

## **Finding of Emergency**

The Education Audit Appeals Panel (EAAP) has statutory authority to use the emergency regulations process to meet the deadlines specified for the adoption of an annual audit guide by July 1 of the fiscal year to be audited and any supplement, as authorized, before March 1 of the audit year. (Educ. Code § 14502.1(b).)

### **Specific Facts Showing the Need for Immediate Action**

Education Code Section (Section) 41020 requires the governing board of every local education agency (LEA) that serves kindergarten or any of grades 1 through 12 (K-12) to provide for an annual audit of the agency's books and accounts. Section 41020 further requires that the audit be developed and reported using a format established by the Controller after consultation with the Superintendent of Public Instruction and Director of Finance. Section 14502.1 requires the Controller, in consultation with the Department of Finance and the State Department of Education as well as representatives of specified organizations, to propose the content of an audit guide to promote accountability for public educational funds. After review and possible amendment, EAAP is then to adopt the audit guide pursuant to the rulemaking procedures of the Administrative Procedure Act (APA) by July 1 of the fiscal year to be audited. EAAP is also authorized to adopt, before March 1 of the audit year, a supplement to the audit guide to address legislative changes in the conditions of apportionment of school funding and any legislative direction for new audit guide content.

The Controller's Office letter of January 2, 2019, proposed changes to the 2018-19 Audit Guide arising from a meeting of stakeholders pursuant to Section 14502.1(a) and follow up communications from the Controller's Office to the meeting participants. To meet the statutory timelines and ensure the accuracy of the audit guide, Section 14502.1 authorizes use of the emergency regulations procedures of the APA to adopt the guide as regulations. Use of the emergency procedures protects EAAP's ability to meet the March 1 deadline in Section 14502.1 for supplemental audit guide changes. Further, meeting the timelines enables accounting firms to provide training to their field auditors prior to the commencement of auditing.

### **Authority and Reference**

Authority cited: Section 14502.1, Education Code.

Reference: sections 14502.1, 14503, 41020, and 41024 of the Education Code.

### **Informative Digest**

This rulemaking adopts the supplemental Audit Guide for 2018-19, required by Section 14502.1, through incorporation by reference in Section 19810. 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. This supplemental filing ensures that audits include subjects pertinent to and/or required by Legislation through January 1, 2019.

### **Audit Guide Amendments**

The proposed supplemental 2018-19 Audit Guide includes the following changes:

- *Auditing Standards Item 4, Table 2* adds a note to specify that for populations between 52 and 250 items, the auditors may test a sample size of approximately 10% of the population. This is standard practice in auditing, and this technical amendment avoids confusion to assure auditors that they can continue this method of sampling.

- *Report Components Section, Item 6. Findings and Recommendations* makes a technical change to add a finding code to the Apprenticeship audit findings, 43000, to categorize the findings related to the Chancellor of the California Community Colleges.
- *Sections A Attendance, D Independent Study, E Continuation, M Juvenile Court Schools, Y Independent Study-Course Based, AA Attendance, CC Nonclassroom-Based Instruction/Independent Study, DD Determination of Funding for Nonclassroom-Based Instruction*, delete reference to ungraded units of ADA, since LEAs no longer report any ungraded units of ADA. This phrase throughout the audit guide is obsolete.
- *Section D Independent Study*, delete the reference to Education Code Section 46300.4, which applies to the old adult education program, making the reference obsolete.
- *Section P Transportation Maintenance of Effort Item 2* makes technical amendments to make clearer the steps auditors can follow to access the exhibit on California Department of Education’s website, which details revenue received by the LEA.
- *Section R Comprehensive School Safety Plan* makes a technical amendment to procedure 1 to clarify that the school safety plan was approved by the school district or county office of education, rather than the LEA.
- *Section W Unduplicated LCFF Pupil Counts* makes a technical amendment to reflect that California Department of Education transitioned from the California English Language Development Test (CELDT) to the English Language Proficiency Assessments for California (ELPAC), in 2018.

### **Public Benefits**

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. These regulations make technical and conforming changes to preexisting K-12 audit guide regulations to ensure the annual Audit Guide’s consistency and compatibility with new and preexisting state statutes and regulations, and to improve the quality and consistency of K-12 audits.

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

EAAP relied upon the Controller’s Office letter of January 2, 2019, which proposed changes to the 2018-19 Audit Guide.

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

EAAP does not anticipate that the proposed regulations will affect the health and welfare of California residents, worker safety, the environment, the prevention of discrimination, the promotion of fairness or social equity, or openness and transparency in business and government.

### **Mandate on Local Agencies or School Districts**

EAAP has determined that these regulations do not impose a mandate on LEAs. No reimbursement is required.

### **Cost Estimate**

EAAP has determined that these regulations will involve no costs or savings to any State agency, no nondiscretionary costs or savings to local agencies or school districts, no reimbursable costs or

savings to local agencies or school districts under Section 17561 of the Government Code, and no costs or savings in federal funding to the State.

**Evaluation of Consistency/Compatibility with Existing Regulations**

EAAP staff performed an evaluation and determined that the proposed regulation is not inconsistent or incompatible with existing state regulations. This evaluation was performed in compliance with Government Code section 11346.5(a)(3)(D).

**Supplement to Informative Digest: Incorporation by Reference**

This supplemental rulemaking would adopt by incorporation and reference the document entitled “2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting (March 1, 2019)” which supersedes the version of the same title but dated July 1, 2018. This supplemental filing ensures that audits include subjects pertinent to and/or required by Legislation through January 1, 2019. Copies of the proposed audit guide, its previous version, and the final audit guides for several previous years, are available at EAAP’s website, [www.eaap.ca.gov](http://www.eaap.ca.gov). A hard copy of the proposed text is available on request.