

# AUDIT MEMO

<b>SUBJECT:</b> Single Audit Activities and Requirements	<b>NUMBER:</b> 22-01
<b>REFERENCES:</b> California Single Audit Report for Fiscal Year 2020-21  The Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards  State Administrative Manual sections 7974 through 7974.1	<b>DATE ISSUED:</b> August 17, 2021

**TO:** Agency Secretaries  
State Entity Directors  
State Entity Budget and Accounting Officers  
State Entity Audit Chiefs

**FROM:** CALIFORNIA DEPARTMENT OF FINANCE

## **DISTRIBUTE TO APPROPRIATE STAFF WITHIN YOUR STATE ENTITY**

### **I. PURPOSE**

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

### **II. 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 Compliance Audit Report
3. Federal Compliance Audit Report

The State Auditor continues to contract with Macias Gini & O'Connell LLP (MGO) to assist in conducting the federal compliance portion of the state's annual audit. State entities participating in the statewide Single Audit are audited by MGO regardless if the entity expended less than \$750,000. 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.

### **III. SUBMISSION REQUIREMENTS**

State entities that expended federal awards are required to report corrective actions on 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 audit findings timely. For the year ended June 30, 2020, any Single Audit identified deficiencies in internal control or instances of non-compliance must be corrected. These deficiencies, if not corrected, may result in the delay or loss of federal funding for particular programs.

To address audit findings, the following actions are required:

1. Develop and maintain policies and procedures to regularly review prior audit findings. Policies and procedures may be subject to review by Finance.
2. 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 internal auditing standards and processes.
3. Adhere to the State Administrative Manual (SAM) sections 7974 through 7974.1, relevant Finance bulletins and memos issued during the year, and Finance's guidance and reporting requirements located on [Finance's Single Audit website](#).
4. 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 audit findings are fully corrected. Finance may consult with state entities to identify effective audit resolutions, and 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 Office of Management and Budget's (OMB) 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 2020-21 are required to certify that federal funds were not expended. The information must be reported through the Single Audit Expenditure Reporting Database (Database).

During the 2020-21 Single Audit reporting cycle, the State of California received federal funding through the following acts to address economic impacts due to the 2019 novel coronavirus (COVID-19) pandemic in the United States:

- Coronavirus Preparedness and Response Supplemental Appropriations Act
- Families First Coronavirus Response Act
- Coronavirus Aid, Relief, and Economic Security Act
- Paycheck Protection Program and Health Care Enhancement Act
- Coronavirus Response and Relief Supplemental Appropriations Act

State entities are required to report federal funds expended in response to the COVID-19 pandemic that are subject to Single Audit reporting. The Database has been updated to allow the reporting of federal expenditures related to COVID-19.

State entities that received federal awards are required to 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 13.
  - b. Reporting of federal expenditures to the Database.

Policies and procedures may be subject to review by Finance.

3. Ensure the accuracy and completeness of expenditure data. All expenditure data provided to Finance must agree with amounts provided to the State Auditor and MGO. If there are any changes after reporting expenditure data to the Database, please immediately notify Finance's Single Audit Hotline at [OSAESingleAudit@dof.ca.gov](mailto:OSAESingleAudit@dof.ca.gov).
4. 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 differs 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. Expenditure reports are due annually to Finance by established deadlines, which will be communicated at a later date to all state entities.
5. 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 2020-21.
6. Disclose whether the 10 percent de minimis cost rate is used for indirect costs.

### **Donated Personal Protective Equipment**

Due to the COVID-19 pandemic, federal agencies and recipients donated personal protective equipment (PPE) purchased with federal assistance funds to many non-federal entities, including the State of California. For Single Audit reporting purposes, the State of California is required to disclose the fair market value of PPE received at the time of receipt per [OMB's Addendum to the 2020 Compliance Supplement](#).

Donated PPE is not reported in the Single Audit Database. State entities will receive a separate questionnaire to disclose the fair value of donated PPE, if applicable.

## **Management Representation Letters**

As part of its annual audit, the State Auditor requests Finance to make certain representations regarding the financial operations of state entities. To allow Finance's Director to submit a single statewide management representation letter (MRL), state entities are required to submit an MRL on their operations. Individual state entity MRLs provide the basis for the statewide MRL. Finance will communicate the submission due date upon notification by the State Auditor.

Submission of the MRL requires the following actions:

1. Prepare a customized MRL via the Database.
2. The MRL must be signed by two authorized signatories and must include the state entity Director or designee.
3. Upload the signed MRL into the Database by the established due date. (digital signatures will be accepted)

### **IV. FINANCE CONTACT INFORMATION**

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](mailto:OSAESingleAudit@dof.ca.gov).

/s/ Becky McAllister for

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