

AUDIT MEMO

SUBJECT: Single Audit Activities and Requirements	NO.: 20-01
REFERENCES: California Single Audit Report for Fiscal Year 2018-19 OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards State Administrative Manual sections 7974 through 7974.1	DATE ISSUED: August 19, 2019

PURPOSE

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

BACKGROUND

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

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

For the fiscal year 2018-19 audit, the State Auditor continues to contract with Macias Gini & O'Connell LLP (MGO) to conduct the federal compliance portion of the audit. The California Department of Finance provides statewide oversight and direction to fulfill the state's responsibilities in accordance with the Single Audit Act, and monitors the corrective actions taken by the state entities.

Requirements:

State entities that expended federal awards are required to address their respective audit findings, report 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.

Corrective Action Plans

State entities must address and mitigate their respective findings timely. For the year ended June 30, 2018, the Single Audit identified deficiencies in internal control and several instances of noncompliance. 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 2017-18 Single Audit Report for audit findings specific to your state entity.

3. Develop and maintain policies and procedures to regularly review 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 review and determine if appropriate action has been taken to eliminate or mitigate 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 contact state entities regarding the corrective actions taken until the findings are fully corrected. Finance may consult with state entities to identify effective audit resolutions, to assist in strengthening state entities' internal controls, compliance, and administration of federal awards.

Expenditure Reporting

State entities that expended federal awards are required to report expenditure data in compliance with the OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Finance's reporting requirements. State entities that did not expend federal awards during fiscal year 2018-19 are required to certify that federal funds were not expended. Such information must be reported through the Single Audit Expenditure Reporting Database (Database).

In early September 2019, state entities with federal awards will perform the following actions:

1. Review The California Single Audit: Your Responsibilities as a Reporting Entity 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 to 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 the State Auditor and MGO. If any changes, please notify Finance immediately.
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, or encumbrances 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 2018-19.
5. Disclose whether the 10 percent de minimis cost rate is used for indirect costs.

Management Representation Letters

As part of its annual audit of the State of California, the State Auditor 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 the State Auditor, state entities are required to submit a MRL on their operations for the fiscal year ended June 30, 2019. Individual state entity MRLs provide the basis for the statewide MRL.

In February 2020, 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 OSAESingleAudit@dof.ca.gov.

Original signed by:

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