

State of California

**Standards and Procedures for
Audits of Local Entities
Administering the California
Children and Families Act**

(First 5 Program)

August 2023



MALIA M. COHEN

California State Controller's Office

Contents

	<u>Page</u>
I. PURPOSE OF THE AUDIT GUIDE	1
II. AUDIT ADMINISTRATION.....	1
Audit Requirements.....	1
Audit Report Due Date.....	1
Audit Report Submission	1
Electronic Report File Naming Convention and Format.....	2
Late Audit Reports	2
Unresolved Audit Findings.....	2
Quality Control Reviews	3
III. AUDIT OBJECTIVES.....	3
IV. BACKGROUND.....	3
V. STATE COMPLIANCE REQUIREMENTS	4
Contracting and Procurement.....	4
Administrative Costs	5
Conflict of Interest.....	5
County Ordinance.....	6
Long-Range Financial Plans.....	6
Financial Condition of the Commission.....	7
Program Evaluation	7
Salaries and Benefits Policies.....	7
APPENDIX A—Illustrative Auditor’s Reports	A-1
SCO Guidance on Using Illustrative Auditor’s Report.....	A-1
Illustrative Independent Auditor’s Report.....	A-2
Illustrative Government Auditing Standards Report.....	A-5
Illustrative Independent Auditor’s Report on State Compliance	A-7
APPENDIX B—Audit Guide Revision Log.....	B-1

I. PURPOSE OF THE AUDIT GUIDE

The State Controller's Office (SCO) *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act (First 5 Program)* audit guide is designed to assist auditors in performing the expanded annual audits of the California Children and Families First 5 Program in participating counties. It offers general insight into the nature and scope of the engagement and provides guidelines for performing the expanded audits that are necessary for compliance with statutory requirements pursuant to Health and Safety Code sections 130150(a) and 130151(b). It is not intended to be a complete manual of procedures, nor is it intended to supplant the auditor's judgment.

The expanded annual audit must be performed in conjunction with the county commission's annual audit. Appendix A of this guide includes an illustrative audit report. The First 5 Association of California provides guidance on the annual audit in its *Financial Management Guide* (fifth edition, 2015), available at (www.cffc.ca.gov/pdf/about/budget_perf/First-5-Financial-Management-Guide-Fifth-Edition-032515.pdf).

II. AUDIT ADMINISTRATION

A. Audit Requirements

The audit will be performed in accordance with auditing standards generally accepted in the United States of America as promulgated by the American Institute of Certified Public Accountants (AICPA) and the standards applicable to financial audits set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States.

B. Audit Report Due Date

In accordance with Health and Safety Code sections 130150(a) and 130151(c), each county commission's auditor must annually submit the audit report for the preceding fiscal year by November 1.

C. Audit Report Submission

The report must be filed with **both** the State Controller's Office and the California Children and Families Commission (First 5 California) as follows.

Submission to the State Controller's Office, Division of Audits:

- 1) Submission via the SCO Data Exchange Portal (DEP), Division of Audits at dep.sco.ca.gov/

To upload files to DEP, the submitter must create an account in DEP using the account passcode provided to each county commission's executive director.

Using DEP to submit audit reports provides the following benefits:

- Instant transfer of reports;
- Emailed verification that the report has been received;
- Account history and tracking of submitted reports;
- Capability for multiple users within an organization to submit reports using the organization's account;
- Detailed user's guide to assist with report submission; and

- Cost savings—no postage or express courier delivery costs.

For more information about DEP report submission, please visit the First 5 California Program guides webpage at www.sco.ca.gov/aud_counties_audit_guides_first5.html and click on “First 5 Advisory 2022-07.”

- 2) Reports sent through a private carrier (UPS, Federal Express, etc.) that requires a physical address should be sent to:

Financial Audits Bureau
Division of Audits
State Controller’s Office
3301 C Street, Suite 725
Sacramento, CA 95816
ATTN: First 5 Audit Oversight Unit

Submission to First 5 California:

The report must be filed with First 5 California at the following address:

First 5 California
2389 Gateway Oaks Drive, Suite 260
Sacramento, CA 95833
ATTN: Administrative Services Division

D. Electronic Report File Naming Convention and Format

Name the file according to the entity name, the document type, and fiscal year end. For example, for First 5 ABC, the following names would be used:

- Report = First5ABCRpt.23.pdf
- Revisions = First5ABCRevision23.pdf
- Revised Report = First5ABCRevisedRpt23.pdf

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

E. Late Audit Reports

The state commission may withhold a county commission’s funds from the California Children and Families Trust Fund until the county commission submits the required audit report [Health and Safety Code section 130150(b)(3)].

