

ASSEMBLY BILL 126

Charter School and Authorizer Requirements

Enacted June 26, 2026



san diego county office of
EDUCATION

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BACKGROUND

Assembly Bill (AB) 126 represents one of the most significant recent expansions of charter school, authorizer, audit, and fiscal oversight requirements in California. The legislation substantially increases accountability expectations for charter schools, authorizers, auditors, school districts, county offices of education, and management organizations. Key provisions become effective beginning in 2027, with many audit-related changes taking effect with the 2027-28 audit cycle.

Please note that this summary is intended as a resource and does not constitute legal advice. Authorizers should review the applicable statutory language and consult legal counsel as needed when making local implementation decisions.

ALL LEAS

Audit Report Requirements (Education Code (EC) 14501)

- ☐ Expands local educational agency (LEA) audit requirements to include:
 - Sufficiency of textbooks or instructional materials, or both (EC 60119)
 - Teacher misassignments (EC 44258.9)
 - Accuracy of information on School Accountability Report Card (SARC)

Audit Contract Requirements (EC 14505)

All LEAs must have following requirements in their audit contracts:

- ☐ Withhold 10% of audit fee until State Controller's Office (SCO) certifies the audit report
- ☐ Withhold 50% of audit fee for any subsequent year of a multiyear contract if the prior year's audit report was not certified as compliant by SCO. Also requires a statement that multiyear contract is null and void if auditor is declared ineligible from audits
 - The amount withheld is not payable unless ordered by the California Board of Accountancy or the audit report for the subsequent year is certified as compliant by the SCO

- ☐ If the SCO has not issued, in writing, a certification of the audit report within six months of the audit report being received by the SCO, the LEA may release audit fees withheld
- ☐ If SCO issues written notification of refusal to certify audit report, auditor may:
 - Within 30 days file an appeal with the California Board of Accountancy (CAB)
 - CAB will conduct an investigation within 90 days
 - If CAB finds audit is compliant, SCO will notify auditor, and LEA shall pay audit fee withheld

Website Requirements (EC 41020(b))

- ☐ All LEAs will be required to post annual financial and compliance audits on their websites
- ☐ All LEAs must contract for an audit by May 1 annually

Audit Engagement and Termination (EC 41020(i)(6))

Audit Termination

- ☐ If an audit contract is terminated for any reason with a LEA, the auditor and LEA shall notify the following:
 - Charter school shall notify the chartering authority
 - District or Joint Powers Authority (JPA) shall notify the County Office of Education (COE)
 - The Superintendent (California Department of Education)
 - SCO

Notification Requirements:

- Made within 30 days of termination or nonrenewal
- Reason for termination or nonrenewal

Audit Engagement

- ☐ Prior to accepting new audit engagements, auditors shall request the LEA to provide authorization for the prior auditor to respond fully and without limitation to the prospective auditor's inquiries and request for work papers

- ☐ If LEA refuses to authorize prior auditors to respond, prospective auditor shall inquire why and consider the implications of that refusal or limitation in deciding whether to accept the engagement
- ☐ If LEA provides permission for prior auditor to respond, prospective auditor shall ask the following:
 - Their knowledge of information that might bear on the integrity of LEA management
 - Whether there were any disagreements with LEA management regarding accounting principles, financial reporting, compliance or audit scope
 - Whether there were any communications to LEA management regarding fraud, illegal acts, noncompliance, or internal control matters
 - Prior auditor's understanding of the reason for the change of auditors
 - Any information relevant to the prospective auditor's risk assessments for the audit period

Auditor Requirements (EC 41020(i)(4)-(5))

Continuing Education (EC 41020(i)(4)-(5))

- ☐ Beginning 2027-28, and every two years after, in order to be added or remain on SCO list of eligible auditors for K-12 audits, auditors must:
 - Complete 16 hours of continuing education that, at a minimum, covers both:
 - Training on requirements included in most current K-12 Audit Guide and State Compliance Reporting
 - Compliance topics, including but not limited to, pupil attendance, independent study, charter schools, school calendars, instructional minutes, and nonclassroom-based instruction.
 - Continuing education units (CEU) taken as part of CA Board of Accountancy license renewal meet these requirements if same content is covered
- ☐ Beginning with 2027-28, in order to be added or remain on the SCO list of eligible auditors for K-12 audits, auditors must:
 - Demonstrated experience of two or more years conducting financial and compliance audits for LEAs

- Have maintained compliance with CA Board of Accountancy requirements – licenses active and good standing
- ☐ Auditors may perform financial and compliance auditor for an LEA in their first two years of conducting those audits, provided the audit report receives a preissuance review by an auditor that has demonstrated experience in conducting LEA audits
- ☐ An auditor will certify to the SCO that continuing education requirements and prior experience have been met
- ☐ Requirements apply to audits of LEAs regardless of whether LEA is government entity or nonprofit

Audit Submission (EC 41020(k))

Audit reports must be submitted annually by January 31 to the following agencies:

- ☐ Districts and JPAs: COE, California Department of Education (CDE), and SCO
- ☐ Charter Schools: chartering authority, COE, CDE, and SCO
- ☐ COE: CDE and SCO

CDE Ensures Audit Exemption Corrections (EC 41020(o))

- ☐ CDE ensures LEAs have corrected or developed corrective action plans for:
 - Federal and state compliance audit exceptions
 - Exceptions the COE has certified as not corrected by June 15
 - Repeat audit exceptions that are not assigned to the COE to correct
- ☐ CDE shall report to SCO on or before November 1 annually, on CDE actions to ensure that districts and COEs have either corrected or developed corrective action plans.

Failure to Submit Audit Report to State Controller's Office by Deadline (EC 41020.2(c))

- ☐ If an LEA fails to file its audit with the SCO by the required deadline, the SCO shall determine the most advantageous method of obtaining the required audited financial statements.

