



BETTY T. YEE
California State Controller

October 23, 2015

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 2014-15

This advisory provides information to assist independent auditors in performing the fiscal year (FY) 2014-15 audits of Local Education Agencies (LEAs) 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.

NEW FOR FISCAL YEAR 2014-15

The Independent Auditor's Report on State Compliance must refer to the new *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (K-12 Audit Guide), available at www.eaap.ca.gov. This 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*, section 19810.

The number of procedures is no longer required to accompany the list of state compliance requirements.

PROCEDURAL

1. FY 2014-15 audit reports must be filed with the State Controller's Office (SCO), California Department of Education (CDE), local County Superintendent of Schools, and, if applicable, the chartering entity, by December 15, 2015. Independent auditors must submit to 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 www.sco.ca.gov/aud_k12_lea.html under the Submissions category.

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.

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

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.

2. The auditor rotation requirements specified in California Education Code section 41020 (f)(2) apply to auditors who conduct LEA audits. This section of the Education Code 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.
3. The following Governmental Accounting Standards Board (GASB) statements are effective in FY 2014-15:
 - GASB 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27
 - GASB 69, Combination and Disposals of Government Operations
 - GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date
4. The SCO Desk Review Checklist will be available on the K-12 LEA web page on November 13, 2015, which is the planned release date.
5. CDE is accepting only electronic versions of the FY 2014-15 audit reports. For instructions on how to submit the annual audit reports to CDE, please visit <http://www.cde.ca.gov/fg/au/ag/submitauditrpt.asp>

REPORT CERTIFICATION COMPLIANCE REMINDERS

During the annual audit report certification process, the SCO team spends a significant amount of time corresponding with independent auditors regarding audit report deficiencies. To expedite certification of audit reports for FY 2014-15, SCO requests that auditors attend to the following requirements 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 (ADA) 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 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 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 the K-12 Audit Guide.

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 the K-12 Audit Guide.

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

A note stating whether the district participated in longer day incentives and whether the district met or exceeded its Local Control Funding Formula target funding must accompany the schedule.

5. **Elements of Audit Findings:** Each audit finding should be presented in the level of detail described in the Findings and Recommendations section of the K-12 Audit Guide.

If you have any questions or need additional information, please contact Jim L. Spano, Interim Chief of the Financial Audits Bureau in our Division of Audits, at (916) 323-5849 or leaaudits@sco.ca.gov.

Sincerely,

Original signed by

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

Attachment

cc: Tom Torlakson, Superintendent, California Department of Education