
UNFINISHED BUSINESS

Bill No: SB 414
Author: Ashby (D)
Amended: 9/9/25
Vote: 21

SENATE EDUCATION COMMITTEE: 6-0, 4/23/25
AYES: Pérez, Ochoa Bogh, Cabaldon, Choi, Gonzalez, Laird
NO VOTE RECORDED: Cortese

SENATE JUDICIARY COMMITTEE: 11-0, 4/29/25
AYES: Umberg, Niello, Allen, Arreguín, Ashby, Caballero, Laird, Stern,
Valladares, Weber Pierson, Wiener
NO VOTE RECORDED: Durazo, Wahab

SENATE APPROPRIATIONS COMMITTEE: 5-0, 5/23/25
AYES: Caballero, Seyarto, Cabaldon, Grayson, Richardson
NO VOTE RECORDED: Dahle, Wahab

SENATE FLOOR: 30-1, 6/2/25
AYES: Allen, Alvarado-Gil, Arreguín, Ashby, Becker, Blakespear, Cabaldon,
Caballero, Choi, Dahle, Grayson, Grove, Jones, Laird, Limón, McGuire,
McNerney, Menjivar, Niello, Ochoa Bogh, Pérez, Richardson, Rubio, Seyarto,
Stern, Strickland, Umberg, Valladares, Weber Pierson, Wiener
NOES: Smallwood-Cuevas
NO VOTE RECORDED: Archuleta, Cervantes, Cortese, Durazo, Gonzalez,
Hurtado, Padilla, Reyes, Wahab

ASSEMBLY FLOOR: 53-3, 9/13/25 – Roll call vote not available

SUBJECT: School accountability: Office of the Education Inspector General:
school financial and performance audits: charter school
authorization, oversight, funding, operations, and networks: flex-
based instruction: local educational agency contracting

SOURCE: REAL Journey Academies

DIGEST: This bill makes changes to the oversight, auditing, and funding systems for nonclassroom-based (NCB) charter schools—rebranded as “flex-based” charter schools. It updates and expands audit procedures for all local educational agencies (LEAs), creates a new Office of the Education Inspector General to investigate fraud and financial mismanagement, and makes changes to the funding determination process. This bill establishes statewide contracting requirements to prevent misuse of public funds, increases accountability for charter authorizers through technical assistance and oversight grants, and extends the moratorium on new flex-based charter schools through June 30, 2026.

Assembly Amendments: (1) establish a new Office of the Education Inspector General, (2) overhaul the funding determination process for flex-based charter schools by creating new funding tiers, allowing indefinite renewal contingent on audit compliance, and adjusting how instructional spending thresholds are calculated, (3) require networks of flex-based charter schools to apply for funding determinations together or be audited under a unified process, (4) adds a set of contracting restrictions applying to all local educational agencies (LEAs) and designed to prevent misuse of funds, (5) create two new state programs to support charter authorizer oversight: a mentor grant for struggling authorizers and an oversight grant to help defray new costs, (6) extend the moratorium on new flex-based charter schools to June 30, 2026, and (7) declare intent to establish a statewide charter oversight entity.

ANALYSIS:

Existing law:

- 1) Requires each LEA, including charter schools, to conduct an annual independent audit by a certified public accountant (CPA) in accordance with regulations established by the State Controller (Controller). Specifies that audits must examine financial statements and compliance with applicable laws. (Education Code (EC) § 41020)
- 2) Authorizes the Controller to review LEA audit reports, conduct quality control reviews of CPA firms, and disqualify auditors who fail to meet professional standards. (EC § 41020.5)
- 3) Requires the Controller to develop and update an annual audit guide for K-12 LEAs in consultation with stakeholders. (EC § 14502.1)