- ☐ After consultation with the LEA board and the auditor under contract, the SCO may:
 - Accept an extension provided for under EC 41020.2(b)
 - SCO can conduct the audit using staff in the office and charging the cost of the audit to the LEA's next principal apportionment.
 - Contract with an auditor to perform the audit and charge the cost of the audit to the LEA's next principal apportionment.
 - SCO can grant a reasonable extension if it determines that this will produce the audit in the shortest amount of time.
- ☐ The SCO shall consult with LEA board, auditors under contract, COE or chartering authority (as applicable, before making determination to the method used to obtain the audit.
- ☐ The SCO shall assist (to extent feasible) the LEA in initiating action to avoid payment to the original auditors under contract who did not complete the audit.
- ☐ The SCO may determine that any time after the filing due date, that an audit report is delinquent, and the audit may be performed under the SCO staff, or contract for with another auditor.

Notification of Failure to Submit Audit Report by Deadline (EC 41020.2(d)-(e))

- ☐ If an extension has not been requested or granted and the audit has not been filed with the SCO on or before the deadline, the LEA and auditors shall notify the chartering authority, the COE, the CDE and SCO no later than 15 calendar days from the audit due date. The notice shall include:
 - The reasons for delay
 - Estimated filing date

LEA Board Review of Audit (EC 41020.3)

- ☐ Within 45 days of the issuance of an audit report, the LEA board shall review, at a public meeting, the following:
 - the annual audit,
 - any audit exceptions identified in the audit,
 - recommendations or findings of any management letter, and

- any description of correction or corrective action plan for exceptions or management letter issue.
- ☐ At the same meeting, separate item, the board will also take action to accept or reject the annual audit report.

K-12 Audit Guide: Supplemental Information Requirements (EC 41020.6(a))

- ☐ Beginning with the 2027-28 audit, the following supplemental information will be required of all LEA audits:
 - ☐ Pupil enrollment and attendance
 - Totals by month
 - Totals by track
 - Identify and disclose unusual material increases or decreases in enrollment by month and track
 - LEA provided opportunity for explanation in note
 - ☐ 25 largest aggregate payments or transfers over the fiscal year, to individuals or organizations
 - ☐ Districts & COE's pupil-to-teacher ratios for independent study programs
 - ☐ Loans with related entities or employees
 - ☐ Charter schools: governing board members and related entities
 - ☐ Five (5) highest paid employees.

K-12 Audit Guide: Compliance Procedures (EC 41020.6(b))

Beginning with the 2027-28 Audit, the following compliance procedures will be required, at a minimum:

- ☐ Professional accounting and auditing standards, Governmental Accounting Standards Board (GASB), Financial Accounting Standards Board (FASB), Generally Accepted Auditing Standards (GAAS)
- ☐ Samples: Auditor shall make selection in a way that cannot be predicted
- ☐ Sampling will be appropriate for type of LEA pursuant to table in Audit Guide

- ☐ Enrollment, attendance and instructional minute sampling shall be representative of all tracks and grade spans
- ☐ Locally funded charter within district/COE audit: auditor shall ensure samples are representative of each LEA included in the audit
- ☐ Samples shall include all payment sources, including credit cards, debit cards, electronic payments, and bank statements
- ☐ Locally funded charter schools shall report charter school data separately from the general fund of the district/COE
- ☐ If there is more than one charter in the charter school fund, each LEA will also be reported separately in the supplemental section or footnotes of the audit report.
- ☐ Verify independent study student enrollment and verify student residency requirements are met
- ☐ Auditors will be required to consult with the authorizing agency of a charter school to assist in identifying risks, non-compliance, fraud, irregularities, and other background information
- ☐ Auditors are required to consult with COE on district/JPA audits to assist in identifying risks, noncompliance, fraud, irregularities, and other background information
- ☐ Auditors are required to consult with CDE on audits of COEs to assist in identifying risks, noncompliance, fraud, irregularities, and background information
- ☐ Charter Schools: Auditors will determine if a related entity, like a charter management organization (CMO), education management organization, or similar third party with financial, economic, or controlling membership interest, exists with the charter school. If federal tax returns are files, entities identified on the federal tax return will also be disclosed in the audit
- ☐ Determine whether the relationship with the related entity is material, such as common board, majority voting interest, sole corporate or sole statutory member, or other arrangement
- ☐ Charter School: Verify if more than 20% of the charter school's total average daily attendance (ADA) was generated through independent study
- ☐ All LEAs: Verify the pupil-to-teacher ratio calculation for independent study.
- ☐ Identify any transfers of funds or assets to other individuals or organizations that exceed \$1 million, or 10% of LEA's total revenue and other sources, whichever is less. Include written explanation from LEA regarding purpose for each transfer

- ☐ Authorizers: ensure chartering authority has documentation of completing the oversight tasks in EC 47604.32 and teacher assignment monitoring in EC 44258.9
- ☐ For schools that offer grades 10, 11, or 12, identify any unusual enrollment patterns between consecutive grade levels, and students who change grade levels midyear
- ☐ Identify if a student advanced to 12th grade without completing the California Assessment of Student Performance and Progress assessment in English Language Arts (ELA) and math
- ☐ Report total number of students disenrolled from the school after census day
- ☐ Verify pupil work samples

Audit Contract Requirements (EC 14505)

All LEAs must have following requirements in their audit contracts:

