



**BETTY T. YEE**  
California State Controller

October 30, 2015

To: Certified Public Accountants and their Auditees: Counties, Cities, Towns, and Special Districts.

**SUBJECT: Local Government Audit Advisory for Fiscal Year 2014-15 Audits**

This advisory provides information to counties, cities, towns, and special districts (local governments) and assists independent auditors in performing annual single audits of local governments for fiscal year (FY) 2014-15.

This audit advisory and general guidelines for single audits of local governments are available on the State Controller's Website at [www.sco.ca.gov/aud\\_single\\_audits.html](http://www.sco.ca.gov/aud_single_audits.html).

**NEW FOR FISCAL YEAR 2014-15**

Following are Governmental Accounting Standards Board (GASB) statements that are in effect for FY 2014-15 audit reports:

- GASB 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27
- GASB 69, Combination and Disposals of Government Operations
- GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date

**PROCEDURAL**

1. The State Controller's Office (SCO) requests that the electronic audit report files be in unsecured PDF file format to facilitate efficient processing.
2. The auditor rotation requirements specified in Government Code section 12410.6(b) apply to public accounting firms providing audit services to local agencies. This law indicates that commencing with the 2013-14 fiscal year, a local agency shall not employ a public accounting firm to provide audit services to a local agency if the lead audit partner or coordinating audit partner having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local agency for six consecutive fiscal years.

For purposes of calculating the six consecutive fiscal years, the local agency shall not take into account any time that a public accounting firm was employed by that local agency prior to the 2013-14 fiscal year. The State Controller may waive this requirement if she finds that another eligible public accounting firm is not available to perform the audit.

3. The SCO Desk Review Checklist will be available on the SCO Single Audits web page on November 16, 2015, which is the planned release date.

### **REPORT CERTIFICATION COMPLIANCE REMINDERS**

During the annual audit report certification process, the SCO team spends a significant amount of time corresponding with independent auditors regarding audit report deficiencies. To expedite certification of audit reports for FY 2014-15, SCO requests that auditors attend to the following when completing their audit reports. Failure to comply with these requirements will result in rejection of audit reports.

1. **Independent Auditor's Report:** The report must include a statement that the audit was conducted in accordance with standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. (AU-C 700.42)
2. **Schedule of Expenditures of Federal Awards (SEFA):** The SEFA must list federal programs by federal agency. For federal awards received as a sub-recipient, the SEFA must include the name of the pass-through entity and the identifying number assigned by the pass-through entity as required by Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* section 310(b)(1)(2) and (3).

The schedule must include the specific name of the pass-through State agency or agencies. For example, "Passed through State of California Department of Agriculture" instead of "Passed through State of California." This information is particularly important because SCO is required to send copies of audit reports and, if applicable, management decision letters, to pass-through State agencies identified in the schedule.

If the identifying number assigned by the pass-through entity is not reported, the schedule should include a note explaining why the identifying number is not included.

3. **Federal Compliance Findings:** Federal compliance findings must be presented in accordance with the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, subpart E–Auditors, section .510.

If applicable, the finding detail must include the specific name of the pass-through State agency or agencies. For example, “Passed through State of California Department of Agriculture” instead of “Passed through State of California.” This information is particularly important because SCO is required to send management decision letters and copies of audit reports to pass-through State agencies identified in the audit findings.

4. **Financial Statement Findings:** Financial statement findings should contain the elements of a finding as described in Government Auditing Standards.
5. **Schedule of Prior Audit Findings:** The summary schedule of prior audit findings should be included in the audit report package as required by OMB Circular A-133, section 315(b). SCO recommends that the audit report include a footnote if the entity had no audit findings in the prior year, or if the entity was classified as either “exempt” or “no review.”

Review the 2015 OMB Circular A-133 Compliance Supplement for additional information and guidance at [www.whitehouse.gov/omb/circulars/a133\\_compliance\\_supplement\\_2015](http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2015).

If you have any questions or need additional information, please contact Jim L. Spano, Interim Chief of the Financial Audits Bureau in our Division of Audits, at (916) 324-6442 or [singleaudits@sco.ca.gov](mailto:singleaudits@sco.ca.gov).

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, Chief  
Division of Audits  
State Controller’s Office

Attachment

JVB/ljs

16107

cc: Jim L. Spano, Interim Chief, Division of Audits, State Controller’s Office