

Financial and Compliance Audits

Statewide Cost Estimate
Education Code Sections 1040, 14504, 14505,
41020, Subdivisions (i), (j), (k), (l), (n) and (o), 41020.2, and 41020.3
Statutes of 1977, Chapter 936
Statutes of 1978, Chapter 207
Statutes of 1984, Chapter 268
Statutes of 1985, Chapter 741
Statutes of 1986, Chapter 1150
Statutes of 1988, Chapters 1351 and 1462
Statutes of 1994, Chapter 1002
Statutes of 1995, Chapter 476

Mandate Background

Before the enactment of the test claim legislation, school districts and county offices of education (COEs) were required to undertake annual financial and compliance audits.¹ The subject test claim legislation and the State Controller's Office (SCO) Standards and Procedures for Audits of California K-12 Local Educational Agencies revisions imposed additional audit requirements on school districts and COEs.

The Sweetwater Union High School District and San Diego COE filed the test claim on December 13, 1995. The Commission adopted the Statement of Decision on July 27, 2000, the Parameters and Guidelines on January 25, 2001, and the Statewide Cost Estimate on December 12, 2001:

Eligible Claimants

Any COE or "school district," as defined in Government Code section 17519, except for community colleges, that incurs increased costs as a result of this mandate is eligible to claim reimbursement.

Reimbursable Activities

The direct and indirect costs of labor, materials and supplies, contracted services, fixed assets, travel, and training incurred for the following mandate components are reimbursable:

¹ Education Code section 41020, as reenacted by Chapter 1010/76.

COUNTY OFFICES OF EDUCATION

COMPONENT 1 - BOILERPLATE LANGUAGE²

- a. Changing the boilerplate audit contract language to require access to audit working papers. (One-time costs if the costs were incurred within the reimbursement period.) (Ed. Code, § 14504)³
- b. Changing the boilerplate audit contract language to delineate payment terms, payment withholds, and the provision to void multi-year contracts, (One-time reimbursement, if costs were incurred within the reimbursement period.) (Ed. Code, § 14505.)⁴

COMPONENT 2 - AUDIT COSTS

- a. The ongoing costs of processing multiple payments to the auditor due to mandatory fee withholds. (Ed. Code, § 14505.)⁵
- b. Increases in the independent audit costs for changes made by the state to audit formats or boilerplate language, and for additional time auditors may require to prepare an audit to conform to the revised audit guide. (One-time costs) (SCO Audit Guide: May 1997 revisions.)⁶

COMPONENT 3 - CORRECTIVE PLANS

- a. Upon request of the State Department of Education (SDE), consulting with and following-up with the school district to resolve exceptions in the plan of correction for the preceding fiscal year. (Ed. Code, § 41020, subd. (l).)⁷
- b. Adjusting future local property tax requirements to correct any audit exceptions relating to school district tax rates and tax revenues. (Ed. Code, § 41020, subd. (o).)⁸

² This provision imposes a new requirement that school districts add a clause to the audit contract. Accordingly, the Commission found in its Statement of Decision that this is a reimbursable activity resulting in a one-time cost to add a clause to boilerplate audit contract language. However, the Commission noted that the statutory requirement for the change in contract language was enacted by Chapter 268/84, effective June 30, 1984. The reimbursement period for this test claim begins on July 1, 1994, therefore, the Commission found that local educational agencies should have incurred their one-time costs at the time of the enactment of the statute, ten years prior to the beginning of the reimbursement period.

³ Chapter 268/84; non-substantive amendments by Chapter 476/95. Reimbursement begins July 1, 1994.

⁴ Chapter 268/84; amended by Chapter 1351/88; non-substantive amendments by Chapter 476/95. Reimbursement begins July 1, 1994.

⁵ Chapter 268/84; amended by Chapter 1351/88; non-substantive amendments by Chapter 476/95. Reimbursement begins July 1, 1994.

⁶ If future changes are required, a new test claim must be filed with the Commission.

⁷ Chapter 1002/94. Reimbursement begins January 1, 1995.

⁸ Chapter 936/77. Reimbursement begins July 1, 1994.

COMPONENT 4 – RESPONDING TO REQUESTS

- a. Responding to any SCO directives if selected for a follow-up of the county superintendent of school's audit resolution process for fiscal years 1994-95 and beyond. (Ed. Code, § 41020, subd. (n).)⁹
- b. Consulting with the SCO, upon the SCO's request, when audited financial statements are not timely completed for a school district in the COE's jurisdiction. (Ed. Code, § 41020.2.)¹⁰
- c. Providing access to audit working papers. (Only reimbursable when the district is not subject to the Federal Single Audit Act.) (Ed. Code, § 14504.)¹¹

COMPONENT 5 – PUBLIC REVIEW

- a. Beginning on July 1, 1994, placing a review of the annual audit on the agenda of a public meeting of the governing board. Beginning January 1, 1995, the review of the audit shall include discussion of any audit exceptions identified, the recommendations or findings of any management letter issued by the auditor, and plans of correction of audit exceptions or management letter issues. (Preparation of the brief description of the agenda item is claimed under the *Open Meetings Act* Parameters and Guidelines.) (Ed. Code, §§ 1040¹², 41020.3¹³).

