CALIFORNIA CHARTER AUTHORING PROFESSIONALS

CCAP Summary of 2026 Omnibus Education Trailer Bill

(Assembly Bill 126) Provisions Related to Charter Schools

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EXECUTIVE SUMMARY

Assembly Bill (AB) 126, as amended on June 26, 2026, is part of the Budget Act and trailer bill process. On July 2, 2026, the Legislature approved this legislation which was signed by the Governor on July 9, 2026.

Among many other provisions, AB 126 represents one of the most significant expansions of charter school fiscal oversight in recent years. The legislation increases transparency, strengthens governing board responsibilities, expands charter authorizer oversight, and establishes new audit requirements intended to improve accountability and reduce fiscal risk.

Major themes for charter school governing boards, authorizers, and auditors include:

- Increased public transparency
- Expanded governing board accountability
- Active charter authorizer monitoring
- Enhanced auditor responsibilities
- Greater scrutiny of public expenditures
- Earlier identification of fiscal risk

While there are several educationally related sections, the summarized sections below are focused on requirements for governing boards, authorizers, and auditors. For context, excerpts from AB 126 are added.

I. CHARTER SCHOOL GOVERNING BOARD REQUIREMENTS

The governing body of a charter school faces new and amended mandates regarding fiscal transparency, employee benefits, and public accountability. Board requirements emphasize public accountability for audits, stricter contracting standards, and enhanced employee benefits.

✓ **The $100,000 Contract Rule (New):** The board must formally approve, at a governing body meeting, any contract that would cause the charter school to compensate an individual contractor more than $100,000 in a single fiscal year.

> *A charter school shall, at a governing body meeting, obtain the approval of the governing body of the charter school for any contract that would cause the charter school to compensate an individual contractor more than one hundred thousand dollars ($100,000) in a fiscal year.*

✓ **Audit Review and Formal Action (Amended):** Within 45 days of audit's issuance, the board must review the report, audit exceptions, and management letter findings at a public meeting. The board must take formal action to either "accept or reject" the annual audit report.

> *Within 45 days after the issuance of an audit report, the governing board or body of each local educational agency shall review, at a public meeting, the annual audit of the local educational agency for the prior year, any audit exceptions identified in that audit, the recommendations or findings of any management letter issued by the auditor, and any description of correction or plans to correct any exceptions or management letter issue.*
>
> *(b) The review in subdivision (a) shall be placed on the agenda of the meeting pursuant to Section 35145 or 47604.1, as applicable. The action of the governing board or body of the local educational agency shall be to accept or reject the annual audit report.*
>
> *(c) For purposes of this section, "local educational agency" means a school district, educational joint powers authority, county superintendent of schools, or charter school.*

✓ **Website Posting of Audits (New):** LEAs including charter schools must post annual financial and compliance audits on their internet website.

The bill, among other things, would require those financial and compliance audits of local educational agencies to be posted on the local educational agency's internet website, conducted in accordance with specified filing deadlines, and would revise requirements regarding which entity is responsible for providing an audit if a local educational agency has not provided for an audit of their respective books and accounts to include the Controller or a chartering authority, as provided. The bill would <u>require, instead of authorize</u>, a county superintendent of schools to investigate the causes for an above-described delay.

- ✓ **Mandatory Contracting Policy (New):** By July 1, 2027, the board must adopt a policy for evaluating and approving contractors that includes specific prohibitions:

  (A) Expending public funds for a contract unless the materials, programs, and activities are nonsectarian,
  (B) Offering financial payments or gifts to a pupil, prospective pupil, or a pupil's parent, guardian, or relative as an incentive for pupil enrollment, referral, or retention, and
  (C) Purchasing or contracting for annual and season passes or membership to amusement or theme parks, zoos, or family entertainment activities, except as provided.

- ✓ **Paid Pregnancy Disability Leave (New):** Commencing January 1, 2027, charter schools must provide up to 14 weeks of fully paid leave for certificated and classified employees for pregnancy, miscarriage, childbirth, and recovery.