F. Unresolved Audit Findings

The SCO must determine whether the county commission successfully corrected any findings identified in the prior audit report. The SCO may recommend to the state commission that it withhold the allocation of money that the county commission would otherwise receive from the California Children and Families Trust Fund [Health and Safety Code section 130151(e)].

G. Quality Control Reviews

Health and Safety Code section 130151(a) authorizes the SCO to conduct quality control reviews. The county commission's auditor must make audit documentation available to the SCO upon request. The county commission's auditor must maintain the audit documentation for a minimum of seven years as required by Business and Professions Code section 5097(e) and Title 16, California Code of Regulations, section 68.3.

III. AUDIT OBJECTIVES

The general objectives of each expanded audit are to determine whether the county commission:

- Established contracting and procurement policies pursuant to paragraph (4) of subdivision (d) of Health and Safety Code section 130140, operated in accordance with these policies, and incorporated into these policies' provisions to ensure that the commission's grants and contracts are consistent with its strategic plan;
- Established administrative cost definitions that comply with the state commission's guidelines, and established a process for monitoring these costs;
- Established conflict-of-interest policies and procedures pursuant to paragraph (4) of subdivision (d) of Health and Safety Code section 130140 and complied with all applicable state and local conflict-of-interest statutes and regulations;
- Established policies and practices designed to ensure its adherence to the county ordinance established pursuant to Health and Safety Code section 130140(a)(1);
- Created a long-range financial plan and formally adopted it in a public hearing;
- Communicated its financial condition as required by law;
- Documented its program evaluation expenditure amounts and results; and
- Established salaries and benefits policies pursuant to paragraph (6) of subdivision (d) of Health and Safety Code section 130140.

IV. BACKGROUND

The California Children and Families Act of 1998 (the Act), an initiative measure, requires that the California Children and Families Program (established by the Act) be funded by surtaxes imposed statewide on the sale and distribution of cigarettes and tobacco products and deposited into the California Children and Families Trust Fund. The money deposited into the fund must be used to implement comprehensive early childhood development and smoking-prevention programs.

Existing law established a state commission, First 5 California, with powers and duties related to the administration of the Act at the state level, and authorized county boards of supervisors to establish children and families commissions to administer the Act at the county level.

Providing that certain requirements are met, a county commission receives a portion of the total funds available to all county commissions equal to the percentage of the number of births recorded in that county relative to the number of births recorded in all of the counties participating in the First 5 Program.

Health and Safety Code section 130150 requires each county commission, on or before October 15 of each year, to conduct an audit of, and issue a written report on the implementation and performance

of, its functions during the preceding fiscal year. Section 130150 also requires the state commission to prepare a written report that consolidates, summarizes, analyzes, and comments on the annual audits and reports submitted by all of the county commissions.

Health and Safety Code section 130151 directs the SCO to issue guidelines for expanded annual audits of each county commission and to perform associated quality control functions.

V. STATE COMPLIANCE REQUIREMENTS

A. Contracting and Procurement

Compliance Requirement:

County commissions must adopt, in a public hearing, contracting and procurement policies that are consistent with the following state laws:

- Government Code, Article 7, section 54201 (Purchases of Supplies and Equipment by Local Agencies)
- Public Contract Code, Chapter 2, section 2000 (Responsive Bidders)
- Public Contract Code, Chapter 3, Article 5, section 3410 (Preference for United States-Grown Produce and Processed Foods in Contract of Public Entity for Purchase of Food)
- Public Contract Code, Chapter 3.5, section 22150 (Recycled Product Procurement Mandates Pertaining to Local Governments)

The contracting and procurement policies must contain provisions to ensure that the grants and contracts are consistent with the county commission's strategic plan [Health and Safety Code sections 130140(d)(4) and 130151(b)(1)].

Suggested Audit Procedures:

1. Obtain meeting minutes to confirm that the commission adopted, in a public hearing and/or meeting, its contracting and procurement policies, including the applicable amendments to the policies.
2. Obtain the county commission's written contracting and procurement policies and gain an understanding of how they are applied.
3. Obtain a representation letter from the commission's legal representative stating whether the commission's contracting and procurement policies are consistent with state law.
4. Test a representative sample of contract and procurement transactions against supporting source documentation, as follows:
 - a. Determine whether the transactions are in compliance with the commission's contracting and procurement policies (e.g., test for evidence of contract splitting, which occurs when multiple contracts are awarded to a single contractor in order to avoid monetary limits).
 - b. Determine whether expenditures are consistent with those identified in contracts and other types of agreements (e.g., grants, contracts, and memoranda of understanding).
 - c. Verify that the commission has determined whether grants, contracts, and other types of agreements are consistent with the commission's strategic plan.

