

Adopted: 1/25/01  
Amended: 3/26/10

### **Amendment to Parameters and Guidelines**

Education Code Sections 1040, 14501, 14502, 14503, 14504, 14505,  
14506, 14507, 41020, 41020.2, 41020.3, and 41023

Statutes 1977, Chapters 36 and 936

Statutes 1978, Chapter 207

Statutes 1980, Chapter 1329

Statutes 1984, Chapter 268

Statutes 1985, Chapters 741 and 1239

Statutes 1986, Chapter 1150

Statutes 1988, Chapter 1351, Chapters 1461 and 1462

Statutes 1992, Chapter 962

Statutes 1994, Chapter 20 and 1002

Statutes 1995, Chapter 476

State Controller's Office Standards and Procedures for Audits  
of California K-12 Local Educational Agencies

#### *Financial and Compliance Audits*

05-PGA-49 (CSM-4498, CSM-4498A)

This amendment is effective beginning with claims filed for the  
July 1, 2005 through June 30, 2006 period of reimbursement

## **I. SUMMARY OF THE MANDATE**

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

On July 27, 2000 the Commission adopted its Statement of Decision finding that Education Code sections 1040, 14504, 14505, 41020 subdivisions (i), (j), (k), (l), (n), and (o), 41020.2, 41020.3, and the SCO's Standards and Procedures for Audits of California K-12 Local Educational Agencies revisions impose a new program or a higher level of service within an existing program upon school districts within the meaning of section 6, article XIII B of the California Constitution, and costs mandated by the state pursuant to Government Code section 17514.

## **II. ELIGIBLE CLAIMANTS**

Any county office of education 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.

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<sup>1</sup> Education Code section 41020, as reenacted by Statutes of 1976, Chapter 1010.

### **III. PERIOD OF REIMBURSEMENT**

This amendment is effective beginning with claims filed for the July 1, 2005 through June 30, 2006 period of reimbursement.

Government Code section 17557, prior to its amendment by Statutes 1998, Chapter 681, stated that a test claim must be submitted on or before December 31 following a given fiscal year to establish eligibility for reimbursement for that fiscal year.

The claimants filed the test claim for this mandate on December 13, 1995. Therefore, for Statutes 1977, Chapters 36 and 936, Statutes 1978, Chapter 207, Statutes 1980, Chapter 1329, Statutes 1984, Chapter 268, Statutes 1985, Chapters 741 and 1239, Statutes 1986, Chapter 1150, Statutes 1988, Chapters 1351, 1461, and 1462, Statutes 1992, Chapter 962, and Statutes 1994, Chapter 20, all costs incurred on or after July 1, 1994 are eligible for reimbursement pursuant to these Parameters and Guidelines.

Statutes 1994, Chapter 1002, was effective January 1, 1995. Therefore, for Statutes 1994, Chapter 1002, all costs incurred on or after January 1, 1995 are eligible for reimbursement.

Statutes 1995, Chapter 476, was effective January 1, 1996. Therefore, for Statutes 1995, Chapter 476, all costs incurred on or after January 1, 1996 are eligible for reimbursement.<sup>2</sup>

Actual costs for one fiscal year shall be included in each claim. Estimated costs for the subsequent year may be included on the same claim, if applicable. Pursuant to Government Code section 17561, subdivision (d) (1), all claims for reimbursement of initial years costs shall be submitted within 120 days from the date on which the SCO issues claiming instructions.

If the total costs for a given fiscal year do not exceed \$200, no reimbursement shall be allowed, except as otherwise allowed by Government Code section 17564.

### **IV. REIMBURSABLE ACTIVITIES**

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, training packets, and declarations. Declarations must include a certification or declaration stating, "I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct based upon personal knowledge." Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal

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<sup>2</sup> Statutes 1995, Chapter 476 made only non-substantive changes to the reimbursable activities in these Parameters and Guidelines. Therefore, the activities amended by this chapter are reimbursable beginning July 1, 1994. (See the applicable footnotes in the Reimbursable Activities section.)

government requirements. However, corroborating documents cannot be substituted for source documents.

The claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities identified below. Increased cost is limited to the cost of an activity that the claimant is required to incur as a result of the mandate.

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:

## **COUNTY OFFICES OF EDUCATION**

### **COMPONENT 1 – BOILERPLATE LANGUAGE<sup>3</sup>**

- 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)<sup>4</sup>
- 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.)<sup>5</sup>

### **COMPONENT 2 – AUDIT COSTS**

- a. The ongoing costs of processing of multiple payments to the auditor due to mandatory fee withholds. (Ed. Code, § 14505.)<sup>6</sup>
- 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.)<sup>7</sup>

### **COMPONENT 3 – CORRECTIVE PLANS**

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<sup>3</sup> 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 Statutes of 1984, Chapter 268, 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.

