



**JOHN CHIANG**  
**California State Controller**

December 12, 2012

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

Re: Annual Audits for Fiscal Year 2011-12

This advisory provides information to assist independent auditors in performing the fiscal year (FY) 2011-12 audits of counties, cities, towns, 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.scsco.ca.gov/aud\\_single\\_audits.html](http://www.scsco.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 2011-12, the SCO requests that auditors adhere to the following requirements when completing audit reports. Failure to comply with these requirements will result in audit reports being rejected.

1. **Statements on Auditing Standards:** The following Statements on Auditing Standards (SAS) issued by the Auditing Standards Board are effective for audits of financial statements for periods beginning on or after December 15, 2010.

SAS No. 118, Other Information in Documents Containing Audited Financial Statements

SAS No. 119, Supplementary Information in Relation to the Financial Statements as a Whole

SAS No. 120, Required Supplementary Information

Auditors should consider how the new statements impact their audit reports for fiscal year 2011-12 and complete their reports accordingly.

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*, sections .310(b)(1)(2) and (3).

The schedule should include the specific name of the pass-through State agency or agencies. This information is particularly important because the SCO is responsible for sending copies of audit reports to pass-through State agencies identified in the schedule.

3. **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.

The management letter should not include federal compliance findings that are the result of performing audit compliance procedures described in OMB Circular A-133 Compliance Supplement.

4. **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.

If applicable, the finding detail should include the specific name of the pass-through State agency or agencies. This information is particularly important because the SCO is responsible for sending management decision letters and copies of audit reports to pass-through State agencies identified in the audit finding.

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

5. **Financial Statement Findings:** Each audit finding should contain the elements of a finding as described in *Government Auditing Standards*.
6. **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). 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)**

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

1. **Schedule of Expenditures of Federal Awards (SEFA):** Expenditures for federal awards under ARRA must be identified separately in the schedule as a separate row by Catalog of Federal Domestic Assistance (CFDA) number, and inclusion of the prefix “ARRA” 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 section .520(c) and section .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 award to be programs of higher risk in accordance with section .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, subpart E – Auditors, section .510.

Review the 2012 OMB Circular A-133 Compliance Supplement for additional information and guidance at: [http://www.whitehouse.gov/omb/circulars/a133\\_compliance\\_supplement\\_2012](http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2012)

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If you have any questions or need additional information, please contact Carolyn Baez, Chief, Financial Audits Bureau, Division of Audits, at (916) 322-7656 or by e-mail at [singleaudits@sco.ca.gov](mailto:singleaudits@sco.ca.gov).

Sincerely,

*Original signed by*

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