

Initial Statement of Reasons

California Code of Regulations, Title 5, section 19810 and the 2025-26 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting (March 1, 2026) incorporated by reference.

Specific Purpose of the Regulations

Education Code section 41020 requires the governing board of every local educational agency (LEA) that serves transitional kindergarten through grade 12 (TK-12) to provide for an annual audit of the LEA books and accounts. Education Code section 41020(d) further requires that the audit be developed and reported using a format established by the State Controller after consultation with the Superintendent of Public Instruction and Director of Finance. Education Code section 14502.1(a) requires the State Controller, in consultation with the Department of Finance, the State Department of Education, and representatives of specified organizations, to propose the content of an audit guide to promote accountability for public education funds. After review and possible amendment, EAAP will 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 supplemental audit guide to address legislative changes in the conditions of apportionment.

The State Controller's Office letter dated February 9, 2026, proposed changes to the 2025-26 Audit Guide arising from meetings of stakeholders pursuant to Education Code section 14502.1(a). EAAP proposes to amend California Code of Regulations, Title 5, section 19810 and the 2025-26 Audit Guide to reflect those changes.

Necessity/Rationale

These amendments are necessary to implement Education Code sections 14502.1, 14503, 41020 and 41024. These additions, deletions and amendments make technical and conforming changes to the K-12 audit guide requirements to ensure consistency and compatibility with new and preexisting state statutes and regulations.

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 TK-12 LEAs to address issues resulting from legislative changes in the conditions of apportionment.

Title 5, Division 1.5
Chapter 3. Audits of California K - 12 Local Education Agencies
Article 1 General Provisions

§ 19810. Annual Audit Guides.

- (a) (1) The "2023-24 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting," (March 1, 2024), adopted by the Education Audit Appeals Panel, is incorporated by reference for the required financial and compliance audits of the 2023-24 fiscal year.
- (2) The "2024-25 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting," (March 1, 2025), adopted by the Education Audit Appeals Panel, is incorporated by reference for the required financial and compliance audits of the 2024-25 fiscal year.
- (3) The "2025-26 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting," (~~March~~July 1, 2025~~6~~), adopted by the Education Audit Appeals Panel, is incorporated by reference for the required financial and compliance audits of the 2025-26 fiscal year.
- (4) The "2026-27 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting," (July 1, 2026), adopted by the Education Audit Appeals Panel, is incorporated by reference for the required financial and compliance audits of the 2026-27 fiscal year.

Paragraph (4) is being displayed as a courtesy to reflect changes being proposed in a separate rulemaking, OAL Notice File No. Z2026-0407-05.

- (b) Each annual 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 is superseded by a supplemental audit guide, if needed, adopted before March 1 of each fiscal year. Each annual guide, including Appendices A, B and C and any applicable supplement, is available on www.eaap.ca.gov/audit-guide, with paper or electronic copies available on request.

Note: Authority cited: Article XIII, Section 36 and Article XIII A, Section 1, California Constitution; and Sections 14502.1 and 47612, Education Code. Reference: Article XIII B, Section 1.5, California Constitution; and Sections 2574, 14501, 14502.1, 14503, 37700, 41020, 41024, 41480, 42238.02, 43520, 43521, 43522, 44258.9, 45037, 46146, 46300, 47605, 47612, 47614, 48000, 48306, 48313, 51747, 51749, 52060, 53071, 56026, 56340 and 76004, Education Code.

Audit Guide Amendments

The proposed annual 2025-26 Supplemental Audit Guide includes the following deletions and amendments:

Deletions

BZ. Expanded Learning Opportunities Grant (ELO-G) is deleted from the audit guide because LEAs are not eligible to expend state funds during the 2025-26 school year.

Amendments:

TT. Home to School Transportation Reimbursement is amended in Procedure 1 to include reference to the deadline, as required by Education Code section 39800.1(a). An amendment is also made to Procedure 5 to remove reference to the October deadline, as LEAs may submit revisions in November and December.

W. Unduplicated Local Control Funding Formula Pupil Counts is amended in Procedure 1.a to include reference, as required by Education Code section 42238.01(a)(1), to a “federal Summer Electronic Benefit Transfer for Children (Summer EBT) - compliant Universal Benefit Application” as another form of supporting documentation to verify pupil eligibility for free and reduced-price meals.

