

OFFICE OF THE STATE CONTROLLER

Division of Accounting and Reporting Minimum Audit Requirements and Reporting Guidelines for California Special Districts

The following audit requirements are not intended to be a comprehensive audit program or check list of procedures to be performed during a special district audit. This is intended to include only the minimum requirements which the State Controller must prescribe pursuant to Section 26909 of the Government Code.¹ This section also requires that the audit report be filed with the State Controller and the county auditor.

The county auditor or professional independent certified public accountant or public accountant undertaking an audit of a California special district should:

1. Have sufficient knowledge and training to enable compliance with both generally accepted auditing standards and generally accepted government auditing standards.²
2. Have a thorough knowledge of the fundamental principles of governmental accounting,³ including both fund accounting and enterprise accounting, and governmental auditing.⁴
3. Comply with Government Auditing Standards as promulgated by the United States General Accounting Office when applicable (e.g., Single Audit Act, required by agreement or contract, etc.).

MINIMUM AUDIT REQUIREMENTS

The audit shall be made in accordance with generally accepted auditing standards. Various auditing procedures are suggested and described in the American Institute of Certified Public Accountants' publication Audits of State and Local Governmental Units.⁴

Professional judgment must be exercised. Following are general statements that the county auditor or independent accounting firm should consider in preparing an audit program in connection with the audit of a California Special district.

1. A proper study and evaluation of the existing internal control and the financial organizational structure should be made. The extent to which an auditor should go in testing the evidential matter supporting his opinion on the financial statements depends on the effectiveness of the district's system of internal

Refer to footnotes beginning on page 9.

control. Sufficient competent evidential matter is to be obtained through inspections, observations, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination. If the internal control is so deficient that an auditor must disclaim his opinion in this regard, the reason for this disclaimer must be set forth in the audit report.

2. The auditor should review the laws applicable to the financial transactions of the district. For instance, all special districts are subject to a uniform accounting system prescribed by the State Controller and, if applicable, the provisions of Article XIII B of the State Constitution. Should there be indications that the district may have failed to comply with legal requirements, the transactions may be referred to proper legal counsel for interpretation of the applicable law. Noncompliance should be commented upon in the report and, if necessary, the auditor's opinion should be qualified, disclaimed or adverse.

Another law applicable to special districts the auditor must consider is Federal Public Law 98-502, commonly known as the "Single Audit Act" (Act). The Act requires state and local governments which receive in excess of \$100,000 in federal financial assistance have a single audit conducted. Receipt of less than \$100,000 but more than \$25,000 in federal funds permits the option of selecting a single audit or complying with the existing audit requirements of the applicable federal assistance programs. The dollar requirements include both direct federal funds and those passed through the state; the total of all federal financial assistance received. Additional information related to compliance with Public Law 98-502 is presented in Note 5 and further discussed in Appendix 2.

3. The district's report of financial transactions to the State Controller should be reviewed to see that it agrees with the official records of the district for the period. The State Controller should be informed of any material difference.
4. A review should be made of the previous audit report workpapers and program if available.

Refer to footnotes beginning on page 9.

5. The auditor should ascertain what funds are maintained and by what authority or under what circumstances each fund maintained was created.
6. The auditor should ascertain the basis of accounting, that is, cash, accrual or modified accrual. Accrual is the basis for enterprise funds, internal service, nonexpendable trust, and pension trust funds and modified accrual is the basis for all other fund types. The cash basis is no longer approved for special districts.
7. The auditor should review a trial balance of the accounts of each fund and should list both opening and closing balances. The opening balances should be compared with the amounts shown in the audit report for the previous period, if any, and any differences should be investigated and reconciled.
8. Minutes or other official records of the proceedings of the legislative body should be reviewed for corroborative evidential matter concerning events and transactions that have taken place. The records also may disclose important matters under consideration or actions that are being contemplated that may require adjustment or disclosing to the financial statements.
9. If cash on hand balances are significant, as of the balance sheet date, verification procedures should be considered by the auditor.
10. The auditor should test the bank reconciliations including cash on deposit with the county treasurer as of the balance sheet date and such other times as is necessary. He or she should obtain confirmation from depositories for (1) all bank accounts, time certificates or savings and loan accounts, and (2) collateral securing such accounts, if applicable. Collateral should also be examined or confirmed with the depository holding the collateral as trustee. The auditor should determine the adequacy and propriety of the collateral pledged.
11. The auditor should test the tax allocation, tax collection and delinquencies whether processed by the district or the county.
12. The collection and recording of revenues should be tested during the period under audit. The test should be sufficient to determine that receipts have been recorded in the proper funds and period.

