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California State Controller

October 31, 2019

To: K-12 Local Education Agencies (School Districts, County Offices of Education, and Charter Schools), Joint Powers Entities, and Certified Public Accountants Performing Audits of California K-12 Local Education Agencies:

Subject: Annual Audits for Fiscal Year 2018-19

This advisory provides information to assist independent auditors in performing the fiscal year (FY) 2018-19 audits of Local Education Agencies (LEA) and joint powers entities.

This audit advisory and general guidelines for audits of K-12 LEAs are available on the State Controller's website at www.sco.ca.gov/aud_k12_lea.html.

2018-19 GUIDE FOR ANNUAL AUDITS OF K-12 LOCAL EDUCATION AGENCIES AND STATE COMPLIANCE REPORTING

The audit guide is published by the Education Audit Appeals Panel (EAAP) pursuant to rulemaking procedures and incorporated by reference in Title 5, California Code of Regulations, §19810; the guide is available at www.eaap.ca.gov. The 2018-19 audit guide should be referenced as the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (2018-19 K-12 Audit Guide). Ensure that the applicable fiscal year is included in the title.

PROCEDURAL

1. FY 2018-19 audit reports must be filed with the State Controller's Office (SCO), the California Department of Education (CDE), local County Superintendent of Schools, and, if applicable, the chartering entity, by December 16, 2019. Independent auditors must submit to SCO one copy of the audit report by U.S. Postal Service or private carrier, or via File Transfer Protocol. Report submission instructions are posted on the SCO K-12 LEA website at www.sco.ca.gov/aud_k12_lea.html, under the Submissions category.

Name the electronic report file according to the entity name, document type, and fiscal year-end. For example, the following file names would be used for XYZ Unified School District:

- Report = XYZUnifiedRpt19.pdf
- Revisions = XYZUnifiedRevision19.pdf
- Revised Report = XYZUnifiedRevisedRpt19.pdf
- Management Letter Report = XYZUnifiedMgtLtr19.pdf
- Corrective Action Plan = XYZUnifiedCAP19.pdf

The electronic audit report files should be in **unsecured** PDF file format. Electronic files submitted in this format facilitate efficient processing of the annual audit reports.

2. The County Office of Education (COE) must submit its approved extension requests for submitting audit reports to SCO and CDE before December 16, 2019. The extension request must come from the COE and not the LEA or the certified public accountant (CPA). SCO will consent to the extension request only in extraordinary circumstances.

SCO does not grant extensions for charter school audits. An extension must be obtained through the chartering entity, and the chartering entity should notify SCO and CDE of the extension.

3. Charter school audit reports must contain on the cover the official name and charter number of the charter school according to the charter school agreement and the name in the CDE school directory. If the charter school has another name, both names should appear on the cover to facilitate SCO's processing of the audit report receipt. The SCO desk review process may be significantly delayed if the charter school audit reports are not properly identified.
4. The auditor rotation requirements specified in California Education Code §41020(f)(2) apply to auditors who conduct LEA audits. California Education Code §41020(f)(2) makes it unlawful for a public accounting firm to provide audit services to the LEA if the lead audit partner, or coordinating audit partner responsible for the audit or for reviewing the audit, has performed audit services for the LEA in each of the six previous fiscal years. Consequently, a different audit firm and/or audit partners must be used in the seventh year, unless a waiver is obtained from the EAAP.
5. CPAs or public accountants planning to conduct LEA audits must be included in the SCO-published Certified Public Accountants Directory Service (CPADS). To be included in CPADS, the CPA or public accountant must submit a written request to SCO prior to conducting the audits. Instructions for submitting the request can be found on SCO's website at <http://cpads.sco.ca.gov/>.

In addition, if the auditor is performing an audit under Uniform Guidance, the LEA must request a copy of the audit organization's peer review report, which the auditor is required to provide under generally accepted government auditing standards (Uniform Guidance Subpart F—Audit Requirements §200.509).

6. If the audit report contains a finding or findings that may be considered apportionment-significant, SCO will send the LEA a certification letter with information on its appeal rights. The LEA has 30 days from the date the U.S. Postal Service delivers the letter to request a summary review of any apportionment-significant audit finding or findings on the grounds of substantial compliance. In addition, the LEA has 60 days from delivery of the letter or 30 days following the conclusion of a summary review, with regard to the findings included in that review, to file a formal appeal of any apportionment-significant finding or findings on any of the grounds set forth in California Education Code §41344(d). For more information on audit finding appeals, visit the EAAP website at <http://eaap.ca.gov/appeals/>.
7. CDE is accepting only electronic versions of the FY 2018-19 audit reports. For instructions on how to submit the annual audit reports to CDE, see <http://www.cde.ca.gov/fg/au/ag/submitauditrpt.asp>.
8. CDE has posted the Calculator for Estimating the Cost of an Audit Finding at <http://www.cde.ca.gov/fg/au/ag/statecomp.asp>. The calculator is designed to assist LEAs and auditors in estimating the costs associated with audit findings for school districts and charter schools for the Local Control Funding Formula (LCFF) unduplicated pupil counts, LCFF K-3 grade-span adjustment, and failure to comply with instructional time requirements.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD UPDATES FOR FISCAL YEAR 2018-19

The following Governmental Accounting Standards Board (GASB) statements are effective for the FY 2018-19 financial statement audits:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement is effective for fiscal years beginning after June 15, 2018. Earlier application is encouraged.