5. Include a finding in the Findings and Recommendations section of the audit report, if noncompliance is identified through the foregoing audit procedures. The finding should state that future allocations may be withheld.

B. Administrative Costs

Compliance Requirement:

Administrative cost definitions must comply with the state commission's guidelines and the county commission must have a process in place to monitor these costs [Health and Safety Code sections 130140(d)(5) and 130151(b)(2)].

Suggested Audit Procedures:

1. Review meeting minutes to confirm that the commission adopted, in a public hearing and/or meeting, a limit on the percentage of the operating budget that may be spent on administrative functions.
2. Determine whether the administrative costs definition is consistent with the state commission guidelines that define administrative functions.
3. Verify through inquiry and inspection whether the county commission has implemented a system to monitor its administrative costs.
4. Include a finding in the Findings and Recommendations section of the audit report, if noncompliance is identified through the foregoing audit procedures. The finding should state that future allocations may be withheld.

C. Conflict of Interest

Compliance Requirement:

County commissions must adopt, for commission members, conflict-of-interest policies that are consistent with the following applicable state laws:

- Government Code, Article 4, section 1090, et seq. (Prohibitions Applicable to Specified Officers)
- Government Code, Article 4.7, section 1125, et seq. (Incompatible Activities)
- Government Code, Chapter 7, section 87100, et seq. (Conflict of Interest)

These conflict-of-interest policies must be designed to ensure that the county commission complies with all applicable state and local conflict-of-interest statutes and regulations [Health and Safety Code sections 130140(d)(4) and 130151(b)(3)].

Suggested Audit Procedures:

1. Review the commission's public hearing and/or meeting minutes to confirm that the county commission has adopted conflict-of-interest policies.
2. Obtain a representation letter from the county commission's legal representative stating whether or not the conflict-of-interest policies are consistent with applicable state and local conflict-of-interest statutes and regulations.

3. Determine whether the commission is complying with the conflict-of-interest policies and procedures.
4. Include a finding in the Findings and Recommendations section of the audit report, if noncompliance is identified through the foregoing audit procedures. The finding should state that future allocations may be withheld.

D. County Ordinance

Compliance Requirement:

The county commission must adopt policies and practices to ensure that it is adhering to the county ordinance establishing the commission. The ordinance must be adopted by the county's board of supervisors and contain the minimum provisions specified in the Health and Safety Code [Health and Safety Code sections 130140(a)(1), 130140(d)(1), and 130151(b)(4)].

Suggested Audit Procedures:

1. Obtain a management representation letter that describes how the commission is complying with each component of the ordinance.
2. Verify that the county commission followed its written policies and procedures for adherence to the county ordinance:
 - a. Review source documents (e.g., commission by-laws, organization charts, minutes, and accounting records) to verify that the county commission complied with the county ordinance.
 - b. Obtain commission minutes to confirm that the commission conducted the annual review of the strategic plan.
 - c. Review the minutes to confirm that the commission conducted at least one public hearing and/or meeting before it adopted any revisions to the plan.
3. Include a finding in the Findings and Recommendations section of the audit report, if noncompliance is identified through the foregoing audit procedures. The finding should state that future allocations may be withheld.

E. Long-Range Financial Plans

Compliance Requirement:

The county commission must have a long-range financial plan that has been adopted in a public hearing [Health and Safety Code section 130151(b)(5)].

Suggested Audit Procedures:

1. Verify that the county commission has a long-range financial plan.
2. Review the meeting minutes to confirm that the county commission formally adopted a long-range financial plan.
3. Include a finding in the Findings and Recommendations section of the audit report, if noncompliance is identified through the foregoing audit procedures.

F. Financial Condition of the Commission

Compliance Requirement:

The county commission must have established policies and practices with respect to communicating its financial condition [Health and Safety Code section 130151(b)(6)].

Suggested Audit Procedures:

1. Verify that the county commission has policies and practices with respect to communicating its financial condition. At a minimum, the policies and procedures should include the annual audit required by the state commission guidelines.
2. Include a finding in the Findings and Recommendations section of the audit report, if noncompliance is identified through the foregoing audit procedures.

G. Program Evaluation

Compliance Requirement:

The county commission must have policies and practices with respect to the amount it spends on program evaluation and documenting results of these expenditures [Health and Safety Code section 130151(b)(7)].