<sup>4</sup> Statutes of 1984, Chapter 268; non-substantive amendments by Statutes of 1995, Chapter 476. Reimbursement begins July 1, 1994.

<sup>5</sup> Statutes of 1984, Chapter 268; amended by Statutes of 1988, Chapter 1351; non-substantive amendments by Statutes of 1995, Chapter 476. Reimbursement begins July 1, 1994.

<sup>6</sup> Statutes of 1984, Chapter 268; amended by Statutes of 1988, Chapter 1351; non-substantive amendments by Statutes of 1995, Chapter 476. Reimbursement begins July 1, 1994.

<sup>7</sup> If future changes are required, a new test claim must be filed with the Commission.

- 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).)<sup>8</sup>
- 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).)<sup>9</sup>

#### 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).)<sup>10</sup>
- 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.)<sup>11</sup>
- c. Providing access to audit working papers. (Only reimbursable when the district is not subject to the Federal Single Audit Act.) (Ed. Code, § 14504.)<sup>12</sup>

#### 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 are claimed under the *Open Meetings Act* Parameters and Guidelines.) (Ed. Code, §§ 1040<sup>13</sup>, 41020.3<sup>14</sup>).

#### 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

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<sup>8</sup> Statutes of 1994, Chapter 1002. Reimbursement begins January 1, 1995.

<sup>9</sup> Statutes of 1977, Chapter 936. Reimbursement begins July 1, 1994.

<sup>10</sup> Statutes of 1994, Chapter 1002. Reimbursement begins January 1, 1995.

<sup>11</sup> Statutes of 1986, Chapter 1150. Non-substantive amendments by Statutes of 1988, Chapter 1462. Reimbursement begins July 1, 1994.

<sup>12</sup> Statutes of 1984, Chapter 268; non-substantive amendments by Statutes of 1995, Chapter 476. Reimbursement begins July 1, 1994.

<sup>13</sup> Statutes of 1976; Chapter 1010; amended by Statutes of 1985, Chapter 741.

<sup>14</sup> Statutes of 1978, Chapter 207; amended by Statutes of 1994, Chapter 1002.

(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).)<sup>15</sup>

## **SCHOOL DISTRICTS**

### **COMPONENT 1 – BOILERPLATE LANGUAGE<sup>16</sup>**

- 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.)<sup>17</sup>
- 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.)<sup>18</sup>

### **COMPONENT 2 – AUDIT COSTS**

- a. The ongoing costs of processing multiple payments to the auditor due to mandatory fee withholds. (Ed. Code, § 14505.)<sup>19</sup>
- 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.)<sup>20</sup>

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<sup>15</sup> Statutes of 1994, Chapter 1002. Reimbursement begins January 1, 1995.

<sup>16</sup> 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 Statutes of 1984, Chapter 268, 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.

<sup>17</sup> Statutes of 1984, Chapter 268; non-substantive amendments by Statutes of 1995, Chapter 476. Reimbursement begins July 1, 1994.

<sup>18</sup> Statutes of 1984, Chapter 268; amended by Statutes of 1988, Chapter 1351; non-substantive amendments by Statutes of 1995, Chapter 476. Reimbursement begins July 1, 1994.

<sup>19</sup> Statutes of 1984, Chapter 268; amended by Statutes of 1988, Chapter 1351; non-substantive amendments by Statutes of 1995, Chapter 476. Reimbursement begins July 1, 1994.

<sup>20</sup> If future changes are required, a new test claim must be filed with the Commission.

### 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).)<sup>21</sup>

### 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).)<sup>22</sup>
- b. Providing access to audit working papers. (Only reimbursable when the district is not subject to the Federal Single Audit Act.) (Ed. Code, § 14504.)<sup>23</sup>

### 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 are claimed under the *Open Meetings Act* Parameters and Guidelines.) (Ed. Code, §§ 1040<sup>24</sup>, 41020.3.<sup>25</sup>)

## V. CLAIM PREPARATION

Each claim for reimbursement must be timely filed and identify each cost element for which reimbursement is claimed under this mandate. Claimed costs must be identified to each reimbursable activity identified in Section IV of this document.

### A. Direct Costs

Direct costs are defined as costs that can be traced to specific goods, services, units, programs, activities, or functions and shall be supported by the following cost element information:

#### 1. Salaries and Benefits

Identify the employee(s) and/or show the classification of the employee(s) involved. Describe the reimbursable activities performed and specify the actual time devoted to each reimbursable activity by each employee, productive hourly rate and the related fringe benefits.