- 4) Declares that charter schools are part of the public school system and subject to applicable oversight by the state, including laws relating to financial accountability. (EC § 47604.1)
- 5) Authorizes a chartering authority to monitor the fiscal and academic performance of a charter school and take appropriate corrective action. (EC § 47604.32)
- 6) Grants the State Board of Education (SBE) authority to take corrective action against a charter school, including revocation of the charter, in cases involving gross financial mismanagement or failure to meet performance expectations. (EC § 47604.5)
- 7) Requires nonclassroom-based (NCB) charter schools (defined as schools where less than 80% of instruction occurs in person) to obtain a funding determination from the SBE to receive state apportionment. (EC § 47612.5)
- 8) Authorizes chartering authorities to charge charter schools for actual costs of supervisorial oversight, not exceeding 1% (or 3% in some cases) of revenues. (EC § 47613)
- 9) Requires LEAs offering independent study to comply with teacher-pupil ratio requirements, which differ based on instructional model. (EC § 51745.6)
- 10) Authorizes the Controller to conduct periodic quality control reviews of audit firms that perform K-12 LEA audits and make recommendations for improvement or enforcement action. (EC § 14504.2)

This bill:

- 1) Renames “nonclassroom-based” charter schools as “flex-based” charter schools and makes corresponding terminology updates in provisions relating to public meeting requirements and audit procedures.
- 2) Extends the use of verified data by charter schools in the renewal process until June 30, 2028.
- 3) Adds the Charter Schools Development Center, the California Charter Schools Association, and the California School Employees Association to the list of stakeholders to be consulted in the audit guide development process.

- 4) Updates the schedules and procedures in the annual audit guide for LEAs to include student enrollment and attendance, the top 25 payments or transfers, student-to-teacher ratios, funding determination thresholds for flex-based schools, loans and related entities, charter school governing body members, the five highest paid employees, determination if flex-based schools are part of a network, sampling of credit card payments, payments of 10% or \$1 million whichever is less, analytical procedure to determine unusual enrollment patterns in high school, whether any 12th grade students did not complete required state assessments, and verification of four student work products per attendance period.
- 5) Establishes a second set of instructions for the audit guide that state the provisions shall be no more burdensome than the generally accepted auditing standards (GAAS).
- 6) Requires chartering authorities to notify the California Department of Education (CDE) and the county superintendent of schools if they suspect fraud, misappropriation of funds, or other illegal fiscal practices.
- 7) Expands the grounds on which the SBE may revoke a charter to include false claims by a charter school. Requires the SBE or its designee to promptly investigate allegations of false claims or misappropriation of public funds if there is probable cause.
- 8) Establishes, until 2034, the Office of the Education Inspector General as an independent governmental entity to conduct forensic audits to identify fraud, misappropriation of funds, or illegal activity at LEAs and entities managing a charter school.
- 9) Changes the funding levels that flex-based charter schools are eligible for in the funding determination process to 100%, 85%, 70%, and a proportional percentage below 100% if the school fails to meet the spending threshold for instruction and related services by less than 3%.
- 10) Authorizes flex-based charter schools to continue to receive the funding level prescribed by the SBE in the funding determination indefinitely, so long as the annual financial and compliance audit verifies that the school continues to meet the funding determination thresholds approved by the SBE.
- 11) Requires each school in a network of flex-based charter schools to either have the annual financial and compliance audit completed by the same auditor, or, apply for a funding determination in the same year and be heard by the SBE at

the same hearing, and requires the CDE or the auditor to analyze the pupil-to-teacher ratio and spending thresholds across the entire network.