COMPONENT 6 – AUDIT REVIEW

- a. Reviewing school district audit exceptions, following up on corrective actions taken by school districts, requiring the school district to submit or resubmit any inadequate response by March 15, and certifying to the Superintendent of Public Instruction (SPI) the COE has reviewed all school district audit exceptions, and that those exceptions have been corrected. (Ed. Code, § 41020, subd. (i), (j) and (k).)¹⁴

⁹ Chapter 1002/94. Reimbursement begins January 1, 1995.

¹⁰ Chapter 1150/86. Non-substantive amendments by Chapter 1462/88. Reimbursement begins July 1, 1994.

¹¹ Chapter 268/84; non-substantive amendments by Chapter 476/95. Reimbursement begins July 1, 1994.

¹² Chapter 1010/76; amended by Chapter 741/85.

¹³ Chapter 207/78; amended by Chapter 1002/94.

¹⁴ Chapter 1002/94. Reimbursement begins January 1, 1995.

SCHOOL DISTRICTS

COMPONENT 1 - BOILERPLATE LANGUAGE¹⁵

- a. Changing the boilerplate audit contract language to require access to audit working papers. (One-time costs if the costs were incurred within the reimbursement period.) (Ed. Code, § 14504.)¹⁶
- b. Changing the boilerplate audit contract language to delineate payment terms, payment withholds, and the provision to void multi-year contracts, (One-time reimbursement, if costs were incurred within the reimbursement period.) (Ed. Code, §14505.)¹⁷

COMPONENT 2 - AUDIT COSTS

- a. The ongoing costs of processing multiple payments to the auditor due to mandatory fee withholds. (Ed. Code, § 14505.)¹⁸
- b. Increases in the independent audit costs for changes made by the state to audit formats or boilerplate language, and for additional time auditors may require to prepare an audit to conform to the revised audit guide. (One-time costs.) (SCO Audit Guide: May 1997 revisions.)¹⁹

COMPONENT 3 - CORRECTIVE PLANS

- a. Submitting plans of correction for any state program audit exceptions as requested by its COE by March 15 and filing forms to the SPI regarding attendance related and other audit exceptions as directed. (Ed. Code, § 41020, subd. (j) and (k).)²⁰

COMPONENT 4 - RESPONDING TO REQUESTS

- a. Responding to any inquiry from the SDE, COE, or the county superintendent of schools regarding previous corrections or plans of correction for state program audit exceptions not resolved by the district. (Ed. Code, § 41020, subd. (l).)²¹

¹⁵ This provision imposes a new requirement that school districts add a clause to the audit contract. Accordingly, the Commission found in its Statement of Decision that this is a reimbursable activity resulting in a one-time cost to add a clause to boilerplate audit contract language. However, the Commission noted that the statutory requirement for the change in contract language was enacted by Chapter 268/84, effective June 30, 1984. The reimbursement period for this test claim begins on July 1, 1994, therefore, the Commission found that local educational agencies should have incurred their one-time costs at the time of the enactment of the statute, ten years prior to the beginning of the reimbursement period.

¹⁶ Chapter 268/84; non-substantive amendments by Chapter 476/95. Reimbursement begins July 1, 1994.

¹⁷ Chapter 268/84; amended by Chapter 1351/88; non-substantive amendments by Chapter 476/95. Reimbursement begins July 1, 1994.

¹⁸ Chapter 268/84; amended by Chapter 1351/88; non-substantive amendments by Chapter 476/95. Reimbursement begins July 1, 1994.

¹⁹ If future changes are required, a new test claim must be filed with the Commission.

²⁰ Chapter 1002/94. Reimbursement begins January 1, 1995.

²¹ Chapter 1002/94. Reimbursement begins January 1, 1995.

- b. Providing access to audit working papers. (Only reimbursable when the district is not subject to the Federal Single Audit Act.) (Ed. Code, § 14504.)²²

COMPONENT 5 – PUBLIC REVIEW

- a. Beginning July 1, 1994, placing a review of the annual audit on the agenda of a public meeting of the governing board. Beginning January 1, 1995, the review of the audit shall include discussion of any audit exceptions identified, the recommendations or findings of any management letter issued by the auditor, and plans of correction of audit exceptions or management letter issues. (Preparation of the brief description of the agenda item is claimed under the *Open Meetings Act* Parameters and Guidelines.) (Ed. Code, §§ 1040²³, 41020.3.²⁴)

Statewide Cost Estimate

Following is a breakdown of estimated total costs per fiscal year:

Fiscal year	# Claims Filed With SCO	Claim Totals
1994-95	564	\$682,935
1995-96	605	\$748,109
1996-97	652	\$1,032,955
1997-98	671	\$1,015,763
1998-99	628	\$889,933
1999-00	612	\$868,862
2000-01 (est.)	587	\$862,247
2001-02 (2.7% ²⁵)	n/a	\$885,528
2002-03 (2.1% ²⁶)	n/a	\$904,124
Total		\$7,890,456
Statewide Cost Estimate Total (Rounded)		\$7,890,000

Because the reported costs are prior to audit and partially based on estimates, the statewide cost estimate of \$7,890,456 has been rounded to \$7,890,000.

²² Chapter 268/84; non-substantive amendments by Chapter 476/95. Reimbursement begins July 1, 1994.

²³ Chapter 1010/76; amended by Chapter 741/85.

²⁴ Chapter 207/78; amended by Chapter 1002/94.

²⁵ Implicit Price Deflator as forecast by the Department of Finance.

²⁶ *Ibid.*