X. Local Control and Accountability Plan (LCAP) is amended to move and update Procedures 5.e and 5.f to new Procedures 7.a. and 7.b, respectively, pursuant to Education Code section 52065.1. New Procedures 7.c and 8 are added to verify the LCAP was adopted on or before July 1 of the audit year and to report the fiscal penalty in the audit finding for non-compliance with the requirements in new Procedure 7.

DZ. Expanded Learning Opportunities Program (ELO-P) is amended in Procedures 1 through 9 to incorporate changes in Education Code section 46120 related to the eligibility expansion of Rate 1 funding and to provide clarification on audit steps.

EZ. Transitional Kindergarten is amended in Procedures 2 and 4 to include updated references to Education Code section 48000.1(b) to address penalty calculation changes for average class enrollment exceeding 24 pupils and the 1 to 10 adult-to-pupil ratio. An amendment is also made to Procedure 5 to correctly reference Education Code section 48000(g)(4) instead of section 4800(g)(4).

BB. Mode of Instruction is amended in Procedure 1.a to delete reference to an outdated Education Code section 47605.4. An amendment is also made to Procedure 1.d to replace reference to an outdated Education Code section 76004(s) with section 76004(t)(2).

The proposed 2025-26 Supplemental Audit Guide also includes technical corrections to **Appendix B** and **Appendix C** to address inadvertent errors that deleted previously approved narrative.

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

EAAP relied upon the 2025-26 Audit Guide and the State Controller’s Office letter dated February 9, 2026, which proposed changes for the 2025-26 Supplemental Audit Guide.

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 (CPAs) 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, and no adverse impact on small business has been identified. Whereas the Legislature has codified specified programs to be included in the Audit Guide and/or stated that compliance is a condition of apportionment, there are no alternatives.

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 2025-26 Supplemental Audit Guide clarifies and revises the language used in the 2025-26 Audit Guide to conform to legislation. These audits must be performed by CPAs and public accountants in accordance with generally accepted auditing standards. (Education Code sections 14501, 14503 41020 and 41024; California Code of Regulations, Title 5, section 19811 and Audit Guide General Provisions, Audit Standards.) The auditor shall follow the procedures included in the Audit Guide, unless, in the exercise of professional judgment, the auditor determines that other or additional procedures are more appropriate. (Audit Guide General Provisions, Scope/Auditor Judgement.)

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 CPAs or public 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.

Economic Impact Assessment

The EAAP performed an economic impact assessment of the proposed regulations to revise the Audit Guide that 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 2025-26 Supplemental Audit Guide, required by Education Code section 14502.1(b), through incorporation by reference in California Code of Regulations, Title 5, 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 TK-12 local educational agencies by Education Code sections 41020 and 41024.

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 Businesses or Elimination of Existing Businesses Within the State of California

These additions, deletions and amendments make technical and conforming changes to the K-12 audit guide requirements to ensure consistency and compatibility with new and preexisting state statutes and regulations. There will be no businesses created or eliminated as a result of these proposed regulations.

Expansion of Businesses Currently Doing Business Within the State of California

These additions, deletions and amendments make technical and conforming changes to the K-12 audit guide requirements to ensure consistency and compatibility with new and preexisting state statutes and regulations. The proposed regulations will not create competitive advantages or disadvantages for current businesses. Education Code sections 41020 and 41024 requires annual audits conducted by professional accounting firms under contract to local educational agencies, and requires that those firms use the standards and procedures developed pursuant to Education Code section 14502.1(a).

The Benefits of the Regulation to the health and welfare of California Residents, Worker Safety, and the State's Environment.

These additions, deletions and amendments make technical and conforming changes to the K-12 audit guide requirements to ensure consistency and compatibility with new and preexisting state statutes and regulations. EAAP does not anticipate that these proposed regulations would create specific benefits to 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 regulations will ultimately benefit the welfare of California residents by ensuring that local educational agencies comply with regulatory requirements and by improving the quality and consistency of TK-12 audits.