

**State of California
Office of Administrative Law**

In re:
Education Audit Appeals Panel

Regulatory Action:

Title 05, California Code of Regulations

Adopt sections:

Amend sections: 19810

Repeal sections:

**NOTICE OF APPROVAL OF EMERGENCY
REGULATORY ACTION**

**Government Code Sections 11346.1 and
11349.6**

OAL Matter Number: 2017-0615-01

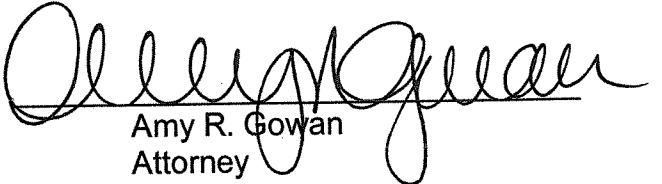
OAL Matter Type: Emergency (E)

This emergency rulemaking action by the Education Audit Appeals Panel amends the Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting (Audit Guide) pursuant to Education Code section 14502.1. The revised Audit Guide is applicable to FY 2017-2018.

OAL approves this emergency regulatory action pursuant to sections 11346.1 and 11349.6 of the Government Code.

This emergency regulatory action is effective on 6/26/2017 and will expire on 12/27/2017. The Certificate of Compliance for this action is due no later than 12/26/2017.

Date: June 26, 2017


Amy R. Gowan
Attorney

For: Debra M. Cornez
Director

Original: Mary Kelly
Copy: Timothy E. Morgan

EMERGENCY

STD. 400 (REV. 01-09)

OAL FILE NUMBERS	NOTICE FILE NUMBER Z-2017-0606-02	REGULATORY ACTION NUMBER	EMERGENCY NUMBER 2017-0615-01E
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For use by Office of Administrative Law (OAL) only

2017 JUN 15 A 11: 21
OFFICE OF ADMINISTRATIVE LAW

NOTICE	REGULATIONS
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ENDORSED - FILED
in the office of the Secretary of State
of the State of California

JUN 26 2017
3:22 PM

AGENCY WITH RULEMAKING AUTHORITY Education Audit Appeals Panel	AGENCY FILE NUMBER (if any)
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A. PUBLICATION OF NOTICE (Complete for publication in Notice Register)

1. SUBJECT OF NOTICE	TITLE(S)	FIRST SECTION AFFECTED	2. REQUESTED PUBLICATION DATE
3. NOTICE TYPE <input type="checkbox"/> Notice re Proposed Regulatory Action <input type="checkbox"/> Other	4. AGENCY CONTACT PERSON	TELEPHONE NUMBER	FAX NUMBER (Optional)
OAL USE ONLY <input type="checkbox"/> Approved as Submitted <input type="checkbox"/> Approved as Modified <input type="checkbox"/> Disapproved/Withdrawn	ACTION ON PROPOSED NOTICE	NOTICE REGISTER NUMBER	PUBLICATION DATE

B. SUBMISSION OF REGULATIONS (Complete when submitting regulations)

1a. SUBJECT OF REGULATION(S) Audits of K-12 LEAs - FY 2017-18	1b. ALL PREVIOUS RELATED OAL REGULATORY ACTION NUMBER(S)
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2. SPECIFY CALIFORNIA CODE OF REGULATIONS TITLE(S) AND SECTION(S) (Including title 26, if toxics related)	ADOPT
SECTION(S) AFFECTED (List all section number(s) individually. Attach additional sheet if needed.)	AMEND 19810
TITLE(S) 5	REPEAL

3. TYPE OF FILING	<input type="checkbox"/> Regular Rulemaking (Gov. Code §11346)	<input type="checkbox"/> Certificate of Compliance: The agency officer named below certifies that this agency complied with the provisions of Gov. Code §§11346.2-11347.3 either before the emergency regulation was adopted or within the time period required by statute.	<input type="checkbox"/> Emergency Readopt (Gov. Code, §11346.1(h))	<input type="checkbox"/> Changes Without Regulatory Effect (Cal. Code Regs., title 1, §100)
	<input type="checkbox"/> Resubmittal of disapproved or withdrawn nonemergency filing (Gov. Code §§11349.3, 11349.4)	<input type="checkbox"/> Resubmittal of disapproved or withdrawn emergency filing (Gov. Code, §11346.1)	<input type="checkbox"/> File & Print	<input type="checkbox"/> Print Only
	<input checked="" type="checkbox"/> Emergency (Gov. Code, §11346.1(b))		<input type="checkbox"/> Other (Specify) _____	