- ☐ Withhold 10% of audit fee until SCO certifies the audit report
- ☐ Withhold 50% of audit fee for any subsequent year of a multiyear contract if the prior year's audit report was not certified as compliant by SCO. Also requires a statement that multiyear contract is null and void if auditor is declared ineligible from audits
 - The amount withheld is not payable unless ordered by the California Board of Accountancy or the audit report for the subsequent year is certified as compliant by the SCO
- ☐ If the SCO has not issued in writing a certification of the audit report within six months of the audit report being received by the SCO, the LEA may release audit fees withheld
- ☐ If SCO issues written notification of refusal to certify audit report, auditor may:
 - Within 30 days file an appeal with the California Board of Accountancy (CAB)
 - CAB will conduct an investigation within 90 days
 - If CAB finds audit is compliant, SCO will notify auditor, and LEA shall audit fee withheld

State Controller's Office Report on LEA's Not in Compliance (EC 14507)

- ☐ SCO will annually report by August 31, to the State Superintendent of LEAs who are not in compliance with audit and will categorize audit exceptions by types and identify reasons for exceptions

Notification of Errors in Apportionment (EC 41341)

- ☐ If LEA receives an apportionment during the fiscal year that it determines differs, positively or negatively, for an LCFF allocation for one or more ADA, the LEA shall report the corrected amount to CDE

Contracting Policy Requirements (EC 51827)

- ☐ If a contract is in effect on or before July 1, 2027, the contract shall remain in effect until the expiration of the contract or the parties to the agreement negotiate a successor agreement that will be operative after July 1, 2027, that complies with this section
- ☐ An LEA shall not enter into a contract or make an amendment or other ancillary agreement to an existing contract on or after the effective date of the act adding this section that would be operative after July 1, 2027, unless it would comply with this section

On or before July 1, 2027, all LEAs shall adopt a policy on evaluating and approving contractors. The policy shall include the following:

- ☐ LEA shall not expend funds for a contract unless materials/services are nonsectarian and comply with state nondiscrimination provisions and federal law
- ☐ LEA shall not expend funds for tuition at a private school, except required by a student's individualized education program (IEP)
- ☐ Financial payments or gifts shall not be offered by an LEA to a pupil, prospective pupil, or a pupil's parent, guardian, or relative as an incentive for enrollment, referral, or retention
- ☐ LEA shall not offer any financial incentives to employees to manipulate or falsify pupil attendance records or report
 - Incentives for pupil engagement, reengagement of chronically absent, are still allowed

- ☐ LEA shall ensure contracts reflect reasonable market value
- ☐ LEA shall not purchase or contract for annual/season passes or memberships to amusement or theme parks, zoos, or family entertainment activities
 - LEAs may still contact for single-use admissions, meals, transportation that is educationally aligned, for graduation, school celebrations or co-curricular activities
- ☐ LEA shall only contract with an entity that has a business license or certificate and has appropriate insurance for the service being offered
 - Government agencies are not required to have a business license.
- ☐ LEA shall not contract with a pupil or pupil's parent, guardian or relative for services provided exclusively to that pupil
 - Exception for reimbursement for pupil transportation.
- ☐ LEA shall not reimburse parents or guardians for activities or services.
 - Exception for special education required by legal settlements
- ☐ Contractor who interacts with pupils outside immediate supervision of a school employee shall have policies and procedures related to pupil and site safety, including virtual settings, emergency response, and accident reporting that are reasonable for the instruction or activity
- ☐ Contractors interacting with pupils shall have valid background checks (EC 45125.1)
- ☐ Contractors shall provide evidence of qualification and expertise for the activities to be provided, in accordance with policies of the LEA board
- ☐ Contractors shall not charge fees to a pupil or the pupil's parent or legal guardian

These requirements will be included in the K-12 Audit Guide procedures.

Credentialing

Credential Requirements (EC 42258.9(m))

- ☐ Beginning July 1, 2027, a teacher employed by an LEA and offering a course in which pupils receive course credit, or that counts toward instructional minutes, or both, shall hold the certificate permit, or other document required by the commission for that assignment and shall be monitored

Fiscal Penalties for Teachers Not appropriately Credentialed (EC 45037)

A teacher in kindergarten through grade 12 inclusive, who does not have a valid credential or certification document, the LEA will be assessed a fiscal penalty calculated as:

- ☐ Number of days each person rendered service in the employment of the LEA
- ☐ Number of days in which the employee of the LEA did not have a valid credential/certification
- ☐ Divide number of days without credential/certification, by number of days rendered service
- ☐ Multiply ratio in #3 by the LEA's LCFF apportionment for the fiscal year

Independent Study

ADA to Teacher Ratio (EC 51745.6)

Creates same ADA to Teacher Ratio calculation methods in independent study, for all LEAs:

- ☐ The LEA's independent study ADA to teacher ratio can't exceed that of its non-independent study ratio
- ☐ The LEA's independent study ADA to teacher ratio can't exceed the prior year non-independent study ratio of the largest ADA high school or unified district in the county, or county in which the authorizer is located
- ☐ 25 ADA to 1 teacher full time equivalent (FTE)

Work Sample Requirements (EC 51747.5)

An LEA shall maintain one completed work sample in each of the following subjects:

- ☐ ELA
- ☐ Math
- ☐ History-social science
- ☐ Science

For each of the following attendance periods:

- ☐ Beginning of the school year through first attendance period
- ☐ Day following the end of the first attendance period to the end of the school's second attendance period

- ☐ Day following the end of the school's second attendance period to the end of the school year.

If a pupil is not enrolled in each of the subjects listed, the LEA shall maintain four (4) completed work samples per attendance period that are representative of the pupil's course schedule.