Suggested Audit Procedures:

1. Verify that the amount spent on program evaluation is in compliance with the commission's policies and/or practices for evaluation costs (e.g., the adopted budget, commission minutes, funding resolution, or board action). For guidance, refer to section 8.2 of the chapter on Administrative Costs in the First 5 *Financial Management Guide*.
2. Confirm the existence of evaluation data collected and/or reports prepared on program evaluation. Evidence may be in the form of minutes of meetings at which evaluation results were presented, written reports, or other data files that document program evaluation.
3. Include the notes to the financial statements, a statement that identifies the amount spent on program evaluation during the period under audit. Examples are as follows:

Program Evaluation

The commission spent \$_____ on program evaluation during the audit period.

or

The commission did not maintain documentation to identify the amount spent on program evaluation during the audit period.

4. Include a finding in the Findings and Recommendations section of the audit report, if noncompliance is identified through the foregoing audit procedures.

H. Salaries and Benefits Policies

Compliance Requirement:

The county commission must adopt, in a public hearing, policies and procedures for establishing salaries and benefits for its employees. The employees' salaries and benefits policies must

comply with those set forth in the commission policies or the county government policies [Health and Safety Code sections 130151(b)(8) and 130140 (d)(6)].

Suggested Audit Procedures:

1. Obtain meeting minutes to confirm that the commission has adopted salaries and benefits policies and procedures.
2. Test a representative sample of payroll and benefit transactions. Verify that the actual salaries and benefits of commission employees are consistent with the salaries and benefits policies adopted by the commission.
3. Include a finding in the Findings and Recommendations section of the audit report, if noncompliance is identified through the foregoing audit procedures. The finding should state that future allocations may be withheld.

Appendix A— Illustrative Auditor’s Report

SCO Guidance on Using Illustrative Auditor’s Report

The illustrations provided are not intended to be all-inclusive or representative of the specific reporting requirements for a particular county commission audit. The independent auditor performing the audit is responsible for identifying and applying the audit standards applicable to the audit period and the audit entity.

The following illustrative auditor’s reports are provided in this appendix:

- The independent auditor’s report on the financial statements (**page A-2**);
- The independent auditor’s report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* (**page A-5**); and
- The independent auditor’s report on state compliance (**page A-7**)¹.

The county commission’s management discussion and analysis, the financial statements, corresponding note disclosures, and required supplementary information should be presented as prescribed in the American Institute of Certified Public Accountants’ (AICPA) *Audit and Accounting Guide for State and Local Governments*. Other supplementary information should be presented as prescribed by First 5 California and/or the county.

Additional authoritative reference materials that should be consulted in conducting the audit include, but are not limited to:

- AU-C – AICPA *Codification of Statements on Auditing Standards*;
- GAGAS – *Government Auditing Standards* (Yellow Book), published by the Comptroller General of the United States; and
- GASB – Governmental Accounting Standards Board *Codification of Governmental Accounting and Financial Reporting Standards*, issued by the Governmental Accounting Standards Board.

Auditor Independence – County Auditor-Controller’s Offices:

It is the responsibility of the county auditor-controller to determine his or her own office’s independence. For guidance on determining auditor independence, refer to Yellow Book paragraphs 3.17 through 3.117. Specifically, paragraphs 3.52 through 3.55 refer to government auditors and audit organization structure. These standards are effective for financial audits for periods ending on or after June 30, 2020.

For county auditor-controller’s offices that are not independent, the auditor should disclaim his or her opinion and should specifically state that he or she is not independent (AU-C section 705.16). For guidance, refer to AU-C section 705, contained in the AICPA Professional Standards. This section is effective for audits of financial statements for periods ending on or after December 15, 2021.

¹ Auditors must use the provided format for the Independent Auditor’s Report on State Compliance and provide an opinion on the commission’s compliance with requirements described in Section V of this audit guide.

[Independent Auditor's Letterhead]

Board of Commissioners
ABC County Children and Families Commission
City, CA XXXXX

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements¹

Opinion²

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the ABC County Children and Families Commission (Commission), a component unit of ABC County, as of and for the year ended June 30, 20XX, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the ABC County Children and Families Commission as of June 30, 20XX, and the respective changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

¹The subtitle "Report on the Audit of the Financial Statements" is unnecessary when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

²If modification to the auditor's opinion on the financial statements is necessary, refer to AU-C Section 705.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Information on pages XX through XX and XX through XX, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The organizational table and summary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.³

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated [*date of report*] on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the ABC County Children and Families Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ABC County Children and Families Commission's internal control over financial reporting and compliance.

[Manual or printed signature of the auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

³If audit procedures were not applied to the referenced information, then modify the statement in accordance with applicable audit standards.