- 12) Requires, when a flex-based school applies for mitigating circumstances the Advisory Commission on Charter Schools (ACCS) and the SBE to grant serious consideration to the budgeting and staffing decisions of the charter school, provided those decisions are otherwise legal and compliant with applicable law.
- 13) Authorizes the following as part of the funding determination threshold calculations:
 - a) Allow exclusion of restricted grants and funds that are not spent on certificated staff salaries or instruction and related services;
 - b) Allow exclusion of proceeds from loans for facilities and state apportionment;
 - c) Allow exclusion of unspent one-time funds;
 - d) Include spending on physical school sites as instructional-related expenditures;
 - e) Require disclosure of reserves by accounting category;
 - f) Allow exclusion of reserve increases from revenue if reserves are below 10%; and
 - g) Require explanations for reserves over 10% and notify authorizers when under 5%.
- 14) Includes contracted services for certificated staff to be counted toward the percentage of revenue expended on certificated staff salaries and benefits.
- 15) Establishes the following rules for contracting for all LEAs:
 - a) Prohibiting contracted programs from being sectarian;
 - b) Prohibiting contracts from paying for tuition and fees at a private school, except pursuant to an individualized education program (IEP);
 - c) Prohibiting financial payments or gifts to a pupil or prospective pupil or their family for enrollment, referral, or retention;

- d) Requires that contracts be at a reasonable market value;
 - e) Prohibits contracting or purchasing season passes to amusement parks, theme parks, zoos or family entertainment activities, but allows for one time admissions that are aligned to teacher assignments, graduation or co-curricular activities;
 - f) Prohibits LEA's from providing financial incentives for manipulating or falsifying student attendance;
 - g) Requires LEA's to only contract with an entity that has a business license or certificate and that holds appropriate insurance for the service;
 - h) Prohibits LEAs from contracting with parents for services provided exclusively to their own child;
 - i) Prohibits LEAs from reimbursing parents for activities or services, except pursuant to an IEP or settlement agreement;
 - j) Requires contractors to have policies and procedures for site safety;
 - k) Requires all contractors to have a valid criminal record summary;
 - l) Requires all contractors to show evidence of qualifications and expertise;
 - m) Prohibits contractors, as part of the contract with the LEA, from charging pupil fees; and
 - n) Requires flex-based charter contracts to itemize costs with details to determine a qualifying expense for the funding determination.
- 16) Establishes the Charter Authorizer Mentor Grant program and authorizes the California Collaborative on Educational Excellence (CCEE) to identify five entities, including nonprofit organizations to provide two years of technical assistance to charter authorizers who have two consecutive years of at least two audit findings related to charter oversight.
- 17) Prohibits a charter authorizer that is required to receive technical assistance for two years from approving new flex-based charter schools until the authorizer has an annual financial and compliance audit without audit findings related to charter oversight.
- 18) Allows new flex-based charter schools to apply for authorization from any school district in the county or the county board of education and authorizes

the flex-based charter school to establish facilities in both the authorizing district as well as the school district that is receiving technical assistance and is prohibited from authorizing new flex-based schools.

- 19) Establishes a charter authorizer oversight grant program to pay for the increased cost of oversight activities established by this measure, however, does not establish the new oversight activities for charter authorizers referenced in the grant program.
- 20) Requires charter schools, like school districts, to pay a penalty for hiring teachers who do not hold a teaching credential from the Commission on Teacher Credentialing.
- 21) Requires LEAs that offer 10th grade and 12th grade to also offer 11th grade.
- 22) Requires the Legislative Analyst's Office (LAO) to prepare an analysis of the increased mandate costs for charter schools as a result of this bill including the new audit requirements, the inclusion of the funding determination analysis in the annual audit, responding to new accounting and oversight requirements, approval requirements by the governing body of a charter school for contracts over one hundred thousand dollars (\$100,000), and the increased costs to the independent audit contract for the auditor to meet the new requirements.
- 23) Establishes Legislative intent to establish a statewide oversight entity.
- 24) Extends the moratorium on flex-based charter schools to June 30, 2026.
- 25) Includes charter schools in the mandate test claim process by declaring charter schools a public agency.

Comments

- 1) *Need for the bill.* According to the author, "Charter schools are a part of many communities and often provide alternative educational flexibility for families with a myriad of situations; including medical conditions, special needs, and other unique circumstances. They serve as a resource for families and deliver vital educational programs to our students.

"Several fiscal audits conducted by various agencies' have identified opportunities for improvement for various charter schools and charter school authorizers across the state. Most of the negative audit findings point back to a greater need for oversight, transparency, and accountability.