AUTHORIZER CHANGES

Contracting for an Authorized Charter's Audit (EC 41020(c)-(h))

- ☐ If an authorized charter school does not contract for an audit by May 1, the chartering authority shall provide for the audit of the charter school

Review of Authorized Charter School Audit Exceptions (EC 41020(m)(1)-(2))

- ☐ The chartering authority shall review prior year audit exceptions and determine whether:
 - Exceptions have been corrected, or
 - An acceptable plan of correction has been developed.
- ☐ If the charter did not provide a description of the corrections or corrective action plan, the chartering authority shall request them be provided on or before April 15
- ☐ The chartering authority shall review the description of corrections or corrective action plan and determine adequacy
 - If **not adequate**: the chartering authority shall require the charter to resubmit those portions

District Chartering Authority Certification to COE

Each district chartering authority shall certify to COE on or before May 15 annually, that is has done all the following for the prior fiscal year:

- ☐ Review all charter audits
- ☐ Reviewed all charter audit exceptions, **and** that all those exceptions have been corrected, or acceptable corrective action plan has been submitted
- ☐ Ensured that charter has corrected or developed corrective action plan for exceptions
- ☐ Identified any attendance-related audit exceptions or exceptions involving state funds, **and** required the charter to submit appropriate reporting forms to CDE

COE Chartering Authority Certification to CDE

Each COE chartering authority shall certify to COE on or before June 15 annually, that is has done all the following for the prior fiscal year:

- ☐ Review all charter audits
- ☐ Reviewed all charter audit exceptions, **and** that all those exceptions have been corrected, or acceptable corrective action plan has been submitted
- ☐ Ensured that charter has corrected or developed corrective action plan for exceptions
- ☐ Identified any attendance-related audit exceptions or exceptions involving state funds **and** required the charter to submit appropriate reporting forms to CDE.

SCO Sampling of Chartering Authorities (EC 41020(p))

- ☐ SCO will annually select a sampling of chartering authorities and COEs to perform a follow-up of the audit resolution process of those chartering authorities and COEs

Failure of LEA or Authorizing Authority to Provide for Audit (EC 41020(r))

- ☐ If LEA, Chartering Authority, or COE fail to provide for audit, SCO shall make arrangements for the audit
 - The cost of the audit shall be paid by the LEA or COE

Granting Audit Extension to Authorized Charter Schools (EC 41020.2(b)(1)(B))

- ☐ The chartering authority may grant an extension of the audit for a charter school after:
 - Consultation with the charter board and auditors under contract
 - Consent of the COE, SCO and CDE
- ☐ If the charter school has an approved extension on or before the submission deadline, submission after the deadline cannot be used for revocation

- ☐ Failure to file an audit report on or before the submission deadline, due to the charter not being able to contract with an auditor due to market conditions, shall not be a reason for nonrenewal or revocation

Audit Extension Requirements (EC 41020.2(b)(2)-(4))

- ☐ Extensions shall be appropriate if all the following requirements are adhered to:
 - LEA and auditor certify that audit cannot be completed due to unforeseen circumstances
 - Extension shall be the shortest amount of time reasonable
 - Extensions shall be in increments of no longer than 30 calendar days
 - Extensions shall not be granted past March 31 following audit submission deadline
- ☐ The COE or chartering authority may contract with a different auditor to perform the audit after:
 - Consultation with the governing board of the district, JPA, or charter school, the auditors under contract, and SCO
- ☐ The COE or chartering authority or SCO shall assist (to extent feasible) the district, JPA, or charter school in initiating action to avoid payment to the original auditors under contract who did not complete the audit

Presentation of Dependent Charter School in Authorizer's Audit (EC 41020(c))

- ☐ Charter schools included in a district's or COE's audit report shall be presented separately in the audit by either:
 - Major Fund
 - Supplementary balance sheet and statements
 - Supplementary combining statements for charters in the general fund, or multiple charters in the charter fund.

Auditors Failure to Conform to Audit Guide Provisions (EC 41020.5)

- ☐ If audits performed by an auditor did not substantively conform with provisions of the audit guide, by either:
 - SCO determines by two consecutive quality reviews
 - CDE, **chartering authority**, or COE **determines** audits were not in conformity
- ☐ The SCO, CDE, chartering authority, or COE shall notify in writing the auditor and CA Board of Accountancy
- ☐ If the auditor does not file an appeal within 30 days, the letter of nonconformity shall be final
- ☐ If an appeal is filed within 30 days, the CA Board of Accountancy shall complete an investigation within 90 days of the filing date. The CA Board of Accountancy may do either of the following:
 - Find the determination of the SCO, CDE, chartering authority, or COE not be upheld and has no effect
 - Schedule the appeal for hearing. Final action on the appeal shall be within 1 year from the date of filing the appeal
- ☐ If determination of SCO, CDE, chartering authority, or COE becomes final, the auditor shall be ineligible to conduct audits for 3 years, or in event of appeal for any period, and subject to the conditions that may be ordered by the California Board of Accountancy
- ☐ Annually by March 1, SCO will notify districts, JPAs, charter schools, and COEs of ineligible auditors. LEAs shall not use the audit services of an ineligible auditor
- ☐ “Certified public accountant or public accountant” includes any person or firm entering into a contract to conduct an audit under EC 41020

Reasonable Response to Financial Inquiries: Charters and Management Organizations (EC 47604.3))

- ☐ Management entities are now also required to provide a reasonable response to financial inquiries from the chartering authority, COE, or CDE

Chartering Authority Requirements (EC 47604.32)

Expanded authorizing agency requirements include:

- ☐ Visit each schoolsite approved in the charter petition at least annually.
- ☐ Verify (formerly “ensure”), charter schools have complied with all reports required under law, including the Local Control and Accountability Plan (LCAP) and annual update
- ☐ Monitor fiscal condition, including enrollment and attendance data, periodic checks of credit and debit card transactions
- ☐ Provide feedback to charter board on any fiscal concerns, and an opportunity to respond
- ☐ Chartering authority required to notify COE if:
 - Reasonable suspicion of fraud, misappropriations of public funds, embezzlement, or other financial crimes may be occurring.
- ☐ After completing annual financial and audit oversight, authorizing agency shall provide the charter board with a notice identifying any material concern arising out of oversight and monitoring activities. Notice must be provided within 60 days of any material concern.
 - Material Concern: a concern that could lead to a decision of nonrenewal or revocation, such as:
 - Academic performance expectations
 - Compliance with laws, contracts, or the terms of the charter.
 - Issues with fiscal or governance
 - Issues pertaining to student health, or employee or student safety
 - Issues pertaining to equity or accessibility

Beginning July 1, 2027, chartering authorities shall do all the following:

- ☐ Visit each resource center, meeting space, and satellite facility approved in the charter petition or material revision upon opening, and at least once every two years.
- ☐ Annually attend, in person, at least one meeting of the charter school board.

