

AUDIT MEMO

SUBJECT: Internal Control and Federal Compliance Deficiencies	NO.: 10-02
REFERENCES: California Single Audit Report for Fiscal Year 2008-09	DATE ISSUED: May 2010

PURPOSE: This memo provides departments with the actions to be taken on findings reported in the fiscal year 2008-09 California Single Audit Report.

BACKGROUND: Annually, the Bureau of State Audits (Bureau) conducts the California statewide Single Audit—a combination of the independent audit of the state's basic financial statements and the independent audit of numerous federal programs administered by California. From July 1, 2008 through June 30, 2009, California received nearly \$107.6 billion in federal funds.

The Bureau identified weaknesses in internal controls and with federal compliance requirements. For the year ended June 30, 2009, the Bureau identified 137 findings, half of which were reported in the prior year, and 123 were identified as deficiencies in internal controls. Also, of the 37 major programs audited, 9 received qualified opinions. This is due in part to the seriousness of the state's failure to comply with certain federal requirements.

The Department of Finance (Finance), consistent with its responsibility for the business policies and practices of the state, provides the leadership to ensure such policies and practices are appropriate. Finance has assigned the Office of State Audits and Evaluations (OSAE) the responsibility to provide direction on statewide issues, and to monitor the corrective actions taken by the departments. Due to the increase in single audit findings directly related to programs receiving American Recovery and Reinvestment Act funds and the number of repeat findings, OSAE will increase its monitoring of departments' corrective actions taken.

ISSUE: Due to the heightened scrutiny of federal awards, departments need to timely address and mitigate their single audit findings.

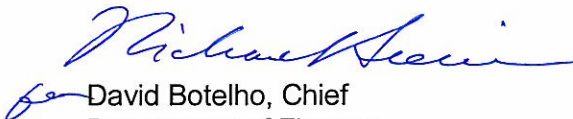
REQUIREMENTS: In accordance with its responsibility to provide direction on statewide issues and to monitor the corrective actions taken, OSAE is requiring departments to perform the following:

1. Review the 2008-09 Single Audit Report sections:
 - *Internal Control and Compliance Issues Applicable to the Financial Statements and State Requirements.*
 - *Compliance and Internal Control Issues Related to Specific Grants Administered by Federal Departments.*
2. Develop, implement, and monitor the corrective action plans for each finding. In May 2010, OSAE will provide each department with the list of their single audit findings and request specific information on the findings' status as part of the state's continuing annual single audit. In addition, OSAE will be contacting departments and following-up regarding (1) their corrective action status report, and (2) their corrective action plan to address the

Bureau's findings until the findings are fully corrected. In accordance with OSAE's responsibility to provide direction on statewide issues, OSAE will consult with departments to find effective audit resolutions, which will help strengthen departments' internal controls and improve their administration of federal awards.

3. For departments that have an internal audit unit, the *Standards for the Professional Practice of Internal Auditing* require auditors to follow-up by ascertaining that appropriate action has been taken on reported audit findings, including the determination of whether actions taken remedy the underlying conditions. In addition, the Omnibus Audit Accountability Act of 2006 outlines the internal auditing standards and processes. Accordingly, internal auditors should establish policies and procedures to regularly follow-up on all of their department's single audit findings.

Please distribute this Audit Memo to the appropriate staff within your organization. If you have any questions, please contact Rick Sierra, Assistant Chief, at (916) 322-2985, Extension 3103. A complete copy of the fiscal year 2008-09 Single Audit Report can be obtained on our Internet site at: http://www.dof.ca.gov/osae/audit_reports/documents/SingleAudit08-09.pdf


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