

UNFINISHED BUSINESS

Bill No: SB 992
Author: Niello (R)
Amended: 6/23/26
Vote: 21

SENATE LOCAL GOVERNMENT COMMITTEE: 7-0, 4/29/26

AYES: Durazo, Choi, Arreguín, Ashby, Cervantes, Laird, Seyarto

SENATE FLOOR: 38-0, 5/26/26

AYES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Choi, Cortese, Durazo, Grayson, Grove, Hurtado, Jones, Laird, Limón, McGuire, McNerney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Reyes, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener

NO VOTE RECORDED: Dahle, Gonzalez

ASSEMBLY FLOOR: 71-0, 8/6/26 (Consent) - See last page for vote

SUBJECT: County auditors: special districts: annual audit exceptions

SOURCE: California Special Districts Association
State Association of County Auditors

DIGEST: This bill increases the annual revenue threshold for special districts to substitute alternative financial oversight mechanisms for an annual audit and makes other changes.

Assembly Amendments authorizes a special district with annual revenues of less than \$50,000 to replace the annual audit with a financial review or agreed-upon procedures engagement and extends the sunset to January 1, 2037.

ANALYSIS:

Existing law:

- 1) Requires county auditors to annually audit each special district's accounts and records.
- 2) Requires special districts to pay for the annual audit.
- 3) Authorizes a special district, by unanimous request of the special district's governing board and with the unanimous approval of the county board of supervisors, to replace the annual audit with:
 - a) A biennial audit;
 - b) A five-year audit if the district's annual budget doesn't exceed an amount set by the county supervisors; or
 - c) An audit at a specified interval, as designated by the county auditor, not to exceed five years.
- 4) Authorizes a special district that processes their financial transactions through the county's financial system and has annual revenues below \$150,000 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.
- 5) Authorizes, until January 1, 2027, additional alternatives to the annual audit for special districts that both process their financial transactions through the county's financial system and have annual revenues below \$150,000, as follows:
 - a) Upon unanimous request of the governing board of the special district and with unanimous approval of the board of supervisors, the district may replace the annual audit with an agreed-upon procedures engagement (AUP).
 - b) Upon annual unanimous request of the governing board of the special district and with annual unanimous approval of the board of supervisors, the district may replace the annual audit with an annual financial compilation performed by the county auditor.
- 6) Prohibits a special district from replacing the audit with a financial compilation for more than five consecutive years, at which time the district must undergo an annual audit.
- 7) Requires the special district to pay for any costs incurred by the county auditor in performing a financial compilation or an AUP.

- 8) Authorizes a county auditor, upon receipt of the financial review, AUP, or financial compilation, to appoint an accountant to conduct an audit of the special district, with proper notice to the governing board of the special district and board of supervisors.

This bill:

- 1) Increases the annual revenue threshold to \$250,000;
- 2) Allows a special district with annual revenues of less than \$50,000 not replace an annual audit with an annual financial compilation for more than five consecutive years, after which the special district must comply with an audit or financial review or an agreed-upon procedure engagement;
- 3) Extends the sunset to January 1, 2037.

Background

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, 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.

Comments

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 as 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.”

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. This bill 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. This bill raises questions about whether the Legislature has had enough time to evaluate whether these alternatives maintain transparency and accountability.

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. This bill increases the threshold by \$100,000, to \$250,000. Adjusted for inflation using Consumer Price Index, the original 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.

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

SUPPORT: (Verified 8/7/26)

California Special Districts Association (Co-Source)
State Association of County Auditors (Co-Source)
California Association of Recreation & Park Districts
California Central Valley Flood Control Association
California Policy Center

OPPOSITION: (Verified 8/7/26)

None received

ASSEMBLY FLOOR: 71-0, 8/6/26

AYES: Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza,

Carrillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Gabriel, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NO VOTE RECORDED: Addis, Castillo, Flora, Fong, Blanca Rubio, Sanchez, Schiavo, Valencia

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