13. The auditor should determine:
 - (a) That the expenditures were properly authorized and incurred and are proper charges to the fund and appropriation against which they have been charged.
 - (b) That the expenditures are supported by the proper documents and that the documents are so marked as to prevent their reuse. In this connection, it should be ascertained whether noncash expenditures, that is, interdepartmental transactions are supported by adequate documentation and were properly recorded.
14. A review should be made of nonrevenue receipts and nonexpense disbursements to determine if they are legal and properly recorded.
15. All other assets such as investments, accounts receivable, inventories, prepaid expenses, fixed assets and similar items should be audited in accordance with generally accepted auditing standards.
16. All liabilities such as accounts payable, notes payable, contracts payable, bonds payable, judgments and similar items should be verified in accordance with generally accepted auditing standards. The district's proper authorities (i.e. legal counsel) should be contacted to ascertain existence of any possible contingent liabilities.
17. The auditor should test the fund balance accounts (equity accounts for enterprise funds) for propriety.

REPORTING GUIDELINES

The following reporting guidelines should be used when performing an audit of a special district. The reporting guidelines consist of audit report requirements, audit report format, management letter and report on the internal control structure.

A. Audit Report Requirements

1. The audit report should state that the audit was conducted in accordance with generally accepted auditing standards, generally accepted government auditing standards when applicable and the State Controller's Minimum Audit Requirements for California Special Districts.
2. The audit report should state that the financial statements are presented in conformity with generally accepted accounting principles as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.
3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
4. The audit report shall contain an opinion regarding the fairness of the financial statements as enumerated by the State Board of Accountancy rules 58.1 and 58.2. The types of opinions that may be expressed are:
 - a. an unqualified opinion
 - b. a qualified opinion
 - c. an adverse opinion
 - d. a disclaimer of opinion
5. If, after considering identified conditions and events and management's plans, the auditor concludes that substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time remains, the audit report should include an explanatory paragraph (following the opinion paragraph) to reflect that conclusion. The auditor's conclusion about the entity's ability to continue as a going concern should be expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern.

B. Audit Report Format

It is suggested that the audit report be prepared in accordance with the following general format. Supplementary information such as schedules, comments, and statistical tables are optional and often enhance the usefulness of a report. The auditor should file a copy of the audit report with the Controller and the county auditor in which the district is located.

a. **Introductory Section**

(Table of contents, letter(s) of transmittal, and other material deemed appropriate by management.)

b. **Financial Section**

(1) **Auditor's Report**

(2) **General Purpose Financial Statements (GPFS)**

(a) Combined Balance Sheet - All Fund Types and Account Groups.

(b) Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types.

(c) Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Fund Types (and similar governmental fund types for which annual budgets have been legally adopted).

(d) Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity) - All Proprietary Fund Types.

(e) Combined Statement of Cash Flows - All Proprietary Fund Types and Nonexpendable Trust Funds.

(f) Notes to the Financial Statements.

(Trust fund operations may be reported in (b), (d), and (e) above, as appropriate or separately.)

(g) Required Supplementary Information.

(3) **Combining and Individual Fund and Account Group Statements and Schedules**

(a) Combining Statements - by Fund Type - where a governmental unit has more than one fund of a given fund type.

(b) Individual Fund and Account Group Statements - where a governmental unit has only one fund of a given type and for account groups and/or where necessary to present prior-year and budgetary comparisons.

(c) Schedules

- (i) Schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.
- (ii) Schedules to present information spread throughout the statements that can be brought together and shown in greater detail (for example, taxes receivable, including delinquent taxes; long-term debt; investments; and cash receipts, disbursements, and balances).
- (iii) Schedules to present greater detail for information reported in the statements (for example, additional revenue sources detail and object of expenditure data by departments).

