Local Entities Administering the California Children & Families Act (First 5 California Local Commissions)  
Certified Public Accountants Performing Audits of the First 5 California County Commissions  

Re: Annual Audits of the First 5 California Program

This advisory provides information to assist independent auditors in performing audits of the First 5 California program in accordance with audit standards and the audit guide issued by the State Controller’s Office (SCO) for performance of county First 5 California commissions. This advisory applies to audit years beginning with 2008-09. To expedite the review and certification of audit reports for fiscal year 2008-09, the SCO requests that auditors comply with the following when completing their audit reports.

Non-Compliance with Reporting Standards and State Requirements

1. Reports Submitted With the Management’s Discussion and Analysis (MD&A) Out of Sequence

   GASB 34 (paragraphs 6.a, and 7 – 8) explain that the MD&A is intended to introduce the basic financial statements presented in the audit report. Therefore, the MD&A should not precede the Independent Auditor’s Report. In addition, the MD&A should not be preceded by the 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 (GAS Report) and/or the Independent Auditor’s Report on State Compliance (state compliance report).

2. Reports Submitted Without the MD&A

   When a local commission administering the First 5 program elects not to include an MD&A in its audit report, auditing standards (Codification section AU 558.08) require that the independent auditor’s opinion include an additional explanatory paragraph. Under generally accepted accounting principles the MD&A is considered supplementary information not essential to fair presentation of the basic financial statements. Therefore, excluding the MD&A does not affect the auditor’s conclusion on the fair presentation of the financial
statements. Below is a sample of the required explanatory paragraph (based on Codification section AU 558.08) modification:

The [local commission’s name’s] management did not prepare the Management Discussion and Analysis that is supplementary information required by Government Accounting Standards Board Statement 34. In accordance with accounting principles generally accepted in the United States, the omission has no impact on the basic financial statements described in the table of contents, but may impact the user’s understanding of those financial statements.

3. Financial Statements Do Not Contain References to the Notes to the Basic Financial Statements

Each page of the financial statements should contain a reference to the notes to the financial statements (Paragraph 6 of the National Council on Governmental Accounting’s Interpretation 6, as amended by Governmental Accounting Standards Board Statement 34).

4. Missing or Incorrect Independence Disclosure Citation for Audits Performed by County Entities

For audits performed by a county auditor/controller, paragraphs 3.22 through 3.24 of the Government Audit Standards (Yellow Book) issued by the U.S. Comptroller General require that the independent auditor’s opinion be modified to include an independence disclosure/assurances.

5. Report on State Compliance Deficiencies

The required format for this report is on page A-6 of the 2008-09 Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act (First 5 Audit Guide). Note the following:

a. The requirements section should be in table format as shown in the example.

b. The number of required procedures (Audit Guide Procedures column) should not be changed or modified.

c. The Procedures Performed column should be completed with “yes” or “no,” and not the number of procedures actually completed.

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1 The correct description for a Yellow Book citation is “paragraph,” and not “statement.”

2 See the Frequently Asked Questions document at http://www.sco.ca.gov/Files-AUD/manuals_ecfp_audit_guide_faqs.pdf for how the number of procedures was determined.
The SCO will no longer accept state compliance reports with a compliance requirements section that is in narrative, columnar, paragraph, or any other format not prescribed in the First 5 Audit Guide.

6. **Incomplete Disclosure for Reports That Are a Matter of Public Record**

Many auditors applied Statement on Auditing Standards (SAS) 87 (Codification section AU 532.14) for the wording of the distribution and restrictions paragraph of both the GAS Report and the state compliance report. However, California Health and Safety Code section 130150(d) states that:

> Each county commission shall make copies of its annual audits and reports available to members of the general public on request and at no cost.

Therefore, the last paragraph of both reports must be modified to disclose that the report is a matter of public record and its distribution is not limited. In addition, the 2008-2009 First 5 Audit Guide requires that the last paragraph of both reports include the SCO in the distribution.

The First 5 Audit Guide (pages A-5 and A-6) provides examples of the two reports with closing paragraphs (public disclosure and specific distribution) that are in accordance with audit standards and statutory requirements.

7. **Status of Prior Audit Findings Needed to Comply With Statutory Requirements**

Under Health and Safety Code, section 130151 (e) it is the SCO’s responsibility to determine whether or not the county commission has successfully corrected prior audit findings. Therefore, we are requiring that, when audit findings have been reported in prior years, the current audit report include a schedule of prior audit findings. The schedule should include items that are reported as audit findings one year then moved to the management letter in a subsequent year.

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3 Firms that prefer listing groups in the distribution versus specific entities may use “awarding agencies and oversight entities” in place of the State First 5 California Commission and the SCO respectively.
**Miscellaneous Observations**

1. During the certification process, the SCO observed several instances of clerical errors that firms should avoid such as:
   - Missing report titles and page headers
   - Typographical errors in titles and headers
   - Missing report dates
   - Missing signatures
   - Missing annotations for financial statement amounts with noticeable rounding differences
   - Reproduction issues (pages out of sequence, pages reproduced on the back of the wrong page, missing pages, etc.)

**Insufficient Compliance with Statutory Requirements**

The following issue requires action by the local commissions:

1. **Commission Agendas, Minutes and Approved Corrective Action Plans not submitted to the SCO**

   Health and Safety Code section 130151(d) requires county commissions 1) to discuss any audit findings in a public hearing and 2) submit responses (approved corrective action plans) to the SCO. Health and Safety Code section 130151(e) requires that the SCO to determine whether or not the county commission has successfully implemented corrective action related to a finding.

   - To demonstrate that audit findings have been discussed at a commission meeting, local commissions should submit to the SCO: 1) commission agendas and minutes that are in sufficient detail to support the nature of the audit finding discussed, 2) planned corrective action, and 3) target date(s) for implementing the corrective action.

   - Local commissions should submit their commission meeting agendas, minutes and approved corrective action plans within two weeks of the required public hearing discussing the audit findings or with the audit report.
This advisory is available electronically on the Internet (http://www.sco.ca.gov/Files-AUD/first5_advisory_2009_01). If you have any questions or need additional information, please contact audit manager Lisa Hughes at (916) 322-8489 or First5Audits@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, Division Chief
Division of Audits

JVB/vb

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cc: Casandra Moore-Hudnall, Chief
    Division of Audits, State Controller’s Office
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    First 5 California