To:  Certified Public Accountants and Their Auditees: Counties, Cities, and Special Districts.

Re:  Annual Audits for Fiscal Year 2009-10

This advisory provides information to assist independent auditors in performing the fiscal year 2009-10 annual audits of counties, cities, and special districts.

Audit Report Submissions, General Guidelines, and Requirements


Updated Report Format


The Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 must be updated in accordance with SAS 115 and SAS 117, Compliance Audits. SAS 117 is effective for compliance audits for fiscal periods ending on or after June 30, 2010.

American Recovery and Reinvestment Act (ARRA)

The ARRA imposes transparency and accountability requirements on Federal awarding agencies and their recipients.

1.  Schedule of Expenditures of Federal Awards (SEFA)

Expenditures of Federal awards under the ARRA must be separately identified in the schedule as a separate row by Catalog of Federal Domestic Assistance (CFDA) number, and inclusion of the prefix “ARRA” in identifying the name of the Federal program. If ARRA funding is received as a subrecipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity must be included.
2. **Effect of Expenditures of ARRA Awards on Major Programs**

   a. **Type A Programs (Student Financial Assistance (SFA) excluded)**

      Any program or cluster with expenditures of ARRA awards would not qualify as low-risk Type A. However, the auditor may consider a Type A program or cluster to be low-risk if **all** of the following conditions are met:

      - The program or cluster had ARRA expenditures in the prior period;
      - The program or cluster was audited as a major program in the prior audit period;
      - The ARRA expenditures in the current audit period are less than 20 percent of the total program or cluster expenditures; and
      - The auditor has followed §__.520(c) and §__.525 of OMB Circular A-133 and determined that the program or cluster is otherwise low-risk.

   b. **Type B Programs (SFA excluded)**

      The auditor should consider all Type B programs and clusters with expenditures of ARRA award to be programs of higher risk in accordance with §__.525(d) of OMB Circular A-133.

   c. **Audit findings involving ARRA federal award programs must be separately identified and presented in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Subpart E–Auditors, §__.510.**

      Review the 2010 Compliance Supplement for additional information and guidance. It can be obtained at: [http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2010](http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2010).

**Primary Reasons Why Audit Reports not Accepted by the SCO**

1. **Schedule of Expenditures of Federal Awards does not include the name of the pass-through entity and/or the identifying number assigned by the pass-through entity as required by Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, §__.310(b)(1) and (2).**

2. **Management letter referred to in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards is not included with the audit report. A copy of the management letter, if issued, must be submitted along with the entity’s annual report.**

3. **Federal Award Program findings are not presented in accordance with the OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, subpart E–Auditors, §__.510.**
4. Schedule of Prior Audit Findings is not included in the audit report as required by the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, section .315(b). The SCO recommends that the audit report include a footnote if the entity had no audit findings in the prior year or the entity was classified as either exempt on no review.

This advisory is available on the Internet on the SCO’s Web page at the following link: [http://www.sco.ca.gov/Files-AUD/SingleAud/localgovernmentadvisoryfy0910.pdf](http://www.sco.ca.gov/Files-AUD/SingleAud/localgovernmentadvisoryfy0910.pdf).

Should you have any questions or need additional information, please contact Casandra Moore-Hudnall, Chief, Financial Audits Bureau, Division of Audits, at (916) 322-4846 or send an email to singleaudits@sco.ca.gov.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/wm

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cc: Casandra Moore-Hudnall, Bureau Chief  
Division of Audits, State Controller’s Office