(Narrative explanations useful in understanding combining and individual fund and account group statements and schedules that are not included in the notes to the financial statements should be presented on divider pages, directly on the statements and schedules, or in a separate section.)

c. Statistical Tables

C. Management Letter

The purpose of a management letter is to inform the district of the auditor's recommendations for more efficient operations. A management letter is different from the communication on the internal control structure that is required per SAS 60 whenever there are reportable conditions. The communication on reportable conditions must follow a prescribed format and be sent in accordance with SAS requirements. A management letter is optional and is intended to help the district operate more effectively. There is no standard format or approach for writing management letters. Each letter should be developed to meet the style of the auditor and the needs of the district, consistent with the firm's concept of management letters.

If a management letter is issued, it must be submitted with the audit to the State Controller's Office and to the county auditor in which the district is located.

D. Report on the Internal Control Structure

During the course of an audit, the auditor may become aware of matters relating to the internal control structure that may be of interest to the district. The matters that are required to be reported per SAS No. 60 are referred to as reportable conditions. Specifically, these are matters coming to the auditor's attention that, in his judgment, should be communicated to the district because they represent significant deficiencies in the design or operation of the internal control structure, which could adversely affect the district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Conditions noted by the auditor that are considered reportable conditions under SAS No. 60 or that are the result of agreement with the client should be reported, preferably in writing. If information is communicated orally, the auditor should document the communication by appropriate memoranda or notation in the working papers.

FOOTNOTES

Note 1.

Excerpts from Government Code Section 26909:

- (a) The county auditor shall either make or contract with a certified public accountant or public accountant to make an annual audit of the accounts and records of every special purpose district within the county for which an audit by a certified public accountant or public accountant is not otherwise provided. In each case the minimum requirements of the audit shall be prescribed by the Controller and shall conform to generally accepted auditing standards.
- (b) Where an audit of a district's accounts and records is made by a certified public account or public accountant, the minimum requirements of the audit shall be prescribed by the Controller and shall conform to generally accepted auditing standards, and a report thereof shall be filed with the Controller and with the county auditor of the county in which the district is located. Such report shall be filed within 12 months of the end of the fiscal year or years under examination.
- (c) Any costs incurred by the county auditor, including contracts with, or employment of, certified public accountants or public accountants, in making an audit of every special purpose district pursuant to this section shall be borne by the district and shall be a charge against any unencumbered funds of the district available for the purpose.
- (d) For joint districts lying within two or more counties, the above provisions shall apply to the auditor of the county in which the treasury is located.
- (e) The county controller, or ex officio county controller, shall effect this section in those counties having a county controller, or ex officio county controller.

A special district may, by unanimous request of the governing board of the special district, with unanimous approval of the board of supervisors, replace the annual special audit with a biennial audit covering a two-year period or, if the district's annual budget does not exceed an amount specified by the board of supervisors, an audit covering a five-year period.

Notwithstanding the foregoing provisions of this section to the contrary, districts shall be exempt from the requirements of an annual audit if the financial statements are audited by the Controller to satisfy federal audit requirements.

Note 2. Generally Accepted Auditing Standards (GAAS) as promulgated by the American Institute of Certified Public Accountants are composed of three general standards, three standards of field work, and four standards of reporting.

On the other hand, Generally Accepted Government Auditing Standards (GAGAS) as promulgated by the United States General Accounting Office (Revised GAO "Yellow Book" July 1988) for financial audits are composed of four general standards, five supplemental standards of field work in addition to GAAS standards, and six supplemental standards of reporting in addition to GAAS standards. A list of GAGAS general standards and supplemental standards for field work and reporting for financial audits follows:

General Standards

1. The staff assigned to conduct the audit should collectively possess professional proficiency for the tasks required.
2. In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.
3. Due professional care should be used in conducting the audit and in preparing related reports.
4. Audit organizations conducting government audits should have an appropriate internal quality control system in place and participate in an external quality control review program.

Standards of Field Work

1. Planning should include consideration of the audit requirements of all levels of government.
2. A test should be made of compliance with applicable laws and regulations.
3. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct or material effect on the financial statement amounts or the results of financial related audits. The auditor should be aware of the possibility of illegal acts from noncompliance with laws and regulations that could have an indirect or material effect on the financial statements or results of financial related audits.