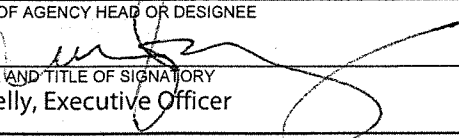
4. ALL BEGINNING AND ENDING DATES OF AVAILABILITY OF MODIFIED REGULATIONS AND/OR MATERIAL ADDED TO THE RULEMAKING FILE (Cal. Code Regs. title 1, §44 and Gov. Code §11347.1)

5. EFFECTIVE DATE OF CHANGES (Gov. Code, §§ 11343.4, 11346.1(d); Cal. Code Regs., title 1, §100)	<input type="checkbox"/> Effective 30th day after filing with Secretary of State	<input checked="" type="checkbox"/> Effective on filing with Secretary of State	<input type="checkbox"/> \$100 Changes Without Regulatory Effect	<input type="checkbox"/> Effective other (Specify) _____
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6. CHECK IF THESE REGULATIONS REQUIRE NOTICE TO, OR REVIEW, CONSULTATION, APPROVAL OR CONCURRENCE BY, ANOTHER AGENCY OR ENTITY	<input type="checkbox"/> Department of Finance (Form STD. 399) (SAM §6660)	<input type="checkbox"/> Fair Political Practices Commission	<input type="checkbox"/> State Fire Marshal
	<input checked="" type="checkbox"/> Other (Specify) See Education Code section 14502.1(a)	<input type="checkbox"/> per agency request	<input type="checkbox"/> aeb

7. CONTACT PERSON Timothy E. Morgan	TELEPHONE NUMBER (916) 445-7745	FAX NUMBER (Optional) (916) 445-7626	E-MAIL ADDRESS (Optional) tmorgan@eaap.ca.gov
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8. I certify that the attached copy of the regulation(s) is a true and correct copy of the regulation(s) identified on this form, that the information specified on this form is true and correct, and that I am the head of the agency taking this action, or a designee of the head of the agency, and am authorized to make this certification.

SIGNATURE OF AGENCY HEAD OR DESIGNEE 	DATE 06/15/2017
TYPED NAME AND TITLE OF SIGNATORY Mary C. Kelly, Executive Officer	

For use by Office of Administrative Law (OAL) only

ENDORSED APPROVED

JUN 26 2017

Office of Administrative Law

Title 5, Division 1.5
Chapter 3. Audits of California K - 12 Local Education Agencies
Article 2 Audit Reports

§ 19810. Annual Audit Guides.

The “~~2016-17~~2017-18 Guide for Annual Audits for K-12 Local Education Agencies and State Compliance Reporting,” (~~March 1, 2017~~)(July 1, 2017), adopted 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. The annual guide is superseded by a supplemental audit guide, if needed, adopted before March 1 of each fiscal year. 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: Sections 14502.1 and 47612, Education Code; California Constitution, Article XIII, Section 36, subdiv. (e), subpara 7, and Article XIII A, Section 1, subdiv. (b), subparas 3(C) and 3(D). Reference: California Constitution Article XIII B, Section 1.5; and Sections 8482.3(e)(5), 2574(b)(3)(C), 14501, 14502.1, 14503, 14509, 15286, 41020, 42238.02(b)(3)(B), 47612.5, 47634.2 and 48000, Education Code.

2017-18

Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting



Education Audit Appeals Panel
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March July 1, 2017

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GENERAL PROVISIONS**ABBREVIATIONS/DEFINITIONS**

ADA: Average Daily Attendance as reported to CDE for apportionment

Annual: the fiscal year ending on June 30

CDE: California Department of Education

COE: County Office of Education

Grade span: as specified in Education Code section 42238.02(d)

LEA: Local Education Agencies serving one or more of grades K-12, i.e. school districts, county offices of education, charter schools, and certain joint power authorities

LCFF: Local Control Funding Formula

P2: the second principal period of apportionment, as defined in Education Code section 41601

SCOPE/AUDITOR JUDGEMENT

This audit guide is to be used in the performance of the audits required by Education Code section 41020. The auditor shall follow the procedures included in this audit guide, unless, in the exercise of professional judgment, the auditor determines that other or additional procedures are more appropriate.

AUDITING STANDARDS

Audits shall be conducted in accordance with the following standards:

1. Standards generally accepted in the United States of America.
2. *Government Auditing Standards*, also known as the Yellow Book, which contains standards for audits of government organizations, programs, activities, and functions. The Yellow Book is published by the United States Government Accountability Office.
3. Federal audit regulations means Part 200 of Title 2 of the Code of Federal Regulations-Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (which superseded OMB Circular A-133) including standards for attaining consistency and uniformity in the audits of governments and organizations expending federal awards.