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<sup>21</sup> Statutes of 1994, Chapter 1002. Reimbursement begins January 1, 1995.

<sup>22</sup> Statutes of 1994, Chapter 1002. Reimbursement begins January 1, 1995.

<sup>23</sup> Statutes of 1984, Chapter 268; non-substantive amendments by Statutes of 1995, Chapter 476. Reimbursement begins July 1, 1994.

<sup>24</sup> Statutes of 1976, Chapter 1010; amended by Statutes of 1985, Chapter 741.

<sup>25</sup> Statutes of 1978, Chapter 207; amended by Statutes of 1994, Chapter 1002.

Reimbursement for personnel services includes compensation for salaries, wages, and employee fringe benefits. Employee fringe benefits include regular compensation paid to an employee during periods of authorized absences (e.g. annual leave, sick leave) and the employer's contributions to social security, pension plans, insurance, and worker's compensation insurance. Fringe benefits are eligible for reimbursement when distributed equitably to all job activities performed by the employee.

2. Materials and Supplies

Only the expenditures that can be identified as direct costs of this mandate can be claimed. List the cost of the materials and supplies consumed specifically for the purposes of this mandate. Purchases shall be claimed at the actual price after deducting cash discounts, rebates, and allowances received by the claimant. Supplies that are withdrawn from inventory shall be charged based upon a recognized method of costing, consistently applied.

3. Contracted Services

Provide the name(s) of the contractor(s) who performed the service(s), including any fixed contracts for services. Describe the reimbursable activities performed by each named contractor and give the number of actual hours spent on the activities, if applicable. Show the inclusive dates when services were performed and itemize all costs for those services. Attach a copy of the contract to the claim.

4. Fixed Assets

List the purchase price paid for equipment and other fixed assets acquired for this mandate. Purchase price includes taxes, delivery costs, and installation costs. If the equipment or other capital asset is used for purposes other than this mandate, only the pro rata purchase price can be claimed.

5. Travel

Travel expenses for mileage, per diem, lodging, and other employee entitlements are eligible for reimbursement in accordance with the rules of the local jurisdiction. Provide the name(s) of the traveler(s), purpose of the travel, inclusive dates and times of travel, destination point(s), and travel costs.

6. Training

The cost of training an employee to perform the mandated activities, as specified in Section IV of these Parameters and Guidelines, is eligible for reimbursement. Identify the employee(s) by name and job classification. Provide the title and subject of the training session, the dates attended, and the location. Reimbursable costs may include salaries and benefits, registration fees, transportation, lodging, and per diem. If the training encompasses subjects broader than this mandate, only the pro rata portion of the training costs can be claimed.

B. Indirect Costs

Indirect costs are defined as costs which are incurred for a common or joint purpose, benefiting more than one program and are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. Indirect costs may

include both (1) overhead costs of the unit performing the mandate, and (2) the costs of central government services distributed to other departments based on a systematic and rational basis through a cost allocation plan.

1. School districts must use the J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the State Department of Education.
2. County offices of education must use the J-580 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the State Department of Education.

## **VI. RECORD RETENTION**

Pursuant to Government Code section 17558.5, subdivision (a), a reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter<sup>26</sup> is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds are appropriated or no payment is made to a claimant for the program for the fiscal year for which the claim is filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim. In any case, an audit shall be completed not later than two years after the date that the audit is commenced.

All documents used to support the reimbursable activities, as described in Section IV, must be retained during the period subject to audit. If the Controller has initiated an audit during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings.

## **VII. OFFSETTING SAVINGS AND OTHER REIMBURSEMENTS**

Any offsetting savings the claimant experiences as a direct result of the subject mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate received from any other source, including but not limited to federal funds and other state funds, shall be identified and deducted from this claim.

## **VIII. REQUIRED CERTIFICATION**

An authorized representative of the claimant shall be required to provide a certification of claim, as specified in the SCO's claiming instructions, for those costs mandated by the state contained herein.

## **IX. PARAMETERS AND GUIDELINES AMENDMENTS**

Pursuant to Title 2, California Code of Regulations, section 1183.2, Parameters and Guidelines amendments filed before the deadline for initial claims as specified in the Claiming Instructions shall apply to all years eligible for reimbursement as defined in the original parameters and guidelines. A Parameters and Guidelines amendment filed after the initial claiming deadline must be submitted on or before January 15, following a fiscal year in order to establish eligibility for reimbursement for that fiscal year.

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<sup>26</sup> This refers to Title 2, division 4, part 7, chapter 4 of the Government Code.