- ☐ Review agendas and minutes of the meetings of the charter school board.
- ☐ Conduct annual financial and compliance audit oversight responsibilities in EC 41020 – referring to exception review process
- ☐ Refer any credible allegations of fraud, misappropriation of funds, illegal fiscal practices received from third parties, or observed through the chartering authority, to the COE. COE may elect to exercise authority under EC 1241.5(c), 47604.3, or 47604.4

Beginning July 1, 2027, each chartering authority with a nonclassroom based charter shall annually review:

- ☐ Average daily attendance (ADA)
- ☐ If ADA increased by 10% or more from most recent reporting period, sample of independent study agreements and work samples from each track to gauge alignment with reported attendance
- ☐ If misalignment occurs, chartering authority shall request additional information to explain the misalignment.

Charter Renewal

Timeline (EC 47607)

- ☐ Establishes formal renewal timeline, will follow 90-day timeline outlined in EC 47605

Verified Data (EC 47607.2)

- ☐ Verified data may be considered until June 30, 2028, for charter schools.

Low Performing Charter School:

In order to renew a low performing charter school, the governing board must make both of the following findings:

- ☐ The charter is taking meaningful steps to address the underlying cause(s) of low performance, and those steps are reflected, or will be reflected in a board approved written plan
- ☐ There is clear and convincing evidence as demonstrated by verified data that:
 - The school achieved measurable increases in academic achievement, by at least one year's progress for each year in school

- Strong postsecondary outcomes, as defined by college enrollment, persistence, and completion rates equal to similar peers

Middle Performing Charter Schools

- ☐ Board shall also consider verified data when determining whether to grant or deny the charter school

K-12 Audit Guide: Compliance Procedures (EC 41020.6(b))

In addition to expanded audit procedures, beginning with the 2027-28 Audit, the following compliance procedures will be required, at a minimum:

- ☐ Auditors will be required to consult with the authorizing agency of a charter school to assist in identifying risks, non-compliance, fraud, irregularities, and other background information
- ☐ Ensure chartering authority has documentation of completing the oversight tasks in EC 47604.32 and teacher assignment monitoring in EC 44258.9

CHARTER SCHOOL CHANGES

Contracting for an Audit (EC 41020(c)-(h))

- ☐ Charter schools included in a district's or COE's audit report shall be presented separately in the audit by either:
 - Major Fund
 - Supplementary balance sheet and statements
 - Supplementary combining statements for charters in the general fund, or multiple charters in the charter fund.
- ☐ If an audit is not contracted for by May 1, the chartering authority shall provide for the audit of the charter school
 - If the audit is provided by the chartering authority, the chartering authority will pay for the audit and collect the pro rata share of the audit to the charter school

Failure of LEA or Authorizing Authority to Provide for Audit (EC 41020(r))

- ☐ If LEA, Chartering Authority, or COE fail to provide for audit, SCO shall make arrangements for the audit
 - The cost of the audit shall be paid by the LEA or COE

Failure to Submit Audit Report by Deadline (EC 41020.2(a)(2))

- ☐ If a charter school is under contract with an auditor, and fails to submit its audit by the required deadline, the chartering authority shall investigate the causes for the delay and initiate one of the actions described in EC 41020.2(c):
 - Accept an extension provided for under EC 41020.2(b)
 - SCO can conduct the audit using staff in the office and charging the cost of the audit to the LEA's next principal apportionment
 - Contract with an auditor to perform the audit and charge the cost of the audit to the LEA's next principal apportionment

- SCO can grant a reasonable extension if it determines that this will produce the audit in the shortest amount of time

Reasonable Response to Financial Inquiries: Charters and Management Organizations (EC 47604.3))

- ☐ Management entities are now also required to provide a reasonable response to financial inquiries from the chartering authority, COE, or CDE

Charter Petition Elements

Local Authorization (EC 47605)

- ☐ Removes petition element regarding way in which financial audits will occur
- ☐ Requires charter board approval on all contracts that would compensate a vendor more than \$100,000 in a fiscal year
- ☐ Updates section (m) to reflect new audit compliance in per EC 41020

Countywide Benefit (EC 47605.6)

- ☐ Removes petition element regarding way in which financial audits will occur.
- ☐ Requires charter board approval on all contracts that would compensate a vendor more than \$100,000 in a fiscal year
- ☐ Updates section (m) to reflect new audit compliance in per EC 41020

Statewide Benefit Charter School Transitions to Local Level (EC 47605.9)

- ☐ Upon transition from State Board of Education (SBE) authorization to a COE or local district, the charter school's data will continue to be disaggregated by school as it was under SBE authorization

Charter Renewal

Timeline (EC 47607)

- ☐ Establishes formal renewal timeline, will follow 90-day timeline outlined in EC 47605

Verified Data (EC 47607.2)

Verified data may be considered until June 30, 2028, for charter schools

Low Performing Charter School:

In order to renew a low performing charter school, the governing board must make both of the following findings:

- ☐ The charter is taking meaningful steps to address the underlying cause(s) of low performance, and those steps are reflected, or will be reflected in a board approved written plan
- ☐ There is clear in convincing evidence as demonstrated by verified data that:
 - The school achieved measurable increases in academic achievement, by at least one year's progress for each year in school
 - Strong postsecondary outcomes, as defined by college enrollment, persistence, and completion rates equal to similar peers

Middle Performing Charter Schools

- ☐ Board shall also consider verified data when determining whether to grant or deny the charter school

Differentiated Assistance (EC 47607.3)

- ☐ Beginning with the 2025-26 school year, qualification for differentiated assistance (DA) moving from identified one or more pupil subgroups in two or more years, to one or more pupil group identified in a single year. COE will provide technical assistance for a minimum of three (3) years following identification

K-12 Audit Guide: Compliance Procedures (EC 41020.6(b))

In addition to expanded audit procedures for all LEAs the following requirements will be specific to charter schools, beginning with the 2027-28 Audit, the following compliance procedures will be required, at a minimum:

- ☐ Locally funded charter within district/COE audit: auditor shall ensure samples are representative of each LEA included in the audit
- ☐ Locally funded charter schools shall report charter school data separately from the general fund of the district/COE
- ☐ If there is more than one charter in the charter school fund, each LEA will also be reported separately in the supplemental section or footnotes of the audit report

- ☐ Auditors will be required to consult with the authorizing agency of a charter school to assist in identifying risks, non-compliance, fraud, irregularities, and other background information
- ☐ Auditors will determine if a related entity, like a CMO, education management organization, or similar third party with financial, economic, or controlling membership interest, exists with the charter school. If federal tax returns are filed, entities identified on the federal tax return will also be disclosed in the audit
- ☐ Determine whether the relationship with the related entity is material, such as common board, majority voting interest, sole corporate or sole statutory member, or other arrangement
- ☐ Verify if more than 20% of the charter school's total ADA was generated through independent study

AUDITOR CHANGES

Auditor Review of Audit Exceptions

District or Joint Powers Authority (JPA) (EC 41020(l)(3))

- ☐ The auditor shall review prior year corrections, or corrective action plans of the district/JPA to determine if the exceptions have been resolved
- ☐ If exception has not been resolved:
 - Auditor shall restate the exception in the audit report.
 - California Department of Education (CDE) shall either consult with the district/JPA to resolve exception, or County Office of Education (COE) to follow up with district/JPA on resolution

Charter Schools (EC 41020(m)(3))

- ☐ The auditor shall review prior year corrections, or corrective action plans of the charter to determine if the exceptions have been resolved. If exception has not been resolved:
 - Auditor shall restate the exception in the audit report.
 - CDE shall either consult with the charter to resolve exception, or chartering authority to follow up with district/JPA on resolution

COE (EC 41020(m)(4))

- ☐ The auditor shall review prior year corrections, or corrective action plans of the charter to determine if the exceptions have been resolved

Audit Exception Categories by Auditors (EC 41020(p))

- ☐ Auditors will categorize audit exceptions in the audit report that clearly states whether the chartering authority, COE, or CDE, is responsible for ensuring the correction is made by the local educational agency (LEA)
- ☐ State Controller's Office (SCO) will annually select a sampling of chartering authorities and COEs to perform a follow-up of the audit resolution process of those chartering authorities and COEs

- ☐ Results of the follow-up will be reported to the CDE, chartering authorities, and COEs

K-12 Audit Guide: Supplemental Information Requirements (EC 41020.6(a))

- ☐ Beginning with the 2027-28 Audit, the following supplemental information will be required of all LEA audits:
 - ☐ Pupil enrollment and attendance
 - Totals by month
 - Totals by track
 - Identify and disclose unusual material increases or decreases in enrollment by month and track
 - LEA provided opportunity for explanation in note
 - ☐ 25 largest aggregate payments or transfers over the fiscal year, to individuals or organizations
 - ☐ Districts & COE's pupil-to-teacher ratios for independent study programs
 - ☐ Loans with related entities or employees
 - ☐ Charter schools: governing board members and related entities
 - ☐ Five (5) highest paid employees

K-12 Audit Guide: Compliance Procedures (EC 41020.6(b))

Beginning with the 2027-28 Audit, the following compliance procedures will be required, at a minimum:

- ☐ Professional accounting and auditing standards, Governmental Accounting Standards Board (GASB), Financial Accounting Standards Board (FASB), Generally Accepted Auditing Standards (GAAS)
- ☐ Samples: Auditor shall make selection in a way that cannot be predicted
- ☐ Sampling will be appropriate for type of LEA pursuant to table in Audit Guide.
- ☐ Enrollment, attendance and instructional minute sampling shall be representative of all tracks and grade spans

- ☐ Locally funded charter within district/COE audit: auditor shall ensure samples are representative of each LEA included in the audit
- ☐ Samples shall include all payment sources, including credit cards, debit cards, electronic payments, and bank statements
- ☐ Locally funded charter schools shall report charter school data separately from the general fund of the district/COE
- ☐ If there is more than one charter in the charter school fund, each LEA will also be reported separately in the supplemental section or footnotes of the audit report
- ☐ Verify independent study student enrollment and verify student residency requirements are met
- ☐ Auditors will be required to consult with the authorizing agency of a charter school to assist in identifying risks, non-compliance, fraud, irregularities, and other background information
- ☐ Auditors are required to consult with COE on district/JPA audits to assist in identifying risks, noncompliance, fraud, irregularities, and other background information
- ☐ Auditors are required to consult with CDE on audits of COEs to assist in identifying risks, noncompliance, fraud, irregularities, and background information
- ☐ Charter Schools: Auditors will determine if a related entity, like a CMO, education management organization, or similar third party with financial, economic, or controlling membership interest, exists with the charter school. If federal tax returns are filed, entities identified on the federal tax return will also be disclosed in the audit
 - ☐ Determine whether the relationship with the related entity is material, such as common board, majority voting interest, sol corporate or sol statutory member, or other arrangement
- ☐ Charter School: Verify if more than 20% of the charter school's total average daily attendance (ADA) was generated through independent study
- ☐ All LEAs: Verify the pupil-to-teacher ratio calculation for independent study.
- ☐ Identify any transfers of funds or assets to other individuals or organizations that exceed \$1 million, or 10% of LEA's total revenue and other sources, whichever is less. Include written explanation from LEA regarding purpose for each transfer.
- ☐ Authorizers: ensure chartering authority has documentation of completing the oversight tasks in EC 47604.32 and teacher assignment monitoring in EC 44258.9