“SB 414 addresses these issues specifically by holding charter schools responsible for internal accounting and for educational outcomes for all students. This bill incorporates recommendations from several reports, strengthening oversight and ensuring academic success. It is vital to implement strong accountability measures and establish proper oversight to ensure that students receive quality education in appropriate, safe, and stable learning environments regardless of whether a school is traditional, chartered, or a hybrid model. SB 414 puts students first and puts into law the important recommendations made through audits from several entities including the Legislative Analyst’s Office (LAO) and State Controller.”

- 2) *Background on Charter Schools.* Charter schools are public schools that operate under the terms of a charter agreement approved by a school district, county office of education, or the SBE. Established by the Charter Schools Act of 1992, they were intended to increase learning opportunities for all students, especially those who are academically low-achieving, and to promote innovation, site-based decision-making, and performance-based accountability.

Today, charter schools serve over 700,000 students in California. They are publicly funded and tuition-free, but operate with greater flexibility in exchange for accountability for results. Charter schools may be operated by nonprofit organizations or, in some cases, by charter management organizations (CMOs) that oversee multiple schools. While most charter schools operate classroom-based programs similar to traditional schools, a significant share operate in a NCB model.

- 3) *What Are NCB Charter Schools?* A charter school is considered NCB if less than 80% of its instructional time occurs under the immediate supervision of a credentialed teacher in a classroom setting. NCB charter schools may offer instruction through virtual, blended, or home-based learning models. These schools often serve high proportions of students with unique learning needs, such as students who are medically fragile, pursuing athletic or artistic careers, or seeking alternatives to traditional settings.

Because NCB schools are not funded automatically based on attendance like classroom-based schools, they must obtain a funding determination from the SBE. This process is based on an evaluation of audited expenditures and is intended to ensure public funds are being used for instructional purposes. However, the process has been widely criticized for its lack of rigor, real-time accountability, and effectiveness in preventing misuse of funds. The integrity of

financial reporting in NCB schools plays a critical role in funding eligibility, and, when abused, can be exploited to inflate apportionments and divert public resources.

- 4) *The Moratorium on NCB Charter Schools and Broader 2019 Charter School Reforms.* In 2019, the Legislature passed AB 1505 (O'Donnell, Chapter 486, Statutes of 2019) and AB 1507 (Smith, Chapter 487, Statutes of 2019), which significantly restructured charter school law. Among other changes, AB 1505 strengthened the criteria for charter authorization and renewal by:
- a) Allowing authorizers to consider academic and fiscal impact on the district when reviewing petitions.
 - b) Tying renewal decisions to a school's performance on the California School Dashboard, streamlining renewal for high performers and requiring greater scrutiny for low performers.
 - c) Expanding credentialing requirements to all charter school teachers and applying conflict-of-interest laws to charter boards.

AB 1507 restricted charter schools from operating sites outside their authorizing district's boundaries.

Together, these bills also enacted a moratorium on new NCB charter schools through January 1, 2026. The pause was intended to give the state time to re-evaluate oversight, funding, and academic accountability in the NCB sector, following concerns about weak controls and inconsistent performance.

This bill builds on this reformed oversight landscape by proposing additional audit, fiscal, and governance tools specific to charter school accountability.

- 5) *The A3 Charter Schools Fraud Case.* The most significant charter school fraud case in California's history, the A3 Education scandal, came to light in 2019. Prosecutors alleged that two individuals created a network of 19 NCB charter schools and enrolled tens of thousands of students, many without their knowledge or participation, to fraudulently claim public funding. The scheme involved:
- a) Inflated and duplicated enrollment using a manipulated "multi-track" calendar.

- b) Unauthorized use of public funds through related-party contracts.
- c) A total fraud estimate of over \$400 million in misappropriated state funds.

The case revealed multiple breakdowns in the oversight chain—from charter authorizers to external auditors to state agencies—prompting calls for systemic reform.

