



BETTY T. YEE
California State Controller

October 21, 2016

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 2015-16

This advisory provides information to assist independent auditors in performing the Fiscal Year (FY) 2015-16 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.

NEW FOR FISCAL YEAR 2015-16

Effective for fiscal years beginning on or after December 26, 2014, a non-federal entity that expends \$750,000 or more in federal awards during its fiscal year must have a single audit conducted for that year in accordance with the provisions of Title 2, *U.S. Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Subpart F—Audit Requirements, section 200.501. Guidance on determining the amount of federal awards expended is provided in section 200.502. The dollar threshold was previously \$500,000 under Office of Management and Budget (OMB) Circular A-133.

2015-16 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*, section 19810; the guide is available at www.eaap.ca.gov. The 2015-16 audit guide should be referenced as the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (2015-16 K-12 Audit Guide). Ensure that the applicable fiscal year is included in the title.

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

PROCEDURAL

1. FY 2015-16 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, 2016. 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, the document type, and fiscal year end. For example, for XYZ Unified School District, the following file names would be used:

- Report = XYZUnifiedRpt16.pdf
- Revisions = XYZUnifiedRevision16.pdf
- Revised Report = XYZUnifiedRevisedRpt16.pdf
- Management Letter Report = XYZUnifiedMgtLtr16.pdf
- Corrective Action Plan = XYZUnifiedCAP16.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 15, 2016. 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 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 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.
5. CPAs or public accountants planning to conduct LEA audits must be included to the SCO-published Certified Public Accountants Directory. To be included in the directory, 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 at 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 *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 one or more of the grounds set forth in California Education Code section 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 2015-16 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 cost 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 2015-16

- The following Governmental Accounting Standards Board (GASB) statements are effective for the FY 2015-16 financial statement audits:
 - GASB 72, *Fair Value Measurement and Application*
 - GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of GASB 73 are effective for fiscal years beginning after June 15, 2015, except those requirements that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB 68; the accounting and reporting requirements are effective for financial statements for fiscal years beginning after June 15, 2016.
 - GASB 76, *The Hierarchy of General Accepted Accounting Principles for State and Local Governments*. This statement supersedes GASB 55.

STATE COMPLIANCE UPDATES FOR FISCAL YEAR 2015-16

1. The following new compliance requirements and audit procedures were added to the 2015-16 K-12 Audit Guide:
 - Educator Effectiveness
 - Independent Study-Course Based
 - Immunizations
 - Appendix: Local School Construction Bond Audits. The appendix provides guidance for auditors issuing financial and performance audits required for school facility projects pursuant to Education Code section 15286. The reports are submitted to the Citizen's Oversight Committee and not to SCO.
2. The following modifications/amendments in procedures were made to existing compliance requirements in the 2015-16 K-12 Audit Guide:
 - **Instructional Time:** Removed the Education Code section 46201.2(b) provision that reduces the equivalent of up to five days of instruction or the equivalent number of instructional minutes without incurring a penalty.
 - **K-3 Grade Span Adjustment:** Removed the procedure to test school sites for the 2012-13 school year.

- **California Clean Energy Jobs Act:** The finding should include the facility owner and address if a school was forced to vacate within the life of the project completion and the California Clean Energy Jobs Act funds have not been returned to the state.
 - **Proper Expenditure of Education Protection Account Funds:** Procedure 1 was clarified by deleting the word “disbursed” when verifying that EPA funds have been properly expended.
 - **Unduplicated Pupil Counts:** Exclude any transitional kindergarten student who had his or her fifth birthday after December 2 from the free or reduced-price meal eligible sample.
 - **Local Control and Accountability Plan:** Procedure 2 was revised to reference Section 2, consistent with the latest State Board of Education’s LCAP adoption.
3. The following compliance requirements were removed from the 2015-16 K-12 Audit Guide:
- Regional Occupational Centers or Programs Maintenance of Effort
 - Adult Education Maintenance of Effort
 - Common Core Implementation Funds

SINGLE AUDITS UNDER 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 Information” section of the report, the auditor should use the following words: 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*.

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

- Uniform Guidance removes the previous flexibility available in OMB 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)]
 - The total federal awards expended for loan or loan guarantee programs [§200.510(b)(5)]

- The schedule must now include a total for each cluster of programs [§200.510(b)(3)].
- The notes to the schedule must include whether or not the auditee elected to use the 10 percent de minimis indirect cost rate [(§200.510(b)(6))].