- ☐ For schools that offer grades 10, 11, or 12, identify any unusual enrollment patterns between consecutive grade levels, and students who change grade levels midyear
- ☐ Identify if a student advanced to grade 12 without completing the California Assessment of Student Performance and Progress assessment in English Language Arts (ELA) and math
- ☐ Report total number of students disenrolled from the school after census day
- ☐ Verify pupil work samples

Contracting Policy Requirements (EC 51827)

- ☐ If a contract is in effect on or before July 1, 2027, the contract shall remain in effect until the expiration of the contract or the parties to the agreement negotiate a successor agreement that will be operative after July 1, 2027, that complies with this section
- ☐ An LEA shall not enter into a contract or make an amendment or other ancillary agreement to an existing contract on or after the effective date of the act adding this section that would be operative after July 1, 2027, unless it would comply with this section

On or before July 1, 2027, all LEAs shall adopt a policy on evaluating and approving contractors. The policy shall include the following:

- ☐ LEA shall not expend funds for a contract unless materials/services are nonsectarian and comply with state nondiscrimination provisions and federal law.
- ☐ LEA shall not expend funds for tuition at a private school, except required by a student's IEP
- ☐ Financial payments or gifts shall not be offered by an LEA to a pupil, prospective pupil, or a pupil's parent, guardian, or relative as an incentive for enrollment, referral, or retention
- ☐ LEA shall not offer any financial incentives to employees to manipulate or falsify pupil attendance records or report.
- ☐ Incentives for pupil engagement, reengagement of chronically absent, are still allowed
- ☐ LEA shall ensure contracts reflect reasonable market value
- ☐ LEA shall not purchase or contract for annual/season passes or memberships to amusement or theme parks, zoos, or family entertainment activities

- ☐ LEAs may still contract for single-use admissions, meals, transportation that is educationally aligned, for graduation, school celebrations or co-curricular activities
- ☐ LEA shall only contract with an entity that has a business license or certificate and has appropriate insurance for the service being offered
- ☐ Government agencies are not required to have a business license
- ☐ LEA shall not contract with a pupil or pupil's parent, guardian or relative for services provided exclusively to that pupil
- ☐ Exception for reimbursement for pupil transportation
- ☐ LEA shall not reimburse parents or guardians for activities or services
- ☐ Exception for special education required by legal settlements
- ☐ Contractor who interacts with pupils outside immediate supervision of a school employee shall have policies and procedures related to pupil and site safety, including virtual settings, emergency response, and accident reporting that are reasonable for the instruction or activity
- ☐ Contractors interacting with pupils shall have valid background checks (EC 45125.1)
- ☐ Contractors shall provide evidence of qualification and expertise for the activities to be provided, in accordance with policies of the LEA board
- ☐ Contractors shall not charge fees to a pupil or the pupil's parent or legal guardian

These requirements will be included in the K-12 Audit Guide procedures.

DISTRICT CHANGES

Contracting for An Audit (EC 41020(c)-(h))

- ☐ If an audit is not contracted for by May 1, the County Office of Education (COE) shall provide for the audit of the district or joint powers authority (JPA)
 - If the audit is provided by the COE, the COE will pay for the audit and transfer the pro rata share of the audit cost to the district or JPA

Failure of LEA or Authorizing Authority to Provide for Audit (EC 41020(r))

- ☐ If LEA, Chartering Authority, or COE fail to provide for audit, SCO shall make arrangements for the audit
 - The cost of the audit shall be paid by the LEA or COE

Failure to Submit Audit Report by Deadline (EC 41020.2(a)(1))

- ☐ If a district/JPA is under contract with an auditor, and fails to submit its audit by the required deadline, the COE shall investigate the causes for the delay and initiate one of the following actions in EC 41020.2(c):
 - Accept an extension provided for under EC 41020.2(b)
 - SCO can conduct the audit using staff in the office and charging the cost of the audit to the LEA's next principal apportionment
 - Contract with an auditor to perform the audit and charge the cost of the audit to the LEA's next principal apportionment
 - SCO can grant a reasonable extension if it determines that this will produce the audit in the shortest amount of time

COUNTY OFFICE OF EDUCATION

CHANGES

Contracting for Audit (EC 41020(c)-(h))

- ☐ If a district or JPA does not contract for an audit by May 1, the County Office of Education (COE) shall provide for the audit of the district or joint powers authority (JPA)
 - If the audit is provided by the COE, the COE will pay for the audit and transfer the pro rata share of the audit cost to the district or JPA
- ☐ If an audit is not contracted for by May 1, the State Controller's Office (SCO) shall provide for the audit of the COE
 - If the audit is provided by the SCO, the SCO will pay for the audit and collect the pro rata share of the audit from the COE

Review of Audit Exceptions for Districts and JPAs (EC 41020(I)(1)-(2))