6) *Oversight Reports Prompting Legislative Action.* In response to the A3 scandal and other fraud incidents, state and independent agencies released three major reports:

- a) *State Controller’s Office (SCO) Charter School Audit Task Force Report (2024):* Focused on improving the quality of school audits by increasing auditor training, revising the audit guide, establishing CPA review and rotation policies, and ensuring follow-up on audit findings.
- b) *California Charter Authorizing Professionals (CCAP) Fraud Prevention Report (2024/25):* Called for a broader anti-fraud framework, including adoption of Fraud Risk Management Programs, regulation of back-office providers and CMOs, enhanced board training, and the creation of a centralized Office of the Inspector General for K-12 education.
- c) *LAO/Fiscal Crisis and Management Assistance Team (FCMAT) Joint Report on Nonclassroom-Based Charter Schools (2024):* Analyzed the NCB funding determination process and recommended major changes to better align funding with instructional delivery. Recommendations included real-time enrollment tracking, clearer definitions of instruction, and changes to charter oversight authority.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

According to the Assembly Appropriations Committee:

- Ongoing Proposition 98 General Fund costs of an unknown but significant amount, likely in the millions of dollars to tens of millions of dollars statewide, for LEAs, especially charter schools, to comply with the various requirements added by this bill.

- This bill makes several changes to charter school audit and charter school authorizer oversight requirements. There are nearly 1,300 charter schools in the state. For audits, each LEA contracts with an independent auditing firm to conduct its annual audit verifying compliance with state law via the K-12 Audit Guide. As statutory requirements for LEAs increase and continue to add procedures, independent auditing firms charge LEAs more to account for increased workload. If an auditing firm increases charges to a charter school by \$500 per year to account for requirements added by this bill, the bill creates \$650,000 in new costs.
- Ongoing General Fund costs of \$174,000 for the CDE to hire one additional staff responsible for fulfilling CDE requirements of the bill. CDE cites potential for significant additional costs to the extent that investigations require existing staff time across multiple divisions.
- Ongoing General Fund costs of an unknown amount, possibly in the low hundreds of thousands to high hundreds of thousands of dollars for the SCO to hire additional staff responsible for determining topics for required auditor training, processing auditor certifications, providing technical assistance to auditors, and processing a potential increase in auditor quality control reviews.

SUPPORT: (Verified 9/13/25)

REAL Journey Academies (source)
Achieve Charter School of Paradise
Albert Einstein Academies Charter Schools
Alder Grove Charter School 2
All Tribes American Indian Charter School
Allegiance Steam Academy
Alma Fuerte Public School
Alpha Public Schools
Altus Schools
America's Finest Charter School
American Heritage Charter Schools
Antioch Charter Academy
Antioch Charter Academy II
APLUS+
Aspen Public Schools
Aspire Public Schools
Association of Personalized Learning Schools & Services
Aveson Schools

Big Picture Educational Academy - Adult High School
Bridges Charter School
Bridges Preparatory Academy
Bright STAR Schools
Brookfield Engineering Science Technology
California Asian Chamber of Commerce
California Charter Schools Association
California Creative Learning Academy
California Online Public School
California Pacific Charter Schools
California Virtual Academies
Camino Nuevo Charter Academy
Capital College & Career Academy
Charter Schools Development Center
Children's Community Charter School
Chime Institute
Circle of Independent Learning Charter School
Clarksville Charter School
Community Montessori
Compass Charter Schools of San Diego
Connecting Waters Charter Schools
Core Butte Charter School
Core Charter School
Crossroads Charter Academy
Desert Trails Preparatory Academy
Dimensions Collaborative School
Dixon Montessori Charter School
Dr. Lewis Dolphin Stallworth Charter School
Edison Bethune Charter Academy
Eel River Charter School
El Sol Science and Arts Academy
Eleanor Roosevelt Community Learning Center
Element Education
Environmental Charter Schools
Epic California Academy
Equitas Academy Charter Schools
Excel Academy Charter School
Extera Public Schools
Family Partnership Charter School
Feaster (Mae L.) Charter School

