

Date of Hearing: July 1, 2026

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Juan Carrillo, Chair

SB 992 (Niello) – As Amended June 23, 2026

SENATE VOTE: 38-0

SUBJECT: County auditors: special districts: annual audit exceptions.

SUMMARY: Increases the annual revenue threshold for a special district to replace an annual audit with alternative financial oversight mechanisms. Specifically, **this bill:**

- 1) Allows a special district with annual revenues of no more than \$250,000, instead of \$150,000, to replace its required annual audit with a financial review, an agreed-upon procedures engagement (AUP), or an annual financial compilation.
- 2) Specifies that a special district with annual revenues of less than \$50,000 shall not replace an annual audit with an annual financial compilation of the special district for more than five consecutive years, after which the special district shall either comply with the annual audit requirement or replace the annual audit with a financial review or an AUP.
- 3) Extends the repeal date on the authority to use alternative financial oversight procedures instead of an annual audit from January 1, 2027, to January 1, 2037.
- 4) Makes a conforming change.

FISCAL EFFECT: None.

COMMENTS:

- 1) **Bill Summary.** This bill increases the annual revenue threshold from \$150,000 to \$250,000 for a special district to replace an annual audit with alternative financial oversight mechanisms. Additionally, after replacing the annual audit requirement with a financial compilation for 5 years, this bill would require a special district with annual revenues of less than \$50,000 to replace the annual audit with a financial review or an AUP. Lastly, this bill extends the repeal date on the authority to use alternative financial oversight procedures instead of an annual audit from January 1, 2027, to January 1, 2037. The California Special Districts Association and the State Association of County Auditors are the sponsors of this bill.
- 2) **Author's Statement.** 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 a 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."
- 3) **Special Districts and Audits.** 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.

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), Chapter 244, Statutes of 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), Chapter 164, Statutes of 2016]. 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.

- 4) **Types of Financial Oversight.** Auditors perform a variety of financial oversight services that differ in the scope, activity, and assurance of financial stability, including:
 - a) **Audits.** 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.
 - b) **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.

- c) **Financial Review.** When performing a financial review, an auditor issues a formal report that includes a conclusion as to whether they are 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.
 - d) **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.
- 5) **Arguments in Support.** According to the California Special Districts Association, one of the sponsors of this bill, “In 2015, CSDA sponsored legislation, Assembly Bill 2613 (Achadjian), that provided relief to special districts with relatively small district budgets. That bill authorized special districts with annual revenues not in excess of \$150,000 to utilize an annual financial compilation report or an agreed-upon procedures engagement in lieu of a traditional annual audit, subject to various conditions and controls. Districts had reported difficulty not only in paying for traditional audits – which could consume a significant percentage of the district’s budget – but also in procuring the services of an auditor to perform an audit in the first place. The alternatives granted by AB 2613 meant that these smaller districts were able to provide the public with insight into district finances and maintain transparency without having to sacrifice a significant percentage of the district’s budget. AB 2613 also included a 10-year sunset on the provision that added the agreed-upon procedures engagement as a means to satisfy the annual audit requirement.
- “SB 992 would preserve the agreed-upon procedures engagement alternative beyond its current January 1, 2027, expiration date by eliminating the associated sunset, maintaining district access to that alternative indefinitely.
- “Additionally, SB 992 would increase, from \$150,000 to \$250,000, the threshold for qualification to utilize an annual financial compilation report or an agreed-upon procedures engagement in lieu of a traditional annual audit. This adjustment captures approximately the same number of special districts as when AB 2613 was signed into law. In fact, the number of independent special districts that would qualify under this adjusted threshold would be slightly fewer than the number that originally qualified in 2015 – based on the most recent data available from the State Controller’s Office, approximately 525 districts would potentially qualify to use these alternatives, versus the approximately 552 districts that qualified when AB 2613 was first enacted. These changes ensure that these alternatives remain available and open to special districts and reflect the changing fiscal environment.”
- 6) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

California Special Districts Association [SPONSOR]
State Association of County Auditors [SPONSOR]
California Association of Recreation & Park Districts
California Central Valley Flood Control Association
California Policy Center

Opposition

None on file

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