



BETTY T. YEE
California State Controller

November 3, 2017

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

SUBJECT: Local Government Audit Advisory for Fiscal Year 2016-17 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) 2016-17.

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.

PROCEDURAL

1. Audit reporting packages are due nine months after the entity's fiscal year end under Title 2, *Code of Federal Regulations*, section 200.512. For most California entities, the reporting package is due March 31st of each fiscal year. Local agencies must submit to the State Controller's Office (SCO) one copy of the audit reporting package by U.S. Postal Service or private carrier, or via File Transfer Protocol. Report submission instructions are posted on the State Controller's Office Single Audits – Local Agencies website at http://www.sco.ca.gov/aud_single_audits.html under the Submissions category.

Name the electronic report file according to the entity name, the document type, and fiscal year end. Naming convention instructions can be found at SCO's website at http://www.sco.ca.gov/Files-AUD/SingleAud/sa_ftp_instructions.pdf. For example, for City of XYZ, the following file names would be used:

- Financial Report = XYZFSR17.pdf
- Single Audit Report = XYZSAR17.pdf
- Revisions = XYZRevision17.pdf
- Revised Financial Report = XYZRevisedFSR17.pdf
- Revised Single Audit Report = XYZRevisedSAR17.pdf
- Management Letter Report = XYzMgtLtr17.pdf

- Memorandum of Internal Control = XYZMIC17.pdf
- Corrective Action Plan = XYZCAP17.pdf

The electronic audit report files should be in **unsecured** PDF file format. Electronic files submitted in this format facilitate efficient processing of the annual audit reports.

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 FY 2013-14, 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 the local agency prior to FY 2013-14. The State Controller may waive this requirement if he or she finds that another eligible public accounting firm is not available to perform the audit.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD UPDATES FOR FISCAL YEAR 2016-17

The following Governmental Accounting Standards Board (GASB) statements are effective for the FY 2016-17 financial statement audits:

- *GASB 73, Accounting and Financial Reporting for Pensions and Related Assets That Are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The requirements of GASB 73 are effective for fiscal years beginning after June 15, 2015, except those requirements that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB 68. The accounting and reporting requirements are effective for financial statements for fiscal years beginning after June 15, 2016. GASB 73 was amended by GASB 82 for reporting periods beginning after June 15, 2016,
- *GASB 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans;*
- *GASB 77, Tax Abatement Disclosures;*
- *GASB 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans;*
- *GASB 80, Blending Requirements for Certain Component Units – amendment of GASB Statement No. 14;* and

- GASB 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in circumstances in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

SINGLE AUDITS UNDER UNIFORM GUIDANCE

The following requirements are applicable if the local agency audit is subject to the single audit requirements under Uniform Guidance:

1. Independent Auditor’s Report on the Financial Statements:

If the Schedule of Expenditures of Federal Awards (SEFA) is referenced in the “Other Information” section of the report, the auditor should use the following words: Schedule of Expenditures of Federal Awards, as required by Uniform Guidance.

2. Schedule of Expenditures of Federal Awards [(Uniform Guidance Subpart F—Audit Requirements §200.510(b))]:

- Uniform Guidance removes the previous flexibility available in OMB Circular A-133 and now requires the following to be presented on the face of the SEFA:
 - Total amounts provided to subrecipients from each federal program [§200.510(b)(4)]
 - The total federal awards expended for loan or loan guarantee programs [§200.510(b)(5)]
- The schedule must now include a total for each cluster of programs [§200.510(b)(3)].
- The notes to the schedule must include whether or not the auditee elected to use the 10 percent de minimis indirect cost rate [(§200.510(b)(6))].

3. The Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance:

- The report’s title must include the words “Uniform Guidance” instead of “OMB Circular A-133.”
- The report must refer to “Uniform Guidance” as applicable, instead of “Circular A-133.”
- Some terminology has changed for the “Management’s Responsibility” paragraph under Uniform Guidance. Management is responsible for compliance with “federal statutes,

regulations, and terms and conditions of federal awards applicable to its federal programs.”

- According to the American Institute of Certified Public Accountants’ (AICPA) Audit Guide, *Government Auditing Standards and Single Audits*, the auditor should issue an opinion on the SEFA. When the SEFA is presented in a separate single audit reporting package, the auditor’s report on the schedule may be incorporated into this report.

For additional guidance and examples of reports on compliance with requirements that could have a direct and material effect on each major federal program and on internal control over compliance issued under the audit requirements of Uniform Guidance, refer to AICPA’s *Government Auditing Standards and Single Audits* with conforming changes as of March 1, 2017.

