

AUDIT MEMO

SUBJECT: Single Audit Activities and Requirements	NO.: 16-01
REFERENCES: California Single Audit Report for Fiscal Year 2015-16 OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards State Administrative Manual sections 7974 through 7974.1	DATE ISSUED: July 28, 2016

PURPOSE:

This Audit Memo informs departments 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. Financial Report
2. Internal Control and State and Federal Compliance Audit Report
3. Federal Compliance Audit Report

For the fiscal year 2015-16 audit, the State Auditor continues to contract with Macias, Gini, and O'Connell LLP (MGO) to conduct the federal compliance portion of the audit. The 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 departments.

REQUIREMENTS:

Departments receiving federal awards are required to address their respective 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 departments.

Corrective Action Plans

Departments must address and mitigate their respective findings timely. For the year ended June 30, 2015, the Single Audit identified 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, departments must perform the following actions:

1. Distribute this Audit Memo to the appropriate staff within your department.

2. Review the fiscal year 2014-15 Single Audit Report for findings specific to your department at:
http://www.dof.ca.gov/programs/osae/audit_reports/California_Audits_and_Accountability_Reports/.
3. Establish policies and procedures to regularly follow-up on prior findings, and develop, implement, and monitor the corrective action plans for new findings.
 - a. Departments 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.
 - b. Finance will periodically follow-up with departments regarding the corrective actions taken until the findings are fully corrected.
 - c. Finance may consult with departments to identify effective audit resolutions, which will strengthen departments' internal controls, compliance, and administration of federal awards.
4. 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 at:
http://www.dof.ca.gov/Programs/OSAE/Audit_Reports/Single_Audit_Reports/.
5. Respond timely to all requests from Finance throughout the year, as critical reporting deadlines are established by the cognizant federal agencies and federal regulations. It is mandatory that responses be submitted to Finance by the established due dates.

Expenditure Reporting

Departments receiving federal awards will be 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. Departments not receiving federal funds are also required to certify that federal funds were not received. Such information must be reported through the Single Audit Expenditure Reporting Database (database). Note that updates to the database will be rolled out in late August 2016. New fields and enhancements are being added due to the Uniform Guidance and user feedback. For example, the reports feature will now allow users to run reports prior to and after submittal.

In early September 2016, departments receiving federal awards will perform the following actions:

1. Ensure accuracy and completeness of the expenditure data. Should departments update or revise expenditure data, revisions must be re-submitted to Finance immediately. All expenditure data provided to Finance must agree with amounts provided to the State Auditor and MGO.
2. Continue to report expenditures and payments to subrecipients on a cash basis for single audit reporting purposes. 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 departments.

3. For loan or loan guarantee programs, identify the beginning balance of outstanding loans from previous years, 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 2015-16.
4. 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, the State Auditor requests Finance to make certain representations regarding the financial operations of the State. To allow the Director of Finance to submit a single management representation letter (MRL) to the State Auditor, departments are required to submit a MRL on their operations for the fiscal year ended June 30, 2016. Individual department MRLs provide the basis for the statewide MRL.

In February 2017, departments will perform the following actions:

1. Submit an MRL using the approved templates provided by Finance.
2. Date stamp the MRL with the date provided by Finance.
3. Submit the signed MRL by the established due date.

CONTACTS:

Communications will be disseminated through the Single Audit Distribution List. To subscribe to the Single Audit Distribution List, click on <http://listserv.dof.ca.gov/singleauditprocess.html>. Finance may contact subscribers to verify contact numbers and other information for the upcoming single audit cycle.

If you have questions or need additional information, visit our website at http://www.dof.ca.gov/Programs/OSAE/Audit_Reports/Single_Audit_Reports/ or contact the Finance Single Audit hotline at OSAESingleAudit@dof.ca.gov.

/s/ Jennifer Whitaker

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