- ☐ COE will now also review teacher misassignment, instructional materials and information reported on the School Accountability Report Card (SARC) audit exceptions
- ☐ If a description of the correction, or corrective action plan is not submitted, the COE will request that the district/JPA provide it by April 15
- ☐ COE will review the description of the correction, or corrective action plan to determine its adequacy, and will certify to the California Department of Education (CDE) and SCO by June 15 annually that the COE has:
 - Reviewed all district/JPA audits
 - Districts/JPAs have submitted adequate corrections, or corrective action plans
 - Identify any districts/JPAs of any attendance-related audit exception(s) involving state funds
 - Require district/JPA, where directed, to submit appropriate reporting forms to CDE

District Chartering Authority Certification to COE (EC 41020(m)(1)-(2))

Each district chartering authority shall certify to COE on or before May 15 annually, that is has done all the following for the prior fiscal year:

- ☐ Review all charter audits
- ☐ Reviewed all charter audit exceptions, **and** that all those exceptions have been corrected, or acceptable corrective action plan has been submitted
- ☐ Ensured that charter has corrected or developed corrective action plan for exceptions
- ☐ Identified any attendance-related audit exceptions or exceptions involving state funds, **and** required the charter to submit appropriate reporting forms to CDE

SCO Sampling of Chartering Authorities (EC 41020(p))

- ☐ SCO will annually select a sampling of chartering authorities and COEs to perform a follow-up of the audit resolution process of those chartering authorities and COEs.

Failure of LEA or Authorizing Authority to Provide for Audit (EC 41020(r))

- ☐ If LEA, Chartering Authority, or COE fail to provide for audit, SCO shall make arrangements for the audit
 - The cost of the audit shall be paid by the LEA or COE

Failure to Submit Audit Report by Deadline (EC 41020.2(a)(3))

- ☐ If COE is under contract with ana auditor, and fails to submit its audit by the required deadline, CDE shall investigate the causes for delay and initiate one of the actions described in EC 41020.2(c):
 - Accept an extension provided for under EC 41020.2(b)

- SCO can conduct the audit using staff in the office and charging the cost of the audit to the LEA's next principal apportionment
- Contract with an auditor to perform the audit and charge the cost of the audit to the LEA's next principal apportionment
- SCO can grant a reasonable extension if it determines that this will produce the audit in the shortest amount of time

Granting Audit Extensions to Districts or JPAs (EC 41020.2(b)(1)(A))

- ☐ The COE may grant an extension of the audit for a district/JPA after:
 - Consultation with the board of the school district/JPA and auditors under contract
 - Consent of the SCO and CDE

COE Consultation with District Authorizer When Granting Audit Extension to Authorized Charter Schools (EC 41020.2(b)(1)(B))

- ☐ The chartering authority may grant an extension of the audit for a charter school after:
 - Consultation with the charter board and auditors under contract, and
 - Consent of the COE, SCO and CDE
- ☐ If the charter school has an approved extension on or before the submission deadline, submission after the deadline cannot be used for revocation
- ☐ Failure to file an audit report on or before the submission deadline, due to the charter not being able to contract with an auditor due to market conditions, shall not be a reason for nonrenewal or revocation

Audit Extension Requirements (EC 41020.2(b)(2)-(4))

- ☐ Extensions shall be appropriate if all the following requirements are adhered to:
 - LEA and auditor certify that audit cannot be completed due to unforeseen circumstances

- Extension shall be the shortest amount of time reasonable
- Extensions shall be in increments of no longer than 30 calendar days
- Extensions shall not be granted past March 31 following audit submission deadline.
- ☐ The COE or chartering authority may contract with a different auditor to perform the audit after:
 - Consultation with the governing board of the district, JPA, or charter school, the auditors under contract, and SCO
- ☐ The COE or chartering authority or SCO shall assist (to extent feasible) the district, JPA, or charter school in initiating action to avoid payment to the original auditors under contract who did not complete the audit.

Auditors Failure to Conform to Audit Guide Provisions (EC 41020.5)

- ☐ If audits performed by an auditor did not substantively conform with provisions of the audit guide, by either:
 - SCO determines by two consecutive quality reviews
 - CDE, chartering authority, or **COE determines** audits were not in conformity
- ☐ The SCO, CDE, chartering authority, or COE shall notify in writing the auditor and CA Board of Accountancy.
- ☐ If the auditor does not file an appeal within 30 days, the letter of nonconformity shall be final
- ☐ If an appeal is filed within 30 days, the CA Board of Accountancy shall complete an investigation within 90 days of the filing date. The CA Board of Accountancy may do either of the following:
 - Find the determination of the SCO, CDE, chartering authority, or COE cannot be upheld and has no effect
 - Schedule the appeal for hearing. Final action on the appeal shall be within 1 year from the date of filing the appeal
- ☐ If determination of SCO, CDE, chartering authority, or COE becomes final, the auditor shall be ineligible to conduct audits for 3 years, or in event of appeal for any period, and subject to the conditions that may be ordered by the California Board of Accountancy

- ☐ Annually by March 1, SCO will notify districts, JPAs, charter schools, and COEs of ineligible auditors. LEAs shall not use the audit services of an ineligible auditor
- ☐ “Certified public accountant or public accountant” includes any person or firm entering into a contract to conduct an audit under EC 41020.

K-12 Audit Guide: Compliance Procedures (EC 41020.6(b))

Beginning with the 2027-28 Audit, the following compliance procedures will be required:

- ☐ Auditors are required to consult with COE on district/JPA audits to assist in identifying risks, noncompliance, fraud, irregularities, and other background information

Reasonable Response to Financial Inquiries: Charters and Management Organizations (EC 47604.3))

- ☐ Management entities are now also required to provide a reasonable response to financial inquiries from the chartering authority, COE, or CDE