The bill instead would require a school district, county office of education, charter school, or educational joint powers authority to, for a certificated employee or an employee in the classified service of one of those educational entities, provide up to 14 weeks of a leave of absence with specified pay benefits for an employee who is required to be absent from duty because of pregnancy, miscarriage, childbirth, termination of pregnancy, or recovery from those conditions, as provided. The bill would authorize the paid leave to begin before and continue after childbirth if the employee is actually disabled by pregnancy, childbirth, termination of pregnancy, or a related condition. The bill would prohibit a leave of absence taken pursuant to these provisions from being deducted from other leaves of absence, as provided, would require those educational entities to maintain group health coverage for an employee who takes a leave of absence under these provisions for the duration of the leave of absence at the same level and under the same conditions that coverage would have been provided if the employee had not taken a leave of absence, would require compensation during *the leave of absence taken under these provisions to include retirement fund contributions required of the educational entity, and would require the employee to earn full service credit during the leave of absence and to pay member contributions to the retirement fund. The bill would prohibit any other eligibility requirements, including, but not limited to, minimum hours worked or length of service, before an employee disabled by pregnancy, childbirth, termination of pregnancy, or related medical conditions is eligible for a paid leave of absence under these provisions.*

- ✓ **Declining Enrollment Public Hearings (New):** As a condition for receiving *Student Support and Professional Development Block Grant* funds, boards of local education agencies with **declining enrollment** (existing or projected within five years) must hold a **public hearing** to discuss the impact, including potential **school closures or consolidations**. As a condition of receiving funds:

  A school district or charter school with an existing declining enrollment or projected declining enrollment in the next five years shall hold a public hearing on their plans to address the declining enrollment's impacts on the local educational agency, including, but not limited to, schoolsite closures or consolidations.

II. CHARTERING AUTHORITY (AUTHORIZER) REQUIREMENTS

Authorizers are transitioned into an "active monitoring" role with mandatory site visits and specific notification triggers.

- ✓ **Monitoring the Fiscal Condition (Amended):** Authorizers have expanded monitoring requirements as part of their fiscal oversight duties.

  - *(1) Identify at least one staff member as a contact person for the charter school.*
  - *(2) Visit each schoolsite approved in the charter petition or material revision that has been established by the charter school at least annually.*
  - *(3) Verify that each charter school under its authority complies with all reports required of charter schools by law, including the local control and accountability plan and annual update to the local control and accountability plan required pursuant to Section 47606.5.*
  - *(4) Monitor the fiscal condition, including enrollment and attendance data, and make periodic checks of credit and debit card transactions of each charter school under its authority.*

- ✓ **Expanded Site and Meeting Oversight (Amended):** Commencing July 1, 2027, authorizers must visit each resource center, meeting space, and satellite facility approved in a petition or material revision at least once every two years. They must also annually attend, in person, at least one meeting of the charter's governing body and review their agendas and minutes.

  - *Visit each resource center, meeting space, and satellite facility approved in a charter petition or material revision and established by the charter school upon the opening and thereafter.*
  - *Visit each resource center, meeting space, and satellite facility approved in a charter petition or material revision and established by the charter school at least once every two years.*
  - *Annually attend, in person, at least one meeting of the governing body of the charter school.*
  - *Review the agendas and minutes of the meetings of the governing body of the charter school.*
  - *Conduct annual financial and compliance audit oversight responsibilities.*
  - *Refer any credible allegations of fraud, misappropriation of funds, or other illegal fiscal practices received from third parties, or observed through the chartering authority's duties, to the county superintendent of schools.*

- ✓ **Mandatory Notification of "Material Concerns" (New):** Authorizers must notify a charter's governing body within 60 days of identifying any "material concern" arising out of the chartering authority's ongoing oversight and monitoring activities.

A **"material concern"** is defined as an issue that could lead to non-renewal or revocation, of the charter such as:

- *Academic performance expectations.*
- *Compliance with laws, contracts, or the terms of the charter.*
- *Issues with fiscal conditions or governance procedures.*
- *Issues pertaining to pupil health, or employee or pupil safety.*
- *Issues pertaining to equity or accessibility.*

Authorizers must provide timely notification to the department SPI if any of the following circumstances occur or will occur with regard to a charter school for which it is the chartering authority:

- *A renewal of the charter is granted or denied.*
- *The charter is revoked.*
- *The charter school will cease operation for any reason.*

Nonclassroom-Based ADA and Independent Study Reviews (Amended): For nonclassroom-based charters, authorizers shall annually review **a sample of independent study written agreements and work samples** if the reported ADA increases by 10% or more compared to the **most recent prior principal apportionment reporting period.** The cost of performing these additional duties shall be funded from oversight fees.