MATERIALITY LEVELS

Each program for which ADA is reported to the CDE must be audited consistent with this guide, if the number of units of ADA reported is material as shown in the following table:

<u>LEA's Total Reported ADA</u>	<u>Materiality Level/Program</u>
1 - 1,000	10 or more ADA
1,001 - 2,500	20 or more ADA
2,501 - 10,000	50 or more ADA

REPORT COMPONENTS

The report of each audit performed pursuant to Education Code section 41020 shall include the following:

1. Introductory Section
 - a. Table of Contents
 - b. Other information as deemed appropriate by the auditee
2. Financial Section
 - a. Independent Auditors Report
 - b. Management's Discussion and Analysis
 - c. Basic Financial Statements
 - d. Notes to the Basic Financial Statements
3. Required Supplementary Information: Schedule of budgetary comparison data, by object, for the general fund and any major special revenue funds that have legally adopted annual budgets, disclosing excesses of expenditures over appropriations, if any, in individual funds presented in the budgetary comparison.
4. Supplementary Information
 - a. *LEA Organization Structure*, setting forth the following information, at a minimum:
 - 1) The date on which the LEA was established, and for charter schools the date and granting authority of each charter;
 - 2) The date and a general description of any change during the year audited in a school district's boundaries;
 - 3) The numbers by type of schools in the LEA;
 - 4) The names, titles, terms, and term expiration dates of all members of the governing board; and
 - 5) The names, with their titles, of the superintendent, chief business official, and deputy/associate/assistant superintendents.
 - b. *Schedule of ADA* which displays ADA data for both the Second Period and Annual reports, by grade span and program as appropriate; and separately for each charter school, shows the total ADA and the ADA generated through classroom-based instruction by grade span, as appropriate; and if there are any ADA adjustments due to audit findings, displays additional columns for the Second Period and Annual reports reflecting the final ADA after audit finding adjustments, shown by grade span.
 - c. *Schedule of Instructional Time* displaying, for school districts, including basic aid districts, data that show whether the district complied with article 8 (commencing with section 46200) of chapter 2 of part 26 of the Education Code; showing by grade level:

- 1) For districts that met or exceeded their LCFF target or districts that participated in longer day funding, the number(s) of instructional minutes specified in Education Code section 46207(a) or 46201(b) as applicable, and the district's required instructional minutes set forth in Audit Guide Part F, Instructional Time, as applicable;
- 2) For districts that did not meet or exceed their LCFF target and did not participate in longer day funding, the number(s) of instructional minutes the district offered in the 1982-83 year, and the district's required instructional minutes as calculated in Audit Guide Part F, Instructional Time, as applicable;
- 3) For all districts, the instructional minutes offered during the year audited showing the school with the lowest number of minutes offered at each grade level;
- 4) For all districts, the number of instructional days offered during the year audited on the traditional calendar and on any multitrack year-round calendars; and whether the district complied with the instructional minutes and day's provisions. State in a note to the schedule whether the district participated in longer day incentives and whether the district met or exceeded its LCFF target funding.
- 5) For charter schools, data that show whether the charter school complied with Education Code sections 47612 and 47612.5; showing by grade level the number(s) of instructional minutes specified in Education Code section 47612.5; the instructional minutes offered during the year audited showing the school location with the lowest number of minutes offered at each grade level; the number of instructional days offered during the year audited on the traditional calendar and on any multitrack calendars; and whether the charter school complied with the instructional minutes and days provisions.

d. *Schedule of Financial Trends and Analysis* displaying information regarding the auditee's financial position and going concern status, in the form of actual financial and attendance figures for at least the most recent three-year period (ending with the audit year), plus the current year's budget, for the following items: general fund financial activity, including total revenue, expenditures, and other sources and uses; general fund balance; available reserve balances (funds designated for economic uncertainty, and any other remaining undesignated fund balance) within the general fund or special reserve fund; available reserve balances expressed as a percentage of total general fund outgo (expenditures, transfers out, and other uses), including a comparison to the applicable state-recommended available reserve percentage; total long-term debt; and elementary and secondary second principal ADA; and, when the auditee's percentage of available reserves to total general fund outgo is below the state-recommended percentage, management's plans for increasing the auditee's available reserve percentage.

e. *Reconciliation of Annual Financial and Budget Report With Audited Financial Statements* displaying the differences between the ending fund balance(s) from the audited financial statements and the unaudited ending fund balance(s) from the annual financial and budget report for each fund in which a variance occurred.

f. *Optionally, Combining Statements and Individual Fund Statements and Schedules*

g. *Schedule of Charter Schools* listing all charter schools chartered by the school district or county office of education, and indicating fFor each charter school, include the charter school number and indicate whether or not the charter school is included in the school district or county office of education audit.

h. *Schedule of Expenditures of Federal Awards*, if required by federal audit regulations, applicable to the year being audited.

i. *Notes to Supplementary Information*, if required.

