statutorily required financial and compliance audits of K-12 local education agencies. The Controller, pursuant to Education Code section 14502.1, has proposed amendments to supplement the audit guide for fiscal year 2014-15. The proposed changes derive from the Controller's proposals and also contain changes designed to clarify audit steps.

EAAP does 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. EAAP has determined that the proposed amendments will ultimately benefit the welfare of California residents by ensuring that local education agencies are in compliance with regulatory requirements. In developing the rulemaking, EAAP evaluated the proposed changes to regulations and determined that they are not inconsistent or incompatible with existing regulations, state or federal.

A description of proposed changes to section 19810, and a discussion of revisions to the audit guide, follow.

**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](http://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 revisions:

- *Report Components* item (3) changes the word "date" to "data" to correct an error, and item (6)(a) changes the code of findings concerning the Local Control Accountability Plan from 73000 to 62000 because such audit findings fall under the 60000 miscellaneous code for county follow-up.
- *Section D Independent Study* and *Section AA Nonclassroom-based Instruction/Independent Study* are both 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 LEA's 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.

- *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 these 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.

#### **Disclosures Regarding the Proposed Action:**

1. Mandate on local agencies and school districts: None
2. Cost to any local agency or school district which must be reimbursed: None
3. Cost or savings to any state agency: None
4. Other non-discretionary cost or savings imposed upon local agencies: None
5. Cost or savings in federal funding to the state: None
6. Significant effect on housing costs: None
7. Significant, statewide adverse economic impact directly affecting business including the ability of California businesses to compete with businesses in other states: None
8. Results of the Economic Impact Assessment:
  - (a) Adoption of these regulations will not:

- create or eliminate jobs within California;
- create new businesses or eliminate existing businesses within California; or
- affect the expansion of businesses currently doing business within California.

(b) Benefit of the proposed regulation to the health and welfare of California residents, worker safety, or the State’s environment and quality of life: As stated under the “Informative Digest/Policy Statement Overview” above, the proposed regulations will update and improve audit procedures of K-12 local education agencies, which would ultimately benefit the welfare of California residents by ensuring that local education agencies are in compliance with regulatory requirements.

9. Cost impact on a representative private person or business: EAAP is not aware of any cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action.
10. Business report requirements: None
11. Effect on small businesses: The proposed regulations will have no effect on small businesses because they do not materially alter the requirements for LEA audits.

**Consideration of Alternatives:**

In accordance with Government Code Section 11346.5(a)(13), EAAP must determine that no reasonable alternative it has considered or that has otherwise been identified and brought to the EAAP’s attention would be more effective in carrying out the purpose for which the action is proposed, would be as effective and less burdensome to affected private persons than the proposed action, or would be more cost-effective to affected private persons and equally effective in implementing the statutory policy or other provision of law.

**Contact Persons:**

Inquiries concerning the substance of the proposed action, requests for a copy of the proposed text of the regulations, the Initial Statement of Reasons, the modified text of the regulations, if any, and other technical information upon which the rulemaking is based, and questions on the proposed administrative action may be directed to Timothy Morgan, Staff Attorney III, at (916)445-7745 or by e-mail: [tmorgan@eaap.ca.gov](mailto:tmorgan@eaap.ca.gov), or Mary C. Kelly, Executive Officer, at (916)445-7745.

**Availability of Rulemaking File:**

The entire rulemaking file will be available for inspection and copying throughout the rulemaking process at EAAP’s office at the above address. As of the date this notice is published in the Notice Register, the rulemaking file consists of this notice, the proposed text of the regulations, the initial statement of reasons, and the Economic Impact Assessment. A copy may be obtained by contacting Timothy Morgan at the above address. The bill analyses are also available online at <http://leginfo.legislature.ca.gov/faces/billSearchClient.xhtml>.

**Availability of Changed or Modified Text:**

Following the comment period, a hearing, if requested, and consideration of all timely and relevant comments received, EAAP may adopt the proposed regulations substantially as described in this notice. If EAAP makes modifications that are sufficiently related to the originally proposed text, the modified text (with changes clearly indicated) will be available to the public for at least 15 days before EAAP adopts the regulations as revised. Requests for copies of any modified

regulations should be sent to the attention of Timothy Morgan at the address stated above. EAAP will accept written comments on the modified regulations for 15 days after the date on which they are made available.

**Availability of the Final Statement of Reasons:**

Upon completion of the Final Statement of Reasons, a copy may be obtained by contacting Christine Pentoney at the above address, or from EAAP's website.

**Availability of Documents on the Internet:**

Copies of the Notice of Proposed Rulemaking, Initial Statement of Reasons, text of the regulations in underline and strikeout, any changed or modified text, and the Final Statement of Reasons will be accessible through the EAAP website: [www.eaap.ca.gov](http://www.eaap.ca.gov).