



JOHN CHIANG
California State Controller

January 10, 2012

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

Re: Annual Audits for Fiscal Year 2010-11

This advisory provides information to assist independent auditors in performing the fiscal year (FY) 2010-11 audits of counties, cities, and special districts.

Single Audits Webpage

This audit advisory, as well as general guidelines for single audits of local governments, is available on the California State Controller's Office (SCO) Single Audits website, at http://www.sco.ca.gov/aud_single_audits.html.

Report Certification Compliance Reminders

During the SCO's annual audit report certification process, a significant amount of time is spent corresponding with independent auditors regarding audit report deficiencies. To expedite certification of audit reports for FY 2010-11, the SCO requests that auditors adhere to the following guidelines when completing their audit reports. Failure to comply with the requirements will result in audit reports being rejected.

1. **Governmental Accounting Standards Board (GASB) Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions:** GASB Statement 54 changes how the fund balance section of the governmental fund financial statements is presented. It also clarifies definitions of certain governmental fund types, and requires additional note disclosures.
2. **The Schedule of Expenditures of Federal Awards (SEFA):** The SEFA must list federal programs by federal agency. For federal awards received as a subrecipient, 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) and (2).

3. **Report on Federal Compliance:** The Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with Circular A-133 must be updated to reflect the requirements of SAS No. 117 (AU section 801.30).

SAS 117 is effective for compliance audits for fiscal periods ending on or after June 30, 2010. The American Institute of Certified Public Accountants (AICPA) Audit Guide *Government Auditing Standards and Circular A-133 Audits* with conforming changes as of April 1, 2011, includes required report elements and examples of the federal compliance report. **Reminder:** the report must have a title that includes the word “independent.”

4. **Management Letter:** If 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* refers to a management letter, then a copy of the letter must be submitted along with the local government’s audit report.
5. **Federal Compliance Findings:** For single audits with federal findings, the SCO will not accept reports if the findings are not presented in accordance with OMB Circular A-133, subpart E–Auditors, section .510. Audit Findings.

If a finding includes multiple programs, including ARRA programs, the finding should identify each program by Catalog of Federal Domestic Assistance (CFDA) number and name (including ARRA identification, if applicable), and identify questioned costs (if applicable) for each program.

6. **Schedule of Prior Audit Findings:** The SEFA should be included in the audit report package as required by OMB Circular A-133, section .315(b). The 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.

American Recovery and Reinvestment Act (ARRA)

ARRA imposes transparency and accountability requirements on federal awarding agencies and their recipients.

1. **Schedule of Expenditures of Federal Awards (SEFA)** Expenditures of federal awards under ARRA must be separately identified in the schedule as a separate row by Catalog of Federal Domestic Assistance (CFDA) number, and inclusion of the prefix “ARRA” must be included in identifying the name of the federal program. If ARRA funding is received as a subrecipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity must be included.

2. Effect of Expenditures of ARRA Awards on Major Programs

- a. **Type A Programs (Student Financial Assistance (SFA) Excluded)** Any program or cluster with expenditures of ARRA awards would not qualify as low-risk Type A. However, the auditor may consider a Type A program or cluster to be low-risk if **all** of the following conditions are met:
- The program or cluster had ARRA expenditures in the prior period;
 - The program or cluster was audited as a major program in the prior audit period;
 - The ARRA expenditures in the current audit period are less than 20% of the total program or cluster expenditures; and
 - The auditor has followed § ____.520(c) and § ____.525 of OMB Circular A-133 and determined that the program or cluster is otherwise low-risk.
- b. **Type B Programs (SFA excluded)** The auditor should consider all Type B programs and clusters with expenditures of ARRA awards to be programs of higher risk in accordance with § ____.525(d) of OMB Circular A-133.
- c. Audit findings involving ARRA federal award programs must be separately identified and presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart E–Auditors, § ____.510.

Review the 2011 Compliance Supplement for additional information and guidance. It can be obtained at: http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2011.

If you have any questions or need additional information, please contact Casandra Moore-Hudnall, Chief, Financial Audits Bureau, Division of Audits, at (916) 322-4846 or send an email to singleaudits@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

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cc: Casandra Moore-Hudnall, Bureau Chief
Division of Audits, State Controller's Office