
SENATE COMMITTEE ON LOCAL GOVERNMENT

Senator María Elena Durazo, Chair

2025 - 2026 Regular

Bill No: SB 992
Author: Niello
Version: 2/5/26

Hearing Date: 3/18/26
Fiscal: No
Consultant: Vargas

COUNTY AUDITORS: SPECIAL DISTRICTS: ANNUAL AUDIT EXCEPTIONS

Increases the annual revenue threshold for special districts to substitute alternative financial oversight mechanisms for an annual audit and removes the sunset on their ability to make that substitution.

Background

California has roughly 3,300 special districts that provide specific, focused service within their boundaries. About two-thirds of these districts are independent and have their own elected governing boards; one-third are “dependent” special districts that are governed by either a city council or county board of supervisors.

County auditors must annually audit each special district’s accounts and records. The county auditor can contract with a certified public accountant or public accountant for this work. In either case, the audit must meet the State Controller’s standards and conform to generally accepted auditing standards. If the State Controller audits a district’s financial statement to satisfy federal audit requirements, the district is exempt from the requirement for an annual audit. The special district pays for the audit.

Annual audits can be costly. To reduce the burden on smaller special districts, the Legislature has authorized several alternatives to the annual audit. By unanimous request of the special district’s governing board and with the unanimous approval of the county board of supervisors, a district may replace the annual audit with: (1) a biennial audit; (2) a five-year audit if the district’s annual budget doesn’t exceed an amount set by the county supervisors; or (3) an audit at a specified interval, as designated by the county auditor, not to exceed five years.

Types of Financial Oversight. Auditors perform a variety of financial oversight services that differ in the scope, activity, and assurance of financial stability provided, including:

- ***Audit.*** An audit is the highest level of financial oversight that a local agency can provide. Its purpose is to provide financial statement users with an opinion by the auditor on whether the financial statements are prepared in accordance with the proper financial reporting framework. The auditor evaluates the internal control system, tests accounting records by examining source documents, and performs other procedures to obtain reasonable assurance about whether the financial statements are free from misstatement, error, or fraud.
- ***Agreed-upon Procedures Engagement (AUP).*** Auditors may also enter into an AUP, where the auditor and the client agree upon specific audit procedures to perform or specific aspects of the agency to review, but stops short of performing all of the

procedures required in a full audit. An AUP provides less assurance than a full audit but includes some analyses to assure financial stability.

- *Financial Review.* When performing a financial review, an auditor issues a formal report that includes a conclusion as to whether he or she is aware of any material modifications that should be made to the financial statements for them to meet the accounting principles and practices generally used in an industry. The auditor does not perform any audit procedures, such as assessing fraud risk. Thus, a financial review provides less assurance than an audit and AUP.
- *Financial Compilation.* The objective of a financial compilation is to present the financial information in a standardized format. A financial compilation provides no assurance regarding the financial statements because the auditor is not required to verify the accuracy or completeness of the information provided, or express an audit opinion or a review conclusion. Furthermore, unlike other financial oversight services, an auditor is not required to be independent, although any lack of independence must be disclosed.

Special districts and audits. To reduce the financial burden of audits on special districts, the Legislature authorized alternative financial oversight options. Special districts that both process their financial transactions through the county's financial system and have annual revenues below \$150,000 may use these alternatives. In 2008, the Legislature authorized these districts to replace the annual audit with a financial review upon unanimous request of the special district's governing board and with the unanimous approval of the county board of supervisors (AB 2510, La Malfa, 2008). If the governing board of the district is the county board of supervisors, the district may replace the annual audit with a financial review upon unanimous approval of the board.

In 2016, the Legislature expanded the alternatives to include an AUP or an annual financial compilation (AB 2613, Achadjian). It limited the use of annual financial compilations to five consecutive years, after which the district must complete a full annual audit. The authority for special districts to use these alternative financial oversight methods in lieu of an audit sunsets January 1, 2027.

The California Special Districts Association and State Association of County Auditors report that the authority to perform an AUP, financial review, or financial compilation in lieu of an audit has helped special districts save money over the last decade. They want to make the authority permanent and increase the threshold.

Proposed Law

Senate Bill 992 increases the annual revenue threshold for special districts that can substitute a financial review, agreed-upon procedures engagement, or financial compilation for a full annual audit from \$150,000 to \$250,000 and repeals the January 1, 2027, sunset date on the authority to use those alternative oversight procedures.

Comments

1. **Purpose of the bill.** According to the author, "SB 992 (Niello) makes permanent an existing law that authorizes a cost-effective procedure of engagement in lieu of an audit so long that the allowance is not granted for more than five years in row. The proposal also modestly increases the threshold to qualify from \$150,000 to \$250,000 to account for inflationary pressures since the

threshold was put in place a decade ago. These small changes save critical, limited dollars allowing for a larger share of funding to be directed towards front line services while keeping fiscal guardrails in place.”

2. Oversight. Accurate financial data is necessary to hold special districts accountable. The State Controller and others use this information to compile annual reports and oversee these bodies. The requirement that all local governments conduct an audit serves this purpose. However, the Legislature recognized that audits can burden smaller special districts and therefore authorized alternative options to meet financial oversight and included a sunset to monitor for potential issues. SB 992 repeals that sunset. Supporters of the measure argue that the alternatives have worked without significant problems over the past ten years and contend that these alternatives allow small districts to direct limited resources towards services for residents. The Committee may wish to consider whether removing the sunset would limit the Legislature’s ability to continue evaluating whether these alternatives maintain transparency and accountability.

3. Raising the bar. Ten years ago, the Legislature allowed special districts to use three alternatives in lieu of an audit. According to the California Special Districts Association (CSDA), 552 special districts qualified under the \$150,000 threshold in 2016. SB 992 increases the threshold by \$100,000, to \$250,000. Adjusted for inflation using Consumer Price Index the threshold would be approximately \$215,000. The new threshold slightly exceeds a pure inflationary adjustment, but only 525 districts would qualify at this higher level, because some local agency revenues have grown faster. The Committee may wish to consider whether the threshold established by SB 992 is consistent with the intent to alleviate the burden of an audit on smaller local agencies.

Support and Opposition (3/13/2026)

Support: California Special Districts Association (Co-Sponsor)
State Association of County Auditors (Co-Sponsor)

Opposition: None Submitted

-- END --