

# AUDIT MEMO

SUBJECT: Single Audit Activities and Requirements	NO.: 19-01
REFERENCES: California Single Audit Report for Fiscal Year 2017-18 OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Government Code section 13070.5 State Administrative Manual sections 7974 through 7974.1	DATE ISSUED: August 9, 2018

## PURPOSE

This Audit Memo informs state entities of the Single Audit process and requirements.

## BACKGROUND

Annually, the California State Auditor (CSA) conducts the State of California Single Audit consisting of three components:

1. State of California: Comprehensive Annual Financial Report
2. State of California: Internal Control and Compliance Audit Report
3. Federal Compliance Audit Report

For the fiscal year 2017-18 audit, the CSA continues to contract with Macias, Gini, and O'Connell LLP (MGO) to conduct the federal compliance portion of the audit. The California Department of Finance (Finance) provides statewide oversight and direction to carry out the state's responsibilities in accordance with the Single Audit Act, and monitors the corrective actions taken by the state entities.

## Requirements:

State entities receiving federal awards are required to address their respective audit findings, report federal expenditure data, and submit management representation letters to Finance by the established due dates. The following provides a description of each significant activity, the activity's estimated timelines, and actions to be taken by the state entities. State entities that did not receive federal awards are also required to certify that federal awards were not received. Such information must be reported through the Single Audit Expenditure Reporting Database (Database).

## Corrective Action Plans

State entities must address and mitigate their respective findings timely. For the year ended June 30, 2017, the independent audit identified deficiencies in internal control and several instances of noncompliance, including material weaknesses and significant deficiencies. These deficiencies, if not corrected, may result in the delay or loss of federal funding for particular programs.

Effective immediately, state entities must perform the following actions:

1. Distribute this Audit Memo to the appropriate staff within your state entity.
2. Review the fiscal year 2016-17 Single Audit Report for audit findings specific to your state entity.
3. Develop and maintain policies and procedures to regularly follow-up on prior audit findings. Policies and procedures may be subject to review by Finance.
4. Develop, implement, and monitor the corrective action plans for audit findings.
  - a. State entities with an internal audit unit are required by the *International Standards for the Professional Practice of Internal Auditing* to follow-up and determine if appropriate action has been taken on the findings. The Omnibus Audit Accountability Act of 2006 also outlines the internal auditing standards and processes.
5. Adhere to the State Administrative Manual (SAM) sections 7974 through 7974.1, periodic Finance bulletins and memos issued during the year, and Finance's guidance and reporting requirements located on Finance's Single Audit website.
6. Respond timely to all requests from Finance throughout the year, as critical reporting deadlines are established by the federal cognizant agencies and federal regulations. It is mandatory that responses be submitted to Finance by the established deadlines.

Finance will periodically follow-up with state entities regarding the corrective actions taken until the findings are fully corrected. Finance may consult with state entities to identify effective audit resolutions, which will strengthen state entities' internal controls, compliance, and administration of federal awards.

### **Expenditure Reporting**

State entities receiving federal awards will be required to report expenditure data in compliance with OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Finance's reporting requirements.

In early September 2018, state entities receiving federal awards will perform the following actions:

1. Review The California Single Audit: Reporting Entity Responsibilities training located on Finance's Single Audit website.
2. Maintain written policies and procedures for the following:
  - a. Preparation of the Report of Expenditures of Federal Funds, Report No. 13.
  - b. Reporting of federal expenditures in the Database.

Policies and procedures may be subject to review by Finance.

2. Ensure accuracy and completeness of the expenditure data. All expenditure data provided to Finance must agree with amounts provided to CSA and MGO.

3. Continue to report expenditures directly awarded by the federal government on a **cash basis** for single audit reporting purposes. Cash basis expenditures are defined as expenditures incurred and disbursed as of June 30. Cash basis expenditures do not include accruals of valid obligations, accrual reversals, encumbrances, or receivables as of June 30. This accounting treatment may differ from the general purpose financial report submitted to the State Controller's Office. Refer to SAM section 7974.1 for guidance, and direct questions to the Single Audit hotline noted below. Expenditure reports are due annually to Finance by established deadlines, which will be communicated to all state entities.
4. For loan or loan guarantee programs, identify the beginning balance of outstanding loans from the previous year, the value of new loans made or received, any interest subsidy, cash, or administrative cost allowance received, and loan balances outstanding at the end of fiscal year 2017-18.
5. Disclose whether the 10 percent de minimis cost rate is used for indirect costs.

### **Management Representation Letters**

As part of its annual audit, CSA requests Finance to make certain representations regarding the financial operations of the State of California. To allow the Director of Finance to submit a single statewide management representation letter (MRL) to CSA, state entities are required to submit a MRL on their operations for the fiscal year ended June 30, 2018. State entities are required to submit a MRL even if they did not receive federal awards during fiscal year 2017-18. Individual state entity MRLs provide the basis for the statewide MRL.

In February 2019, state entities will perform the following actions:

1. Prepare a customized MRL via the Database.
2. Have the MRL signed by two authorized signatories, including the state entity Director or designee.
3. Upload the signed MRL into the Database by the established due date.

### **CONTACTS**

Communications will be disseminated through the [Single Audit Distribution List](#). Finance may contact subscribers to verify contact numbers and other information for the upcoming single audit cycle.

If you have any questions or need additional information, visit [Finance's Single Audit website](#) or contact the Finance Single Audit hotline at [OSASingleAudit@dof.ca.gov](mailto:OSASingleAudit@dof.ca.gov).

/s/ Jennifer Whitaker

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