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

- The report's title must include the words "Uniform Guidance" instead of "OMB Circular A-133."
- The report must refer to "Uniform Guidance" as applicable, instead of "Circular A-133."
- Some terminology has changed for the "Management's Responsibility" paragraph under Uniform Guidance. Management is responsible for compliance with "federal statutes, regulations, and terms and conditions of federal awards applicable to its federal programs," whereas under OMB Circular A-133, such responsibility was described as relating to "the requirements of laws, regulations, contracts and grants applicable to its federal programs."

For additional 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 Title 2, U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), refer to the American Institute of Certified Public Accountant's *Government Auditing Standards and Single Audits* with conforming changes as of April 1, 2016.

4. Schedule of Findings and Questioned Costs:

- Updated terminology and references are incorporated in the Summary of Auditor's Results in accordance with section 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 section 200.516, paragraph (a).
- The following changes were made to findings and schedule of findings and questioned costs revisions and considerations under Uniform Guidance:
 - The threshold for reporting known questioned costs increased to \$25,000 (from \$10,000). Known questioned costs must also be reported when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program. Known questioned costs must be identified by applicable Catalog of Federal Domestic Assistance (CFDA) and federal award identification number(s).

- Both known and likely fraud that affects federal awards are required to be reported, not only fraud. Prior to Uniform Guidance, this requirement was found only in *Government Auditing Standards*.
- Audit findings under Uniform Guidance must include significant instances of abuse relating to major programs. Prior to Uniform Guidance, guidance regarding abuse was found only in *Government Auditing Standards*.
- The elements of a finding must include a statement of cause that identifies the reason or explanation for the conditions or the factors responsible for the finding. Prior to Uniform Guidance, this requirement was found only in *Government Auditing Standards*. In addition, identification of whether the audit finding was a repeat finding in the immediately prior year must be included.
- Audit findings must include the views of responsible officials for all findings, not only those about which there is a disagreement.
- Audit finding reference numbers must be included. The audit finding references are required to be in a format that meets the requirements of the data collection form submission. The format is 201X-XXX.
- Audit finding detail should include a statement about whether the sampling was a statistically valid sample.
- The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements that are required to be reported in accordance with GAGAS. This was not required prior to 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. Prior to Uniform Guidance, only the status of audit findings related to Federal awards was required [(§200.511(b))].
- At the completion of the audit, the LEA must prepare, in a document separate from the auditor's findings described in section 200.516, a corrective action plan to address each audit finding included in the current-year auditor's report. Prior to Uniform Guidance, the requirement to prepare the corrective action plan in a document separate from the auditor's findings was not required [(§200.511(c))].

REPORT CERTIFICATION COMPLIANCE REMINDERS

During the annual audit report certification process, SCO spends a significant amount of time corresponding with independent auditors regarding audit report deficiencies. To expedite certification of audit reports for FY 2015-16, SCO requests that auditors address 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 2015-16 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 2015-16 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 2015-16 K-12 Audit Guide (Report Components 4.c.).

The following changes are also required:

- For charter school reports, include the number of instructional days offered in the schedule of instructional time.
- For school district reports, a note must accompany the schedule stating whether the district participated in longer-day incentives and whether the district met or exceeded its Local Control Funding Formula target funding.

In addition, the Education Code section 46201.2(b) provision that reduced the equivalent of up to five days of instruction or the equivalent number of instructional minutes without incurring a penalty was removed.

4. **State Compliance Findings:** The financial impact of state compliance findings must be quantified. The 2015-16 K-12 Audit Guide includes specific information that must be included in each finding. For example, for attendance findings, the 2015-16 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 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 2015-16 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 Title 2, *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F—Audit Requirements, section 200.516(a)(b)(c), as follows for the following categories:
- **Federal program(s) information:** CFDA number and title, identification number and fiscal year, name of the federal agency and 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 conditions 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, if applicable:** Identification of whether the audit finding was a repeat of a finding in the immediately prior audit and, if so, the applicable prior-year audit finding number(s)
 - **Recommendation:** Information to prevent future occurrences of the deficiency identified in the audit finding
 - **Views of responsible officials:** Views of the auditee and planned corrective actions
 - **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 section 200.512 Report submission, paragraph (b)
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 2015-16 K-12 Audit Guide, Report Components, 6.a.

OTHER

SCO FY 2015-16 LEAs Desk Review Checklist will be available on the K-12 LEAs Guidance website on November 15, 2016.

If you have any questions or need additional information, please contact Jim L. Spano, CPA, 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, CPA, Chief
Division of Audits
State Controller's Office

JVB/lr

Attachment

cc: Tom Torlakson, State Superintendent of Public Instruction
California Department of Education