Feather River Charter School
Forest Charter School
Forest Ranch Charter
Gabriella Charter Schools
Gateway College and Career Academy
Gateway Community Charters
Glacier High School Charter
Global Education Academy
Golden Eagle Charter School
Gorman Learning Center Charter School
Gorman Learning Charter Network
Granada Hills Charter
Granada Hills Charter High School
Granite Mountain Charter School
Great Valley Academy
Greater San Diego Academy Charter School
Green DOT Public Schools
Griffin Technology Academies
Guajome Schools
Heritage Peak Charter School
Hightech LA
Howard Gardner Community School
Ingenium Schools
Innovations Academy
Invictus Leadership Academy
Irvine International Academy
Isana Academies
Iva High
Ivy Academia Entrepreneurial Charter School
Jamul-Dulzura Union School District
JCS Family Charter Schools
JCS, Inc.
John Muir Charter Schools
Julia Lee Performing Arts Academy
Julian Union School District
Kairos Public Schools
Kavod Charter School
Kepler Neighborhood School
Kidinnu Academy
KIPP Public Schools Northern California

LA Jolla Band of Luiseno Indians
Lake View Charter School
Liberty Charter High School
Literacy First Charter Schools
Live Oak Charter School
Magnolia Public Schools
Mayacamas Countywide Middle School
Meadows Arts and Technology Elementary School
Method Schools
Mountain Home School Charter
Natomas Charter School
Navigator Schools
New LA
New Pacific School Roseville
New Village Girls Academy
New West Charter
Nord Country School
Northwest Prep Charter School
NOVA Academy Early College High School
NOVA Academy-Coachella
Ocean Charter School
Odyssey Charter Schools
Olive Grove Charter School
Opportunities for Learning
Options for Youth
Orange County Academy of Sciences and Arts
Orange County School of the Arts / California School of the Arts Foundation
Oxford Preparatory Academy
Pacific Charter Institute
Para Los Ninos
Pauma Band of Luiseno Indians
PCA College View
Redwood Coast Montessori
Rincon Band of Luiseno Indians
River Montessori Charter School
River Oaks Academy Charter School
Rocklin Academy Family of Schools
Rocky Point Charter School
Sacramento County Board of Education
Sage Oak Charter Schools

San Diego Virtual School
Santa Rosa French-American Charter School
Scholarship Prep Charter School
Sebastopol Independent Charter
Shasta Charter Academy
Sherman Thomas Charter School
Sherwood Montessori
Springs Charter School
Stem Preparatory Schools
Success One! Charter
Summit Public Schools
Sutter Peak Charter Academy
Sycamore Academy of Science and Cultural Arts
Sycamore Creek Community Charter School
Tehama eLearning Academy
Temecula Valley Charter School
The Cottonwood School
The Foundation for Hispanic Education
The Grove School
The Language Academy of Sacramento
The Learning Choice Academy
The O'Farrell Charter Schools
Trillium Charter School
Urban Charter Schools Collective
Valley Charter School
Valley International Preparatory High School
Vaughn Next Century Learning Center
Vibrant Minds Charter School
Virtual Learning Academy
Vista Charter Public Schools
Voices College Bound Language Academies
Vox Collegiate
Western Sierra Charter Schools
Westlake Charter School
William Finch Charter School
YPI Charter Schools
Yuba County Career Preparatory Charter School
Several Individuals

OPPOSITION: (Verified 9/13/25)

Alameda County Office of Education
Association of California School Administrators
California Association of School Business Officials
California Federation of Labor Unions
California Federation of Teachers
California School Boards Association
California School Employees Association
California County Superintendents
California Teachers Association
Carlsbad Citizens for Community Oversight
Riverside County Office of Education
San Diego County Office of Education
San Diego Unified School District
Small School Districts Association

Two Individuals

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9/13/25 2:32:58

**** **END** ****