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## SENATE COMMITTEE ON EDUCATION

Senator Carol Liu, Chair  
2015 - 2016 Regular

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**Bill No:** AB 625  
**Author:** Bonta  
**Version:** June 17, 2015  
**Urgency:** No  
**Consultant:** Lenin Del Castillo  
**Hearing Date:** June 24, 2015  
**Fiscal:** Yes

**Subject:** School finance: emergency apportionments: compliance audits

### SUMMARY

This bill requires the State Controller, the Superintendent of Public Instruction (SPI), and the school district superintendent to meet before each audit of a school district that has received an emergency apportionment to discuss the terms of the audit and the timeline under which it will proceed.

### BACKGROUND

Existing law provides the authority for emergency loans to be given to school districts that are unable to meet their current operating expenses. Such loans are provided by legislation enacted at the request of the district. Existing law requires districts that receive an emergency loan to agree to statutory terms and conditions regarding repayment of the loan and the steps to be taken to return the district to financial solvency.

If a district receives an emergency loan of up to 200% of its recommended budget reserve, the SPI is required to appoint a trustee who has the authority to stay and rescind any action of the school district governing board. Further, the appointed trustee serves until the loan is repaid and the district has adequate fiscal systems and controls in place. If a school district receives an emergency loan of more than 200% of its recommended budget reserve, then the SPI is required to assume all legal rights, duties, and powers of the governing board and to appoint an administrator to act on his or her behalf in exercising this authority. The SPI may return power to the governing board after specified conditions are met. The costs of the trustee and administrator and other related oversight and monitoring activities are borne by the district. Since 1991, nine school districts have received emergency loans, including: Oakland Unified, Vallejo City Unified, King City Joint Union High School District (formerly South Monterey County Joint Union High School District), West Fresno, and most recently, Inglewood Unified.

Additionally, existing law:

- 1) Requires an annual audit for a school district that has received an emergency apportionment due to an inability to meet its financial obligations.
- 2) Provides that the audit may be conducted by the State Controller or his or her designee or an auditor selected by the school district and approved by the State Controller.

- 3) Requires the Superintendent of Public Instruction (SPI), in the case of an appeal, to either approve or disapprove of the school district's budget.
- 4) Requires the SPI, if he or she disapproves the budget, to notify the school district in writing of the decision.
- 5) Requires the county superintendent of schools, in the case of a district with a disapproved budget, and until the county superintendent of schools certifies the district's first interim report, to do the following as necessary:
  - a) Develop and adopt, by November 30, in consultation with the SPI and the district governing board, a fiscal plan and budget that will govern the district and allow the district to meet its financial obligations, both in the current fiscal year and with regard to the district's multiyear financial commitments;
  - b) Cancel purchase orders, prohibit the issuance of non-salary warrants, and otherwise stay or rescind any action that is inconsistent with the budget;
  - c) Monitor and review the operation of the district;
  - d) Determine the need for additional staff and may employ, subject to approval by the SPI, short-term analytical assistance or expertise to validate financial information if the district staff does not have the expertise or staff;
  - e) Require the school district to encumber all contracts and other obligations, to prepare appropriate cash flow analyses and monthly or quarterly budget revisions, and to appropriately record all receivables and payables;
  - f) Determine whether there are any financial problem areas and may employ, subject to approval by the SPI, a certified public accounting firm to investigate financial problem areas; and
  - g) Withhold compensation of the members of the governing board of the district and the superintendent of the district for failure to provide requested financial information.

## ANALYSIS

This bill requires the State Controller, the Superintendent of Public Instruction (SPI), and the school district superintendent, or their respective designees, to meet before each audit of a school district that has received an emergency apportionment to discuss the terms of the audit and the timeline under which it will proceed.

## STAFF COMMENTS

- 1) ***Need for the bill.*** According to the author's office, the annual audit process for school districts that have been taken over by the state and received an emergency apportionment has been a recent point of contention. In prior years, because of the unique difficulties posed by school audits and the exceptional workload placed upon the State Controller, audits took consistently longer than their private sector counterparts and were more expensive. While a single late audit would be a

surmountable challenge, the delay of subsequent audits had the effect of compounding the adverse impacts and increasing the burden on the audited district.

- 2) **Late audits.** The author's office indicates that of 38 audits for five different school districts in receivership, only four have been completed by the due date. The others have been late by periods ranging from 43 to 961 days (more than two and a half years). Late audits may occur for several reasons such as problems with locating old records or failure for school districts to submit information. The late audits can cause several problems for districts, including a lower credit rating resulting in higher interest rates, difficulties in projecting financial needs because the current financial condition is not known, and compounded audit exceptions because problems are not identified in time to be corrected prior to the next year's audit.
- 3) **Argument in support.** The sponsor of this measure, the Superintendent of Public Instruction has indicated its intent to establish communication between the State Controller prior to an audit to develop a plan, establish coordination, and help ensure that needed documentation is available and shared in order to meet the audit's deadline.
- 4) **Fiscal impact.** According to the Assembly Appropriations Committee, this bill would result in minor/absorbable costs to the State Controller and the State Department of Education to meet prior to each audit.

## SUPPORT

Oakland Unified School District  
Superintendent of Public Instruction (sponsor)

## OPPOSITION

None received.

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