



JOHN CHIANG
California State Controller

October 1, 2014

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

Re: Annual Audits for Fiscal Year 2013-14

This advisory provides information to assist independent auditors in performing the fiscal year 2013-14 audits of Local Education Agencies (LEAs) and joint powers entities.

K-12 LEA WEB PAGE

The California State Controller's Office (SCO) K-12 LEA web page is located at http://www.sco.ca.gov/aud_k12_lea.html. This audit advisory as well as general guidelines for audits of K-12 LEAs are available on this internet site.

NEW FOR FISCAL YEAR 2013-14

1. Fiscal year (FY) 2013-14 audit reports must be filed with the SCO, California Department of Education (CDE), local County Superintendent of Schools, and, if applicable, the chartering entity, by December 15, 2014. Independent auditors must submit to the SCO one copy of the audit report by U.S. Postal Service, private carrier, or via File Transfer Protocol (FTP). Report submission instructions are posted on the SCO K-12 LEA web page at http://www.sco.ca.gov/aud_k12_lea.html under the Submissions category.

Electronic Report File Naming Convention and Format

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

- Report = XYZUnifiedRpt14.pdf
- Revisions = XYZUnifiedRevision14.pdf
- Revised Report = XYZUnifiedRevisedRpt14.pdf

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

Correct Identification of Charter Schools

The name of the charter school on the cover of the annual audit report should be the “official” name according to the charter school agreement and the charter school name in the CDE school directory. If the charter school has another name, both names should appear on the cover to facilitate the SCO’s processing of the audit report receipt.

Charter school audit reports that are not properly identified may be significantly delayed in the desk review process.

2. The following changes, which consist of new compliance requirements, were added to the K-12 Audit Guide for FY 2013-14:

Article 3.1. State Compliance Procedures: School Districts, County Offices of Education, and Charter Schools

§ 19843. Local Control Funding Formula Certification: 1 procedure

§ 19844. California Clean Energy Jobs Act: 3 procedures

§ 19847. Education Protection Account Funds: 1 procedure

The Schools and Local Public Safety Protection Act of 2012 (Proposition 30) added Section 36 to Article XIII of the California Constitution. Proposition 30 provides that school districts and county offices of education “shall not use any of the funds from the Education Protection Account for salaries or benefits of administrators or any other administrative costs.”

§ 19848. Common Core Implementation Funds: 3 procedures

§ 19849. Unduplicated Local Control Funding Formula Pupil Counts: 3 procedures

Article 4. State Compliance Procedures: Charter Schools

§ 19855. Charter School Facility Grant Program: 1 procedure

3. The following changes in procedures were made to existing compliance requirements in the K-12 Audit Guide for FY 2013-14:

Article 3. State Compliance Procedures: Local Education Agencies Other Than Charter Schools

§ 19824. Instructional Time: 10 procedures

Article 4. State Compliance Procedures: Charter Schools

§ 19850. Contemporaneous Records of Attendance: 8 procedures

4. The following changes consist of removing compliance requirements from the K-12 Audit Guide for FY 2013-14:

Article 3.1. State Compliance Procedures: School Districts, County Offices of Education, and Charter Schools

§ 19845.2. Class Size Reduction.

5. Following are recently issued Governmental Accounting Standards Board (GASB) statements that auditors should consider for their FY 2013-14 audit reports:
 - GASB 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
 - GASB 65, Items Previously Reported as Assets and Liabilities
 - GASB 67, Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25
6. The SCO's Desk Review Checklist will be available on the K-12 LEA web page on November 14, 2014, which is the planned release date.
7. The California Department of Education is accepting only electronic versions of the FY 2013-14 audit reports. For instructions on how to submit the annual audit reports to the CDE, please visit the CDE's web page at <http://www.cde.ca.gov/fg/au/ag/submitauditrpt.asp>

K-12 AUDIT GUIDE

The K-12 Audit Guide is published by the Education Audit Appeals Panel (EAAP) pursuant to rulemaking procedures. The title of the K-12 Audit Guide for fiscal year 2013-14 is *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-14*. The K-12 Audit Guide is prescribed in Title 5, *California Code of Regulations*, section 19810, et seq. It is available through the EAAP's website at www.eaap.ca.gov.

REPORT CERTIFICATION COMPLIANCE REMINDERS

During the SCO's annual audit report certification process, a significant amount of time is spent corresponding with independent auditors regarding audit report deficiencies. To expedite certification of audit reports for FY 2013-14, the SCO requests that auditors attend to the following when completing their audit reports. Failure to comply with these requirements will result in audit reports being rejected.

1. **State Compliance Findings:** The financial impact of state compliance findings must be quantified. The K-12 Audit Guide includes specific information that must be included in each finding. For example, for attendance findings, the K-12 Audit Guide requires that the audit report include a statement of the number of units of average daily attendance that were

inappropriately reported for apportionment and an estimate of their dollar value. If there is no financial impact, 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 K-12 Audit Guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies*, as the criteria.

2. **Federal Compliance Findings:** For single audits, federal compliance findings must be presented in accordance with the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, subpart E–Auditors, section .510.

If a finding includes multiple programs, the finding should identify each program by Catalog of Federal Domestic Assistance (CFDA) title and number and the name of the applicable pass-through entity, and should provide questioned costs for each program, if applicable.

3. **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 Section 19816(j) of the K-12 Audit Guide.

Section 19816(h) of the K-12 Audit Guide requires that the schedule must display ADA by grade span and program as appropriate.

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.

4. **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. This schedule is required by Section 19854(d) of the K-12 Audit Guide.

Districts that participated in Longer Day funding are no longer required to meet the greater of its 1982-83 instructional minutes or the instructional minutes set in statutes. They must meet the instructional minutes set in statutes only; therefore, the 1982-83 instructional minutes are no longer required to be displayed on the schedule.

A new note stating whether the district participated in Longer Day incentives and whether the district met or exceeded its target funding is required to accompany the schedule.

The weighted average method for calculating instructional minutes is no longer allowed.

5. **Elements of Audit Findings:** Each audit finding should be presented in the level of detail described in the Summary of Audit Report Components, located on the SCO K-12 LEA web page.

6. **School Accountability Report Card (SARC):** Audit procedures for this program are required to be performed for school districts and county offices of education. The K-12 Audit Guide includes clarification that the auditor must review the SARC document issued in the year being audited.
7. **Instructional Materials:** The requirements are verified for compliance only. Noncompliance should be reported as a finding in the Findings and Recommendations section of the audit report and does not result in disallowance of funds.

If you have any questions or need additional information, please contact Carolyn Baez, Chief, Financial Audits Bureau, Division of Audits, by telephone at (916) 324-6442 or by email at leaaudits@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, Chief
Division of Audits
State Controller's Office

Attachment

JVB/sk

14602

cc: Tom Torlakson
Superintendent
California Department of Education