The primary objective of this Statement is to provide financial statement users with information about asset retirement obligations that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations.

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt.

- GASB Statement No. 90, *Majority Equity Interests*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

STATE COMPLIANCE UPDATES FOR FISCAL YEAR 2018-19

The following compliance requirements and audit procedures were removed from the 2018-19 K-12 Audit Guide:

- **Educator Effectiveness**

The following new compliance requirements and audit procedures were added to the 2018-19 K-12 Audit Guide:

- **Comprehensive School Safety Plan**
- **District of Choice**

The following modifications/amendments in procedures were made to existing compliance requirements in the 2018-19 K-12 Audit Guide:

- Sampling should be based on the guidance of the following tables, or the report should indicate the rationale for using alternative procedures.

Table 1
 Tests of Compliance Sampling Table – Population: 250 or Greater
 Minimum Sample Sizes – 5% Tolerable Exception Rate

Expected Number of Exceptions	Degree of Assurance Needed		
	High (90 – 95% Confidence Level)	Moderate (87 – 89% Confidence Level)	Low
0	60	40	25
1	91	71	53
2	120	98	76

Table 2
 Tests of Compliance Sampling Table – Population: Less than 250
 Minimum Sample Sizes – 5% Tolerable Exception Rate

Expected Number of Exceptions	Degree of Assurance Needed		
	High (90 – 95% Confidence Level)	Moderate (87 – 89% Confidence Level)	Low
0	51	37	25
1	78	63	48
2	101	85	Sampling not efficient

Note: For populations between 52 and 250 items, auditors generally test a sample size of approximately 10% of the population. The sample size is subject to professional judgement, which would include engagement risk assessment considerations.

Table 3
 Tests of Compliance Sampling Table – Very Small Populations

Frequency and Population Size	Sample Size
Quarterly (4)	2
Monthly (12)	2-4
Semimonthly (24)	3-8
Weekly (52)	5-9

- **Findings and Recommendations:** State compliance findings should include a note whether the finding is a repeat of or related to a finding in the previous audit year, and a recommendation for the resolution of the finding;
- **Attendance:** Procedures 1, 3, and 4 were expanded to include guidance on the number of teachers and school sites to select for testing;
- **Independent Study:** An additional step was added to Procedure 3 to verify that pupils enrolled in independent study met the applicable age requirements;
- **Continuation Education:** Procedure 3 was revised to clarify the population for testing;
- **Instructional Time:** Clarification was added to specify that school attendance calendars and bell (class) schedules should be examined for the school sites selected in Procedure A.3 of the 2018-19 K-12 Audit Guide;
- **Juvenile Court Schools:** Procedure 6 was modified to indicate that a representative sample of teachers should be selected for one period;
- **K-3 Grade Span Adjustment:** Clarification was added to specify that a representative sample of classes in kindergarten and grades 1, 2, and 3, inclusive of combination classes was to be selected from the school sites selected in Procedure A.3 of the 2018-19 K-12 Audit Guide;

- **Unduplicated Local Control Funding Formula Pupil Counts:** Procedure 1 was expanded to specify the filters to be applied to the school’s certified “1.18 – FRPM/English Learner/Foster Youth – Student List” report. Procedure 1 also provides extended identification of student eligibility categories to include and exclude for eligibility testing.

SINGLE AUDITS UNDER THE UNIFORM GUIDANCE

The following requirements are applicable if the LEA audit is subject to the single audit requirements under Uniform Guidance:

1. Independent Auditor’s Report on the Financial Statements:

If the *Schedule of Expenditures of Federal Awards* (SEFA) is referenced in the “Other Matters” section of the report, then the auditor should use the following statement: Schedule of Expenditures of Federal Awards, as required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

2. Schedule of Expenditures of Federal Awards (Uniform Guidance Subpart F—Audit Requirements §200.510[b]):

- Uniform Guidance removes the previous flexibility available in Office of Management and Budget Circular A-133 and now requires the following to be presented on the face of the SEFA:
 - Total amounts provided to subrecipients from each federal program (§200.510[b][4]); and
 - Total federal awards expended for loan or loan guarantee programs (§200.510[b][5]).
- The schedule must include a total for each cluster of programs (§200.510[b][3]).
- The notes to the schedule must include a statement of whether or not the auditee elected to use the 10 percent de minimis indirect cost rate (§200.510[b][6]).

3. Report on Compliance and Internal Control Over Compliance Applicable to Each Major Program:

For guidance and examples of reports on compliance with requirements that could have a direct and material effect on each major federal program and on internal control over compliance issued under the audit requirements of Uniform Guidance, refer to the American Institute of Certified Public Accountants’ *Government Auditing Standards and Single Audits* with conforming changes as of March 1, 2019.