> *Commencing July 1, 2027, each chartering authority, in addition to any other duties imposed by this part, shall annually review, with respect to each nonclassroom-based charter school under its authority, the charter school's average daily attendance.*
>
> *The chartering authority shall review a sample of independent study written agreements and work samples from each track to gauge whether the documents generally align with the reported attendance if the independent study average daily attendance reported by the charter school to the Superintendent for apportionment purposes has increased by 10 percent or more relative to the most recent prior principal apportionment reporting period, as follows:*

(A) *For the first principal reporting period compared to the prior year first principal reporting period.*
(B) *For the second principal reporting period compared to the current year first principal reporting period.*
(C) *For the annual principal reporting period compared to the current year second principal reporting period.*

If a review does not generally align with the reported attendance during the applicable apportionment reporting period, including subsequent corrected reports submitted to the chartering authority, the chartering shall request additional information to explain the misalignment.

- ✓ **Audit Default Responsibility (Amended):** If a charter school has not provided for an audit by **May 1**, the chartering authority **shall** provide for the audit and collect the cost from the charter school's funds.

- ✓ **Audit Certification (Amended):** On or before **January 31 of each year**, the audit for the preceding year shall be filed with its chartering authority, the Superintendent, the Controller, and the county superintendent of schools of the county in which the charter school is located (unless the county board of education of the county in which the charter school is located is the chartering authority).

    - *Each chartering authority shall be responsible for reviewing the audit exceptions contained in an audit of a charter school under its jurisdiction and determining whether the exceptions have been either corrected or an acceptable plan of correction has been developed.*
    - *If a description of the corrections or plan of correction has not been provided as part of the audit required by this section, the chartering authority shall notify the charter school and request the governing body of the charter school to provide to the chartering authority a description of the correction or plan of correction on or before April 15.*
    - *The chartering authority shall review the description of the correction or plan of correction and determine its adequacy. If the description of the correction or plan of correction is not adequate, the chartering authority shall require the charter school to resubmit that portion of its response that is inadequate.*
    - *Each chartering authority shall certify to the county superintendent of schools of the county in which the charter school is located, on or before May 15 of each year, that the chartering authority has done all of the following for the prior fiscal year:*

    - *Reviewed all audits of charter schools under its jurisdiction.*
    - *Reviewed all exceptions that the charter school was required to review were reviewed, and that all of those exceptions, except as otherwise noted in the certification, have been corrected by the charter school or that an acceptable plan of correction has been submitted to the chartering authority.*
    - *Ensured that the charter schools they authorize have corrected or developed a plan of correction for exceptions identified in the audit report.*
    - *Identified any attendance-related audit exception or exceptions involving state funds and required the charter school to submit appropriate reporting forms for processing by the Superintendent.*
- *If the county board of education of the county in which the charter school is located is the chartering authority, the county board of education shall instead certify to the Superintendent, on or before June 15 each year, that the county superintendent of schools has done all of the following for the prior fiscal year:*
    - *Reviewed all audits of charter schools under its jurisdiction.*
    - *Reviewed all exceptions that the charter school was required to review were reviewed, and that all of those exceptions, except as otherwise noted in the certification, have been corrected by the charter school or that an acceptable plan of correction has been submitted to the chartering authority.*
    - *Ensured that the charter school they authorize have corrected or developed a plan of correction for exceptions identified in the audit report.*
    - *Identified any attendance-related audit exception or exceptions involving state funds and required the charter school to submit appropriate reporting forms for processing by the Superintendent.*

III. INDEPENDENT AUDITOR REQUIREMENTS FOR CHARTER SCHOOLS

New standards for auditors focus on risk inquiries and enhanced disclosures in the final report.

- ✓ **Mandatory Risk Inquiries (New):** Auditors must consult with and inquire of the **chartering authority** during the planning stages to identify potential audit risks, fraud indicators, or compliance issues.

- ✓ **Mandatory Payment/Transaction Sampling Protocols (New):** For audits starting in 2027–28, auditors must independently ensure that samples from all payment sources are selected and shall verify that those payments are legal and have proper authorization. Auditor sampling shall include, but is not limited to, payments made through a variety of sources such as credit cards, debit cards, other electronic payment methods and media, and bank statements.