4. A record of the auditor's work be retained in the form of working papers.
5. A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.

Standards of Reporting

1. A statement should be included in the auditor's report that the audit was made in accordance with generally accepted government auditing standards.
2. The auditors should prepare a written report on their tests of compliance with applicable laws and regulations. This report, which may be included in either the report on the financial audit or a separate report, should contain a statement of positive assurance on those items which were tested for compliance and negative assurance on those items not tested. It should include all material instances of noncompliance, and all instances or indications of illegal acts which could result in criminal prosecution.
3. The auditors should prepare a written report on their understanding of the entity's internal control structure and the assessment of control risk made as part of a financial statement audit, or a financial related audit. This report may be included in either the auditor's report on the financial audit or a separate report. The auditor's report should include as a minimum: (1) the scope of the auditor's work in obtaining an understanding of the internal control structure and in assessing the control risk, (2) the entity's significant internal controls or control structure including the controls established to ensure compliance with laws and regulations that have a material impact on the financial statements and results of the financial related audit, and (3) the reportable conditions, including the identification of material weaknesses, identified as a result of the auditor's work in understanding and assessing the control risk.
4. Written audit reports are to be prepared giving the results of each financial related audit.
5. If certain information is prohibited from general disclosure, the report should state the nature of the information omitted and the requirement that makes the omission necessary.

6. Written audit reports are to be submitted by the audit organization to the appropriate officials of the organization audited and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations, unless legal restrictions, ethical considerations, or other arrangements prevent it. Copies of the reports should also be sent to other officials who have legal oversight authority or who may be responsible for taking action and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.

Note 3. The recognized authoritative pronouncements on governmental accounting issued by the Governmental Accounting Standards Board (GASB) are referenced in both the Codification of Governmental Accounting and Financial Reporting Standards published by GASB, Copyright 1990, 401 Merritt 7, P. O. Box 5116, Norwalk, CT 06856-5116 and the Governmental Accounting, Auditing and Financial Reporting (Blue Book) published by the Government Finance Officers Association, Copyright 1988, 180 North Michigan Avenue, Suite 800, Chicago, Illinois 60601.

Note 4. A recognized authoritative publication on governmental auditing is Audits of State and Local Governmental Units by the Committee on Governmental Accounting and Auditing and Copyright 1986 by the American Institute of Certified Public Accountants, Inc., 1211 Avenue of the Americas, New York, New York 10036.

Note 5.

SINGLE AUDIT REQUIREMENTS
FOR RECIPIENTS OF FEDERAL FINANCIAL ASSISTANCE
PURSUANT TO FEDERAL PUBLIC LAW 98-502

Single Audit Requirements

Public Law 98-502, commonly known as the "Single Audit Act" (Act) requires state and local governments which receive in excess of \$100,000 of federal financial assistance for a fiscal year to have a single audit conducted. Receipt of less than \$100,000 but more than \$25,000 in federal funds permits the option of selecting a single audit or complying with the existing audit requirements of the applicable federal assistance programs. Local governments which receive less than \$25,000 are exempt from the provisions of the Act. The dollar requirements include both direct federal funds and those passed through the state or other local governments; it is simply the total of all federal financial assistance received.

The act covers federal programs and currently the only audit requirements are those imposed by the federal government. Although there are no additional state audit requirements, the Department of Finance has issued formal audit guidelines for single audits entitled, Compliance Guidelines for Audits of Subrecipients of Federal Financial Assistance which encompasses the federal requirements including OMB Circular A-128 and the OMB Compliance Supplement. These compliance guidelines, the United States General

Accounting Office's Government Auditing Standards (Yellow Book) and the AICPA's Audit and Accounting Guide for Audits of States and Local Governmental Units are reference materials necessary for the independent auditor to perform a single audit.

To request a copy of the compliance guidelines and the State Controller's Single Audit Procedure Guide For Local Governments, call or write:

State Controller's Office
Division of Audits
Single Audit Branch
Post Office Box 942850
Sacramento, California 94250-5874
Telephone: (916) 324-6442

The scope of the single audit is identified in both the Act and OMB Circular A-128. It encompasses all the specifications of the Minimum Audit Requirements and Reporting Guidelines for California Special Districts, issued by SCO's Division of Accounting and Reporting pursuant to Government Code Section 26909.

