

AUDIT MEMO

SUBJECT: Single Audit Activities and Requirements	NUMBER: 25-01
REFERENCES: California Single Audit Report for Fiscal Year 2023-24 The Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards State Administrative Manual sections 7974 through 7974.1	DATE ISSUED: August 13, 2024

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

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. The Single Audit encompasses an audit of California's financial statements, including the Schedule of Expenditures of Federal Awards, consideration of internal controls and compliance applicable to financial reporting, and an audit of compliance with federal and state laws and regulations at the state entity level and at the major federal program level.

The State Auditor contracts with an external auditor (External Auditor) 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 the External Auditor regardless if the entity expended less than \$750,000. The External Auditor is currently Macias, Gini, & O'Connell LLP.

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 specifically related to programs that expended federal funds.

III. SUBMISSION REQUIREMENTS

State entities that expended federal funds are required to report corrective actions on Single Audit findings, report expenditure data, and donated personal protective equipment, 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 Single Audit findings timely. For the year ended June 30, 2023, any Single Audit findings must be corrected. Uncorrected findings related to federal funds may result in the delay or loss of federal funding for the related programs.

To address Single Audit findings related to federal funds, the following actions are required:

1. Develop and maintain policies and procedures to regularly review prior Single Audit findings. Policies and procedures may be subject to review by Finance.
2. Develop, implement, and monitor the corrective action plans for Single 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 Single Audit findings are fully corrected. Finance may consult with state entities to identify effective audit resolutions that will assist in strengthening state entities' internal controls, compliance, and administration of federal awards.

Expenditure Reporting

State entities that expended federal funds 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 2023-24 are required to certify that federal funds were not expended. The information must be reported through the Single Audit Expenditure Reporting Database (Database). A link to the database can be located on [Finance's Single Audit website](#).

State entities are required to report federal funds expended in response to the 2019 Novel Coronavirus (COVID-19) pandemic that is subject to Single Audit reporting. The Database allows the reporting of federal expenditures related to COVID-19 for all the following acts addressing the economic and health impacts due to the 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
- America Rescue Plan Act

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 the External Auditor. 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.
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 reports 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 2023-24.
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 2024 Compliance Supplement](#). The fair market value of donated PPE should be reported in the Single Audit Database, as applicable.

Management Representation Letters

As part of its annual audit, the State Auditor and the External Auditor request Finance to make certain representations regarding the financial operations of state entities. To allow the Finance 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 MRL submission due date upon notification by the State Auditor and the External Auditor. Submission of the MRL requires the following actions¹:

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. Digital signatures will be accepted.
3. Upload the signed MRL into the Database by the established due date.

IV. FINANCE CONTACT INFORMATION

Communications will be disseminated through the [Single Audit Distribution List](#) and other contacts established in the Database. Finance may contact subscribers and Database users 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.

/s/ Cheryl L. McCormick

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations
California Department of Finance

¹ Finance is enhancing the Database, which may change the MRL submission process. Instructions will be provided once the enhancements are implemented.