4. Schedule of Findings and Questioned Costs:

- Updated terminology and references have been incorporated into the Summary of Auditor’s Results in accordance with Uniform Guidance §200.515(d)(1).
- Findings relating to the financial statements must be reported in accordance with generally accepted government auditing standards (GAGAS).

- Findings and questioned costs for federal awards must include audit findings as defined in Uniform Guidance §200.516(a).

5. Audit Findings Follow-up:

- The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements, which are required to be reported in accordance with GAGAS (Uniform Guidance §200.511[a]).
- The summary schedule of prior audit findings must report the status of all audit findings included in the prior audit's schedule of findings and questioned costs (Uniform Guidance §200.511[b]).
- At the completion of the audit, the LEA must prepare, in a document separate from the auditor's findings described in Uniform Guidance §200.516, a corrective action plan to address each audit finding included in the current-year auditor's report (Uniform Guidance §200.511[c]).

REPORT CERTIFICATION COMPLIANCE REMINDERS

During the annual audit report certification process, SCO staff members spend a significant amount of time corresponding with independent auditors regarding audit report deficiencies. To expedite certification of audit reports for FY 2018-19, the SCO requests that auditors adhere to the following requirements when completing their audit reports. Failure to comply with these requirements will result in audit reports being rejected:

1. **LEA Organization Structure Description:** The description must be presented in the Supplementary Information section of the audit report as required in the 2018-19 K-12 Audit Guide (Report Components 4.a.).
2. **Schedule of Average Daily Attendance (ADA):** If there are any ADA adjustments due to audit findings, the schedule must display additional columns for the Second Period and Annual Reports reflecting the final ADA after audit finding adjustments, as required by the 2018-19 K-12 Audit Guide (Report Components 4.b.).

The schedule of ADA for charter schools must display total ADA and ADA that is generated through classroom-based instruction by grade span. For LEAs that include one or more charter schools in their financial statements, total ADA and classroom-based ADA for each charter school must be presented.

3. **Schedule of Instructional Time:** When a charter school is included in the sponsoring entity's audit report, a separate Schedule of Instructional Time for each classroom-based charter school must be included in the supplementary information section of the audit report as required by the 2018-19 K-12 Audit Guide (Report Components 4.c.).

The following are also required:

- For charter school reports, include the number of instructional days offered in the schedule of instructional time.
 - For school district reports, include a note stating whether the district participated in longer-day incentives and whether the district met or exceeded its LCFF target funding.
4. **State Compliance Findings:** The financial impact of state compliance findings must be quantified, as applicable. The 2018-19 K-12 Audit Guide includes specific information that must be included in each finding. For example, for attendance findings, the 2018-19 K-12 Audit Guide requires that the audit report include a statement of the number of units of ADA that were inappropriately reported for apportionment and an estimate of their dollar value.

If quantification of financial impact is required to be included in a finding and the auditor determines that there is no financial impact based on the procedures performed, then the finding must describe the reasons for the auditor's conclusion.

The stated criteria should refer to a California state law or regulation that governs the program. It is not appropriate to cite the 2018-19 K-12 Audit Guide as the criterion.

5. **Federal Compliance Findings:** For single audits under Uniform Guidance, Federal award findings must be presented in accordance with Uniform Guidance, Subpart F—Audit Requirements, §200.516, as follows:
- **Reference number(s):** Each audit finding must include a reference number in the format meeting the requirements of the data collection form submission required by Uniform Guidance §200.512 – Report submission, paragraph (b). The format is 201X-XXX;
 - **Federal program(s) information:** Catalog of Federal Domestic Assistance (CFDA) title and number, federal award identification number and year, name of the federal agency, and name of the applicable pass-through entity;
 - **Criteria or specific requirement:** Statutory, regulatory, or other citation;
 - **Condition:** Facts that support the deficiency in the audit finding;
 - **Cause:** Statement of cause that identifies the reason or explanation for the condition or the factors responsible for the finding;
 - **Effect:** Clear, logical link to establish the impact or potential impact of the difference between the condition and criteria;
 - **Questioned costs:** Identification of questioned costs and how they were computed. Known questioned costs must be identified by applicable CFDA number(s) and applicable federal award identification number(s);

- **Context:** Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit finding represents an isolated instance or a systematic problem. The auditor should report whether the sampling was a statistically valid sample;
 - **Identification as a repeat finding:** Identification of whether the audit finding was a repeat of a finding in the immediately prior audit and, if so, any applicable prior-year audit finding number(s);
 - **Recommendation:** Information to prevent future occurrences of the deficiency identified in the audit finding(s); and
 - **Views of responsible officials:** Views of the auditee and planned corrective actions.
6. **Elements of Audit Findings:** Each audit finding should be presented in the level of detail described in the Findings and Recommendations section of the 2018-19 K-12 Audit Guide (Report Components, 6.a.).

OTHER

The SCO's FY 2018-19 LEA Desk Review Checklist will be available on the SCO website at www.sco.ca.gov/aud_k12_lea.html in November 2019.

If you have any questions or need additional information, please contact the Division of Audits, LEA Unit, by telephone at (916) 324-6442, or by email at leaaudits@sco.ca.gov.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/lis

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cc: Tony Thurmond, State Superintendent of Public Instruction
California Department of Education