If your district is required to have a single audit, please submit all single audit reports to SCO, Division of Audits at the address shown above. The Division of Audits will forward one copy of your single audit report to the Division of Accounting and Reporting to satisfy your reporting requirements under Government Code Section 26909. If your agency is not required to have a single audit, please submit your audit report to:

State Controller's Office
Division of Accounting and Reporting
Local Government Reporting Section
Post Office Box 942850
Sacramento, California 94250-5876

Please also note the Annual Report of Financial Transactions of Special Districts mandated by California Government Code Section 53891, et. seq. must still be completed and submitted to the State Controller's Division of Accounting and Reporting; the transactions report does not satisfy the Single Audit Act.

AUDIT REPORT EXAMPLE

The following example may be used as a guide in writing the audit report relating to special districts. The AICPA Industry Audit and Accounting Guide: Audits of State and Local Governmental Units should be used as an additional reference in the preparation of audit reports.

INDEPENDENT AUDITOR'S REPORT

Board of Directors,

ABC Special District

We have audited the accompanying general purpose financial statements of ABC District as of June 30, 19XX (Note A) and for the fiscal year then ended, as listed in the table of contents. These financial statements are the responsibility of ABC District management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with generally accepted auditing standards and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the ABC District as of June 30, 19XX, and the results of its operations and the cash flows of its proprietary and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Our audit was made for the purpose of forming an opinion on the general purpose statements taken as a whole. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of ABC District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

(Signature)

(Date)

Note A If the scope of the audit does not include all the funds and account groups of the special district, appropriate disclosure of this fact should be made. The year end date should correspond to that used by the District.

APPENDIX 2

Single Audit Report Requirements

The single audit report is a collection of several documents. OMB Circular A-128 specifies the minimum audit report requirements. A complete single audit includes up to 12 key parts which must be submitted before the audit can be processed by SCO. These parts are summarized below with a more detailed discussion following the summary.

References are made throughout this discussion to assist in researching the authoritative literature. The primary sources of literature used for this discussion include:

- Audits of State and Local Government, Circular A-128, Office of Management and Budget (OMB)
- Audits of State and Local Governmental Units (ASLGU), Audit and Accounting Guide, published by the AICPA
- Codification of Governmental Accounting and Financial Reporting Standards (GASB), published by the Governmental Accounting Standards Board
- Auditor's Reports in Audits of State and Local Governmental Units, Statement of Position (SOP) 89-6, published by the AICPA

Summary of the Required Parts

Financial Statements and Schedules (OMB Circular A-128, Section 13.a.(1))

- General Purpose Financial Statements
- Schedule of Federal Financial Assistance

Auditor's Reports

- Report on General Purpose Financial Statements (SOP 89-6, Examples 1-15)
- Report on Supplementary Information, Schedule of Federal Financial Assistance (SOP 89-6, Example 16)
- Compliance Report Based on an Audit of General Purpose or Basic Financial Statements Performed in Accordance with Government Auditing Standards (SOP 89-6, Example 17)
- Single Audit Opinion on Compliance with Specific Requirements Applicable to Major Federal Financial Assistance Programs (SOP 89-6, Examples 18-22)

- Single Audit Report on Compliance with the General Requirements Applicable to Major Federal Financial Assistance Programs (SOP 89-6, Example 23)
- Single Audit Report on Compliance With Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions (SOP 89-6, Example 24)
- Report on the Internal Control Structure in Accordance With Government Auditing Standards (SOP 89-6, Example 25)
- Report on Internal Controls (Accounting and Administrative) Based on a Study and Evaluation Made as a Part of an Examination of the General Purpose or Basic Financial Statements and the Additional Tests Required by the Single Audit Act (SOP 89-6, Example 26)
- Corrective Action Plan (OMB Circular A-128, Section 13.d.)
- Management Letter or Report (if issued)

Detailed Description of Required Parts

General Purpose Financial Statements

- Combined Balance Sheet - All Fund Types and Account Groups (GASB 2200.603)
- Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types (GASB 2200.604)
- Combined Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Fund Types (and similar governmental fund types for which annual budgets have been legally adopted) (GASB 2200.605)
- Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity) - All Proprietary Fund Types (GASB 2200.606)
- Combined Statement of Cash Flows - All Proprietary Fund Types and Nonexpendable Trust Funds (GASB 2200.607)
- Notes to the financial statements (GASB 2300)
- Any required supplementary information

