

## **Initial Statement of Reasons**

California Code of Regulations, Title 5, section 19810 and the 2026-27 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting (July 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.

Two State Controller's Office letters, both dated February 9, 2026, proposed changes to the 2026-27 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 2026-27 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 1, 2026), 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.

(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](http://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 2026-27 Audit Guide includes the following amendments from the existing 2025-26 Audit Guide:

**H. Ratio of Administrative Employees to Teachers** is amended in Procedure 3 to clarify that the penalty calculation should be presented as part of an audit finding.

**Q. Apprenticeship: Related and Supplemental Instruction** is amended to add a Compliance Requirements section and clarify Procedures 1, 2 and 3 to conform with the California Community Colleges Contracted District Audit Manual.

**TT. Home to School Transportation Reimbursement** is amended in Procedure 3 to clarify that transportation expenditures for the audit year will impact the subsequent year of funding, and in Procedure 4 to clarify how auditors are to determine transportation expenditures.

**W. Unduplicated Local Control Funding Formula Pupil Counts** is amended in Procedures 4 and 5 to clarify that the calculation of the potential fiscal impact to supplemental and concentration grant funding be displayed as part of an unduplicated pupil count audit finding and to include a link to the penalty calculator.

**AZ. Educator Effectiveness** is deleted from the audit guide because funds expire with the 2025-26 school year.

**DZ. Expanded Learning Opportunities Program (ELO-P)** is amended in Procedures 2, 3.a, 4, 5.a and 7 to add the Education Code citation to section 46120(g)(5), related to offering the program, and to add alternative documentation used to demonstrate access, pursuant to Education Code section 46120(g)(6).

**EZ. Transitional Kindergarten** is amended in procedures 2, 4, and 6 to include schedules of the penalty calculations in the audit findings, related to average class enrollment pursuant to Education Code section 48000.1(b)(1)(C), adult-to-pupil ratio pursuant to Education Code section 48000.1(b)(1)(A), and teacher credentialing pursuant to Education Code section 48000.1(b)(1)(B).

The proposed 2026-27 Audit Guide includes the following changes to Appendix B:

**Appendix B, Index** is amended to add reference to the fiscal year.

**Appendix B, I. Initial Steps** is amended in Procedure A.1.b)(1) to update the name of the report specified to review, and is amended in Procedure B.1. and adds Procedure B.2. the specified Master Plan documents and annual narrative for insurance proceeds, respectively, for Documents Needed to Audit.

**Appendix B, II. Non-Financial Hardship Projects, A – Closeout Audits** is amended to add Procedures 3, 4, 5, and 6 that require the auditor to perform additional verification related to the Master Plan, insurance proceeds, Small School Program, and Project Labor Agreements.

**Appendix B, III. Financial Hardship Projects, A – Closeout Audit** is amended to add Procedures 3, 4, 5, and 6 that require the auditor to perform additional verification related to the Master Plan, insurance proceeds, Small School Program, and Project Labor Agreements, and adds to Procedure 10 related to verifying expenditure reporting prior to the Financial Hardship approval when submitting the Financial Hardship request.

**Appendix B, IV. Career Technical Education, A – Closeout Audit** is amended to add Procedure 3 that require the auditor to perform additional verification related to the Master Plan, pursuant to Education Code section 17070.54.

**Appendix B, V. Charter School Facilities Program, A – Closeout Audit** is amended to add Procedure 3 that require the auditor to perform additional verification related to the Master Plan, pursuant to Education Code section 17070.54.

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

EAAP relied upon the 2025-26 Audit Guide and two State Controller's Office letters, both dated February 9, 2026, which proposed changes for the 2026-27 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 2026-27 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 2026-27 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.