- ✓ **New Charter-Specific Schedules (New):** Audit reports for charter schools must now include supplementary schedules for:

  - Pupil attendance and enrollment, including total pupil enrollment and attendance for each school month, and, if the local educational agency operates a multitrack year-round calendar, by track, and perform an analytical procedure and identify and disclose unusual increases or decreases in enrollment by month and track, if applicable, that are material and provide an opportunity for the local educational agency to provide an explanation in the note.
  - The five highest-paid employees.
  - Governing body members and related entities.
  - The 25 largest aggregate payments made to individuals or organizations.
  - Loans with related entities or employees.

- ✓ **Verification of Related Entities (New):** Auditors must determine if a **related entity** (such as a Charter Management Organization, Education Management Organization, or similar third party with financial, economic, or controlling membership interest, exists with the charter school as defined by generally accepted accounting principles) to determine if the relationship is material based on financial or controlling interest. A charter school that files a federal tax return shall include all related entities identified on the federal tax return in the disclosure required by this paragraph.

- ✓ **Charter schools that are "locally funded" (dependent charters) shall report financial data separate for the general fund (New):** If the audit of the school district or county office of education includes more than one charter, or if the charter "fund" is not a separate major fund, the LEA shall present financial data separately for each individual charter school in the supplemental section or footnotes of the audit report.

- ✓ **Teacher Credential Monitoring (New):** Auditors must ensure the chartering authority has documentation to support **teacher assignment monitoring** to verify that charter teachers hold appropriate credentials for their assignment.

The following regulations heighten professional auditing standards and mandate risk-based inquiry protocols.

- **Heightened Qualifications and Training (Amended):** Auditors must complete 16 hours of LEA-specific continuing education every two years, and engagement partners must have two years of LEA-specific audit experience.

- **Mandatory Risk Inquiries (New):** Auditors are required to consult with and inquire of the chartering authority, County Office of Education, or CDE during the planning stage to identify potential fiscal and fraud risks.

- **New Supplementary Schedules (New):** Audit reports must now include specific schedules for the 25 largest aggregate payments, the five highest-paid employees (charters), and loans with related entities.

- **Mandatory Information Sharing (New):** Auditors are mandated to provide financial and compliance information to authorizers upon request regarding material weaknesses or negative certifications.

- **Successor Auditor Inquiries (New):** Successor auditors must inquire from predecessor auditors regarding management integrity, fraud, and internal control disagreements.

SUMMARY OF EFFECTIVE DATES

Requirement	Effective Date
Audit Filing	January 31st
Contract Policy Adoption	July 1, 2027
Pregnancy Leave	January 1, 2027
Authorizer Site Visits	July 1, 2027
New Audit Sampling	2027-28 Guide for Annual Audits

WHAT SHOULD WE DO NOW?

Governing Boards	Authorizers	Auditors
Review and update procurement policies.	Update oversight protocols and include new and/or amended requirements.	Revise audit programs.
Evaluate current contractor agreements including individual “independent” contractors.	Develop annual monitoring calendars and site visit protocols.	Develop fraud inquiry documentation.
Prepare website audit posting procedures.	Create "Material Concern" procedures and distribute to all charters.	Expand transaction testing models.
Schedule annual audit review meetings with staff responsible for charter oversight.	Develop debit, credit, and procurement card review procedures.	Prepare new supplemental schedules.
Review declining enrollment planning and evaluate all LEAs that may be impacted.	Schedule attendance with each charter to follow new site visit regulations.	Coordinate early with authorizers.
Update employee leave policies for pregnancy provisions.	Update audit review checklists.	Provide professional development training for all audit team members.

TOP 10 ACTIONS BEFORE JULY 1, 2027

1. Review governing board approval thresholds.
2. Update fiscal monitoring protocols.
3. Update procurement and contracting policies.
4. Establish audit acceptance procedures.
5. Prepare website audit posting protocols.
6. Develop authorizer monitoring calendars.
7. Create material concern notification procedures.
8. Review independent study monitoring practices.
9. Coordinate with external auditors regarding new requirements.
10. Train governing boards and senior management on new responsibilities.
11. Review internal controls over purchasing, credit cards (and other electronic payment methods), and provisions regarding related-parties and related-party transactions.

DISCLAIMER

This summary is intended to provide an overview of significant provisions contained in Assembly Bill 126 as amended. It is not intended to replace the statutory language or constitute legal advice.

Charter schools, governing boards, authorizers, and auditors should consult the enacted legislation, applicable regulations, and legal counsel when implementing new requirements.