Schedule of Federal Financial Assistance (ASLGU 23.6-23.13)

The schedule of federal financial assistance shows all federal financial assistance programs administered by the local government. The schedule must identify programs by the name and catalog number assigned in the Catalog of Federal Domestic Assistance. It should also indicate the grantor of the funds (e.g., federal direct, state pass-through, etc.). Significant federal financial assistance programs that have not been assigned a catalog number should be identified separately under the caption "Other Federal Assistance".

In addition, the schedule must show, at a minimum, the amount of expenditures for each assistance program. However, the ASLGU also recommends including program information such as matching contributions, amount of the program award, receipts or revenue recognized, beginning and ending balances (such as unexpended amounts or accrued (deferred) amounts) and reconciliation to the financial statements, if necessary.

An illustration of a schedule of federal financial assistance that incorporates the described levels of disclosures is presented in the ASLGU, pages 196-197.

Auditor's Reports

Report on General Purpose Financial Statements

This is the auditor's report on the local government's financial statements (e.g., balance sheet). Illustrations of possible reports which the auditor might issue in various situations are presented in SOP 89-6, Examples 1-15.

If only combined financial statements are presented, the auditor should issue a standard report with appropriate modifications, if necessary. If combining and individual fund and account group financial statements are also submitted, SAS No. 29 applies. The auditor's report should state whether those statements are stated fairly in all material respects in relation to the GPFS.

Report on Supplementary Information, Schedule of Federal Financial Assistance

The type of report that should be issued on the Schedule of Federal Financial Assistance is discussed in SAS No. 29, and is referred to as a report on supplementary information. The report refers to the examination having been performed in accordance with the standards for financial and compliance audits contained in the Government Auditing Standards to meet the requirements of OMB Circular A-128. Example 16 of SOP 89-6 illustrates this type of report.

Compliance Report Based on an Audit of General Purpose or Basic Financial Statements Performed in Accordance With Government Auditing Standards

The report on compliance with laws and regulations is required for the single audit to satisfy the federal audit requirements as specified in the Government Auditing Standards. SOP 89-6, Example 17, illustrates such a report issued by an auditor based on an audit of the general purpose or basic financial statements.

The report identifies occurrences of noncompliance with federal, state, or local laws and regulations that are material in relation to the general purpose or basic financial statements. The report should express positive assurance on items tested and negative assurances on items not tested. If the auditor assesses materiality and risk and concludes that the risk of material misstatement is sufficiently low, testing may not be performed and the auditor will express negative assurance only.

Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs

SOP 89-6, Examples 18-22, illustrate the types of reports issued when the auditor performs compliance testing of specific requirements applicable to major federal financial assistance programs.

The report identifies the specific requirements audited (including any special tests and provisions), and all instances of noncompliance with those requirements. The report expresses an opinion on whether the local government complied, in all material respects, with the requirements identified. This report is not required if the local government did not have any major federal financial assistance programs for the year.

Single Audit Report on Compliance With the General Requirements Applicable to Major Federal Financial Assistance Programs

SOP 89-6, Example 23, illustrates the report issued when the auditor performs compliance testing of general requirements applicable to major federal financial assistance programs.

This report identifies the general requirements audited and all instances of noncompliance with those requirements. The report should express positive assurance for items tested and negative assurance for items not tested. This report is not required when the local government did not have any major federal financial assistance programs for the year.

Single Audit Report on Compliance With Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions

SOP 89-6, Example 24, illustrates the report issued when the auditor performs compliance testing of specific requirements applicable to certain nonmajor federal financial assistance program transactions.

This report identifies the specific requirements audited (including any special tests and provisions) and all instance of noncompliance with those requirements. The report should express positive assurance for items tested and negative assurance for items not tested.

The report is not required if the local government had no nonmajor federal financial assistance programs. In addition, this report is not required if the auditor did not select any nonmajor federal financial assistance program transactions during the financial statement audit or the consideration of the internal control structure. The auditor may combine this report with the auditor's report on specific requirements applicable to major federal financial assistance programs.

