

Education Audit Appeals Panel

Notice of Proposed Rulemaking

Supplemental Audit Guide for K-12 Local Education Agencies – Fiscal Year 2025-2026

The Education Audit Appeals Panel (EAAP) proposes to adopt an Audit Guide for Fiscal Year 2025-26 after considering all comments, objections, and recommendations regarding the proposed action.

Public Hearing:

A public hearing regarding this proposal is not currently scheduled. No later than 15 days prior to the close of the written comment period, any interested person, or their 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 Martin Vazquez.

Written Comment Period:

Any interested person, or their authorized representative, may submit written comments relevant to the proposed regulatory action. The written comment period closes on midnight **June 9, 2026**. Written comments for consideration by EAAP should be directed to:

Martin Vazquez, Supervisor I
Education Audit Appeals Panel
770 L Street, Suite 1100
Sacramento, CA 95814
e-mail: martin.vazquez@eaap.ca.gov

Authority and Reference:

Authority cited: Article XIII, Section 36 and Article XIII A, Section 1, California Constitution; and Education Code sections 14502.1, 14503, 41020, and 41024.

Reference: Article XIII B, Section 1.5, California Constitution; and Education Code sections 2574(b)(3)(C), 8152.5, 8482.3(f)(5), 8820(i), 14501, 14502.1, 14503, 15286, 41024, 41407, 41850.1(b), 42238.02(b)(3)(B), 41372(b), 46120, 46146.5(h), 46211, 47612, 47612.5, 47634.2(d), 48301(c), 51745.6(e), 51747(k), 51747.5(f), 51749.5(g), 51749.6(d), 52065.1, 48000, and 48000.1.

Informative Digest/Policy Statement Overview:

This rulemaking adopts the 2025-26 Supplemental Audit Guide, as required by Education Code section 14502.1(b), through incorporation by reference in the revised California Code of Regulations, Title 5, section 19810, the document titled “2025-26 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting” (March 1, 2026).

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. 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 TK-12 LEAs. Education Code section 41020(d) 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.

The State Controller letter dated February 9, 2026, pursuant to Education Code section 14502.1(a), has proposed changes from the prior year audit guide to be reflected in the 2025-26 Supplemental Audit Guide to make clarifying revisions and address legislative changes in the conditions of apportionment. 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.

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. Upon evaluation, EAAP determined the proposed changes to regulations are not inconsistent or incompatible with existing regulations, state or federal.

A description of proposed changes to California Code of Regulations, Title 5, 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 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, 20256), 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.

Document incorporated by reference:

The 2025-26 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting (March 1, 2026) is incorporated by reference. Incorporation by reference simplifies the process of adopting annual audit guides and supplemental audit guides by putting the guide directly in usable format. Annual audit guides, supplemental audit guides, and the steps of the rulemaking process are readily available on the EAAP website: www.eaap.ca.gov.

Fiscal Impact Estimates:

1. Mandate on local agencies or school districts: None
2. Cost to any local agency or school district requiring reimbursement: 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, and the State's environment: 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. 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.

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 the audit guide changes do not materially alter the requirements for LEA audits performed by professional accounting firms.

Consideration of Alternatives:

In accordance with Government Code section 11346.5(a)(13), EAAP must determine that no reasonable alternative that has been considered or has been identified and brought to the attention of EAAP, 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 Martin Vazquez, Supervisor I, at (916) 505-6617 or by e-mail at martin.vazquez@eaap.ca.gov, or Rebecca Lee, Executive Officer, at (279) 269-5775 or by e-mail at rebecca.lee@eaap.ca.gov.

Availability of Rulemaking File:

The entire rulemaking file will be available for inspection and copying throughout the rulemaking process at the EAAP 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 Martin Vazquez at the above address.

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 Martin Vazquez 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 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.