5. *Other Independent Auditor Reports*

a. *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, specifies material instances of noncompliance, if any; defines material weakness and, when relevant, significant deficiency, and describes the significant deficiencies and material weaknesses disclosed by the audit; states that the auditor's consideration of internal control over financial reporting would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and states whether the auditor believes any of the significant deficiencies noted were material weaknesses; includes a statement that additional matters were communicated to the auditee in a management letter, if that is the case; specifies all instances of fraud and illegal acts, if any, disclosed by the audit, unless clearly inconsequential; specifies material violations of provisions of contracts and grant agreements, if any; specifies material abuse, if any, disclosed by the audit; and does all this in accordance with the financial reporting requirements specified in the Codification of Statements on Auditing Standards, and in Government Auditing Standards, as applicable to the year being audited.

b. *Report on State Compliance* which addresses each of the state compliance requirements included in this audit guide, stating that compliance with the applicable compliance requirements is the responsibility of the auditee's management, and stating whether or not the auditee is in compliance with those requirements; includes a chart that displays each compliance requirement (as indicated in the Table of Contents) and states which audit procedures were not performed, noting whether procedures were inapplicable, and what alternative, modified or substitute procedures were followed; and includes an expression of opinion on whether the auditee complied, in all material respects, with applicable compliance requirements.

c. *Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance* required by federal audit regulations, is the component of the Other Independent Auditor Reports that states that compliance with the applicable compliance requirements is the responsibility of the auditee's management; includes an expression of opinion on whether the auditee complied, in all material respects, with federal laws, regulations, and the provisions of federal contracts or grant agreements; and opines whether the auditee has established and maintained effective internal control over compliance with the requirements for major federal programs.

6. Findings and Recommendations

a. *Schedule of Findings and Questioned Costs* that presents all audit year findings, and a copy of each management letter issued, if any, with each finding assigned the appropriate code: 10000 Attendance, 20000 Inventory of Equipment, 30000 Internal Control, 40000 State Compliance, 42000 Charter School Facilities Programs, 50000 Federal Compliance, 60000 Miscellaneous, 61000 Classroom Teacher Salaries, 62000 Local Control Accountability Plan, 70000 Instructional Materials, 71000 Teacher Misassignments, 72000 School Accountability Report Card and includes the following elements:

1) criteria;

2) condition;

3) effect;

4) cause;

5) a statement of the number of units of ADA, by grade span, if any, that were determined to have been inappropriately reported for apportionment, and an estimate of their dollar value; and a statement consistent with its basis of funding, for any other inappropriately reported claim-such as number of unduplicated LCFF pupil counts or the dollar amount of inappropriate expenditures for a restricted program;

6) a recommendation for the resolution of the finding;

7) a corrective action plan prepared by the auditee that describes in specific terms the actions planned or taken to correct the problem, or a statement from the auditee that the corrective action recommended by the auditor is not necessary or appropriate and giving the specific reasons why, if that is the case, and a statement that the corrective action plan was not available if no corrective action plan was submitted before the audit report was prepared.

b. *Schedule of Prior Audit Findings* that presents the status of actions taken by the auditee on each of the findings and recommendations reported in the prior year audit, and includes as current year findings and recommendations those prior year findings that have not been resolved.

LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS

Workpaper
Reference

Auditor
Initials

A. ATTENDANCE

1. Determine whether the P2 and Annual reports of attendance submitted to the CDE reconcile to the supporting documents by verifying the LEA's ADA calculations for each reporting line item, including the informational line items subject to the materiality levels as described in the Materiality section of the General Provisions.
2. Trace the ADA numbers from the P2 and Annual reports of attendance to the LEA's summaries.
3. Verify that the monthly site summaries used for summarizing attendance provide accurate information, by selecting a representative sample of schools and performing the following procedures (exclude the programs identified separately in subsequent sections of this audit guide):
 - a. Reconcile the monthly totals (days of apportionment attendance) on the school's attendance summary to the summary maintained by the LEA for the P2 and the Annual attendance reports.
 - b. Select at least one test month in the P2 or Annual attendance reporting period. Verify the mathematical accuracy of the monthly report and trace the totals to the school's attendance summary.
 - c. Select a representative sample of teachers and/or classes and trace the monthly totals from the monthly report to the data origination documentation. Verify the mathematical accuracy of the attendance registers, scantron summaries, or other data arrays.
4. Select a sample of absences and compare to documentation supporting the ADA reported to the CDE to verify that absences were not included in ADA. The documentation maintained by the LEA with regard to its absences may be in the form of notes, logs, or other records, depending on the board-adopted policy concerning verification of absences.