

# *Assembly Bill 1377*

## *Audits for School Districts in Receivership*

### **Assemblymember Sandré R. Swanson (D-16)**

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#### **Summary**

This bill will create a reasonable period of time for school districts in state receivership to address without penalty any audit discrepancies, or “findings”, which appear as a result of any audit mandated by the State as part of the process of receivership.

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#### **Issue**

School districts that face insolvency often require an emergency loan from the State in order to stabilize their cash flow while addressing numerous structural issues. While each emergency loan agreement is based on separate enabling legislation passed into law, nearly all such arrangements stipulate an outside audit on the district’s books, usually for several previous fiscal years. According to recent reports by districts that have entered receivership in the last ten years, these audit findings often uncover the same irregularities repeated over the course of several years. Each instance is treated as a separate “finding”, and the district is fined for each of these irregularities accordingly. These penalties can accumulate to levels that further jeopardize the district’s recovery, as well as the State’s investment in the district.

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#### **Background**

In 2008, the Assembly Select Committee on State School Financial Takeovers heard testimony from stakeholders at all levels of government on the effectiveness of the current system of state receivership. Both experts at the state level, as well as those working in districts under state control pointed out the sometimes egregious fines levied under the current system of audit findings as an issue for districts entering receivership. They contended that penalizing districts for problems just uncovered was counterproductive to the mission of rehabilitating the district. All agreed that providing a reasonable window of opportunity for State Administrators to address the issue before assessing penalties would help speed recovery of the district.

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#### **Existing Law**

Existing law requires the Superintendent of Public Instruction to assume all the rights, duties, and powers of the governing board of specified school districts in order to return the district to fiscal solvency.

Existing law also requires each county superintendent of schools to provide for an audit of all funds under his or her jurisdiction and control, not later than the first day of

May of each fiscal year, and the governing board of each local educational agency to provide for an audit of the books and accounts of the local educational agency.

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#### **Support**

None on file.

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#### **Opposition**

None on file at this time

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#### **Status**

2/27/09 – Introduced

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#### **FOR MORE INFORMATION**

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**ASSEMBLY BILL**

**No. 1377**

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**Introduced by Assembly Member Swanson**

February 27, 2009

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An act to add Section 41020.9 to the Education Code, relating to school districts.

LEGISLATIVE COUNSEL'S DIGEST

AB 1377, as introduced, Swanson. School districts: state receivership: audits.

Existing law requires the Superintendent of Public Instruction to assume all the rights, duties, and powers of the governing board of specified school districts in order to ensure the return to the district of fiscal solvency. Existing law also requires each county superintendent of schools to provide for an audit of all funds under his or her jurisdiction and control, not later than the first day of May of each fiscal year, and the governing board of each local educational agency to provide for an audit of the books and accounts of the local educational agency.

This bill would provide that, if the Superintendent is required to assume control of a school district, and the Controller, or his or her designee, is required to cause an audit to be conducted of the books and accounts of the district instead of the annual audit described above, the Superintendent shall allow the district an appropriate period of time in which to address the audit findings before penalties are assessed against the district for any discrepancies that are discovered by the audit.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1 SECTION 1. Section 41020.9 is added to the Education Code,  
2 to read:  
3 41020.9. Notwithstanding any other provision of law, if the  
4 Superintendent is required to assume control of a school district  
5 in order to ensure the return to the district of fiscal solvency and  
6 the Controller, or his or her designee, causes an audit to be  
7 conducted of the books and accounts of the district, instead of the  
8 audit required by Section 41020, the district Superintendent shall  
9 allow the shall an appropriate period of time in which to address  
10 the audit findings before penalties are assessed for any  
11 discrepancies that are discovered by the audit.

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