Report on the Internal Control Structure in Accordance With Government Auditing Standards

This report, illustrated in SOP 89-6, Example 25, identifies reportable conditions noted, and those reportable conditions determined to be material weaknesses. The report satisfies the GAO audit standards for the internal control reporting requirements of the Single Audit Act relating to the General Purpose Financial Statement audit. The AICPA issued Statement on Auditing Standards (SAS) Number 55 in April 1988. SAS No. 55 requires the auditor to consider the local government's internal control structure in an audit of financial statements in accordance with Generally Accepted Auditing Standards. However, the provisions of SAS No. 55 are not required until performing audits of financial statements for periods beginning on or after January 1, 1990. SOP 9-6 provides alternative language for the audit scope when the auditor does not implement the provisions of SAS No. 55.

Internal Controls (Accounting and Administrative) - Based on a Study and Evaluation Made as a Part of an Examination of the General Purpose or Basic Financial Statements and the Additional Tests Required by the Single Audit Act

SOP 89-6, Example 26, illustrates the report that is issued when the additional internal control evaluations required by the Single Audit Act are performed. This report must cover both the accounting and administrative controls used to administer federal financial assistance programs.

NOTE: At the time of this update, AICPA was developing guidance to amend SOP 89-6, Example 26, to incorporate the concepts of SAS No. 55 and SAS No. 63. AICPA issued an Exposure Draft for a proposed SOP on March 21, 1990. The proposed SOP would supercede SOP 89-6, Example 26.

Corrective Action Plan

The local government must provide a corrective action plan for findings and recommendations presented in its single audit report. This plan will normally differ from the traditional auditee or client response to findings. It will detail the actions taken or planned by the local government to resolve any audit findings. If issued separately, the corrective action plan should be submitted along with the single audit report.

Management Letters or Management Reports Associated With the Audit

Only reportable conditions and/or material weaknesses in internal controls need be disclosed in the audit report. However, the auditor may wish to report to management matters not considered reportable conditions. If the auditor accomplishes this by issuing a management letter or report, the auditor should refer to that communication in the internal control report. Per the President's Council on Integrity and Efficiency report review guide, such management letters must be submitted along with the single audit report.

Fraud, Abuse, or Illegal Acts

If a report on fraud, abuse, or illegal acts is issued, it must be submitted to SCO with the single audit report. Prompt notice to appropriate officials and a written report are required on fraud, abuse, or an illegal act, or indications of such acts, when they are discovered. Normally, these reports are issued separately. This requirement is discussed in Government Auditing Standards and OMB Circular A-128.

Combining Required Reports

SCO recommends independent auditors not combine any single audit reports until an official version of "combined" reports has been published. Many independent auditors will combine the required reports. For example, instead of issuing two reports for internal control, they will combine these two reports into one report. The compliance reports on specific requirements applicable to major and nonmajor federal financial assistance programs might also be combined.

Nothing in the Act, OMB Circular A-128, or any other single audit authority prohibits combining the required reports at this time. However, the AICPA has not promulgated any examples of combined reports and the federal Inspectors General have implemented a strict interpretation of the reporting requirements. As a result, single audit reports with minor deviations in the reporting requirements resulting from combining reports may not be accepted. Please be sure to discuss this issue with your independent auditor.

Report Presentation

OMB Circular A-128 states that the various single audit report parts may be bound into one volume, or presented concurrently as separate documents.

Audit Cost Recovery

California special districts are to arrange for their own auditors to perform the single audit. When selecting an independent auditor, at a minimum, the procurement standards prescribed by Attachment O to OMB Circular A-102 must be followed.

The audit costs incurred as a result of conducting audits in accordance with the Act are chargeable to federal assistance programs. These charges may be made directly or indirectly to federal awards. OMB Circular A-128 states that:

Generally, the costs of audit services charged to federal programs should not exceed the percentage of federal program costs to total funds expended by the recipient during the fiscal year. However, this percentage may be exceeded with the maintenance of proper documentation to support the additional cost.

Please note, the auditee's methodology for allocating audit costs to federal programs may be reviewed. No cost may be charged to federal assistance programs for audits required by the Act if they are not made in accordance with the provisions of OMB Circular A-128.