[Independent Auditor's Letterhead]

Board of Commissioners
ABC County Children and Families Commission
City, CA XXXXX

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of ABC County Children and Families Commission (Commission), a component unit of ABC County, as of and for the year ended June 30, 20XX, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated *[date of report]*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention from those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.¹

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.¹

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[Manual or printed signature of firm]

[Firm's city and state]

[Date of the firm's report]

¹ This section of the report should be modified if findings were noted. Refer to the AICPA's *Audit Guide: Government Auditing Standards and Single Audits* for guidance.

[Independent Auditor's Letterhead]

Board of Commissioners
ABC County Children and Families Commission
City, CA XXXXX

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Report on Compliance

Opinion^{1,2}

We have audited the ABC County Children and Families Commission's (Commission) compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 20XX.

In our opinion, ABC County California Children and Families Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the California Children and Families Program for the year ended June 30, 20XX.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above, and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the California Children and Families Program.

¹If non-compliance results in a modified opinion, the auditor should include a section with an appropriate heading, indicating the basis for the modified opinion, and include a description of such non-compliance in an accompanying Schedule of Findings and Questioned Costs. See AU-C Section 935.35 for additional guidance.

²If the auditor expresses a modified opinion (qualified, adverse, or disclaimer), the auditor should use a heading that indicates the type of opinion expressed (e.g. Qualified Opinion). See AU-C Section 705 for additional guidance.

Auditor’s Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether the material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Commission’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the State of California’s *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Commission’s compliance with the requirements of the California Children and Families Program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the State of California’s *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Commission’s compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances;
- Obtain an understanding of the Commission’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the State of California’s *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, but not for the purpose of expressing an opinion on the effectiveness of the Commission’s internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine the Commission’s compliance with the state laws and regulations applicable to the following items:

Description	Audit Guide Procedures ³	Procedures Performed ⁴
Contracting and Procurement	6	
Administrative Costs	3	
Conflict-of-Interest	3	
County Ordinance	4	
Long-range Financial Plans	2	
Financial Condition of the Commission	1	
Program Evaluation	3	
Salaries and Benefits Policies	2	

³Do not change the number of procedures listed in this column.

⁴Indicate “yes” or “no.” If the response is “no,” include a statement explaining why procedures were not performed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identify during the audit.

Other Matters⁵

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying Schedule of Findings and Questioned Costs as items [*List finding reference numbers, for example, 20XX-001 and 20XX-002*]. Our opinion on California Children and Families Program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Commission's response to the noncompliance findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*. Accordingly, this report is not suitable for any other purpose.

[Manual or printed signature of the auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

⁵If noncompliance is not identified in the Schedule of Findings and Questioned Costs, the *Other Matters* section should be omitted.

Appendix B— Audit Guide Revision Log

Revision Date	Revision Description	Revised Page
June 2021	<u>Updated</u> Standards and Procedures revision date.	Cover
June 2021	<u>Updated</u> the month and year revision date under the heading Purpose of the Audit Guide.	1
June 2021	<u>Added</u> disclosure regarding illustrative reports based on the issuance of SAS No. 141.	1
June 2021	<u>Updated</u> the fiscal year-end under the heading Electronic Report File Naming Convention and Format.	2
July 2022	<u>Updated</u> Standards and Procedures revision date.	Cover
July 2022	<u>Added</u> disclosure regarding illustrative auditor’s report based on the issuance of SAS No. 141.	1
July 2022	<u>Omitted</u> the audit report submission instructions using File Transfer Protocol (FTP). <u>Added</u> audit report submission instructions using the new report submission platform – Data Exchange Portal (DEP).	1
July 2022	<u>Updated</u> the fiscal year-end under the heading Electronic Report File Naming Convention and Format.	2
July 2022	<u>Updated</u> the report language in the sample reports in Appendix A-2, A-5, and A-7 to reflect SAS No. 141, <i>Amendment to the Effective Dates of SAS Nos. 134-140</i> . In consideration of the effects of the coronavirus pandemic, SAS No. 141 changes the effective dates of SAS Nos. 134-140 from December 15, 2020, to December 15, 2021, in order to provide more time for firms to implement these SASs and also to allow for early implementation.	A-2, A-5. A-7
June 2023	<u>Updated</u> Standards and Procedures revision date.	Cover
June 2023	<u>Omitted</u> disclosure regarding illustrative auditor’s report based on the issuance of SAS No. 141.	1
June 2023	<u>Updated</u> audit report submission instructions using the Data Exchange Portal (DEP)	1