4. **Schedule of Findings and Questioned Costs:**

- Updated terminology and references are incorporated into the Summary of Auditor’s Results in accordance with section 200.515(d)(1).
- Findings relating to the financial statements must be reported in accordance with generally accepted government auditing standards (GAGAS).
- Findings and questioned costs for federal awards must include audit findings as defined in section 200.516(a).
- The following changes were made to findings and to the schedule of findings and questioned costs under Uniform Guidance:
 - The threshold for reporting known questioned costs is \$25,000. Known questioned costs must also be reported when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program. Known questioned costs must be identified by applicable Catalog of Federal Domestic Assistance (CFDA) and federal award identification number(s).
 - Both known fraud and likely fraud that affects federal awards must be reported.
 - Audit findings under Uniform Guidance must include significant instances of abuse relating to major programs.
 - Audit findings must include a statement of cause that identifies the reason or explanation for the conditions or the factors responsible for the finding. In addition, identification of whether the audit finding was a repeat finding in the immediately prior year must be included.
 - Audit findings must include the views of responsible officials for all findings, not only those about which there is a disagreement.

- Audit finding reference numbers must be included. The audit finding references are required to be in a format that meets the requirements of the data collection form submission. The format is 201X-XXX.
- Audit finding details should include a statement about whether the sampling was a statistically valid sample.

5. Audit Findings Follow-up:

- The corrective action plan and summary schedule of prior audit findings must include findings relating to the financial statements that are required to be reported in accordance with GAGAS (Uniform Guidance §200.511[a]).
- The summary schedule of prior audit findings must report the status of all audit findings included in the prior audit's schedule of findings and questioned costs (Uniform Guidance §200.511[b]).
- At the completion of the audit, the local agency must prepare, in a document separate from the auditor's findings described in section 200.516, a corrective action plan to address each audit finding included in the current-year auditor's report (Uniform Guidance §200.511[c]).

REPORT CERTIFICATION COMPLIANCE REMINDERS

During the annual audit report certification process, SCO spends a significant amount of time corresponding with independent auditors regarding audit report deficiencies. To expedite certification of audit reports for FY 2016-17, SCO requests that auditors address the following requirements when completing their audit reports. Failure to comply with these requirements will result in audit reports being rejected:

1. **Independent Auditor's Report:** The Independent Auditor's Report to the financial statements should refer to the Required Supplementary Information (AU-C 730.07).
2. **Notes to the Financial Statements:** When the audit report provides information on the adoption of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, the notes to the financial statements must include all of the reporting disclosures for the pension plan(s).
3. **Federal Compliance Findings:** For single audits under Uniform Guidance, Federal award findings must be presented in accordance with Uniform Guidance, Subpart F—Audit Requirements, section 200.516(a)(b)(c), as follows for the following categories:
 - **Federal program(s) information:** CFDA number and title, identification number and fiscal year, name of the federal agency and pass-through entity;
 - **Criteria or specific requirement:** Statutory, regulatory, or other citation;

- **Condition:** Facts that support the deficiency in the audit finding;
 - **Cause:** Statement of cause that identifies the reason or explanation for the condition or the factors responsible for the finding;
 - **Effect:** Clear, logical link to establish the impact or potential impact of the difference between the condition and criteria;
 - **Questioned costs:** Identification of questioned costs and how they were computed; known questioned costs must be identified by applicable CFDA number(s) and applicable federal award identification number(s);
 - **Context:** Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit finding represents an isolated instance or a systematic problem. The auditor should report whether the sampling was a statistically valid sample;
 - **Identification as a repeat finding, if applicable:** Identification of whether the audit finding was a repeat of a finding in the immediately prior audit and, if so, the applicable prior-year audit finding number(s);
 - **Recommendation:** Information to prevent future occurrences of the deficiency identified in the audit finding(s);
 - **Views of responsible officials:** Views of the auditee and planned corrective actions; and
 - **Reference number(s):** Each audit finding must include a reference number in the format meeting the requirements of the data collection form submission required by section 200.512 Report submission, paragraph (b).
6. **Financial Statement Audit Findings:** Each audit finding should be presented in the level of detail as described in *Government Auditing Standards*.

OTHER

The SCO's FY 2016-17, Single Audit Desk Review Checklist was placed on the State Controller's website (www.sco.ca.gov/aud_single_audits.html) on November 1, 2017.

Certified Public Accountants and their Auditees

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If you have any questions or need additional information, please contact Jim L. Spano, CPA, Assistant Division Chief, Division of Audits, by telephone at (916) 324-6442 or send an email to singleaudits@sco.ca.gov.

Sincerely,

Original signed by

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

JVB/kw