



# CALIFORNIA STATE AUDITOR

Elaine M. Howle, State Auditor

# FACT SHEET

Date: March 30, 2010

Report: 2009-002

The California State Auditor released the following report today:

**State of California**  
*Internal Control and State and Federal Compliance Audit Report for the  
Fiscal Year Ended June 30, 2009*

## BACKGROUND

Since 1985 and as mandated in statute, the State Auditor's Office, and its predecessor, has annually conducted California's 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. The federal government requires the Single Audit to be conducted as a condition for California to receive billions of dollars in federal funds each year. From July 1, 2008 through June 30, 2009, California received nearly \$107.6 billion in federal funds to carry out 335 programs or program clusters—with \$44.2 billion for education programs and \$34.3 billion for health and human services programs. We audited 37 of those major federal programs or program clusters totaling \$104.6 billion, which represents 97 percent of the total federal assistance California received.

## KEY FINDINGS

For our audit of California's internal controls and compliance with state and federal laws and regulations for the year ended June 30, 2009, we reviewed the major federal programs or program clusters in 17 state departments. Below are some key results:

- More than half of the 137 findings we identified in this audit were also reported in the prior year. Further, in these findings, we noted:
  - ✓ 123 deficiencies in internal controls, which are those management and program policies, procedures, and guidance that help ensure effective and efficient use of resources; prevention and detection of fraud, waste, and abuse; and the reliability of financial reporting.
  - ✓ The State's failure to comply with certain federal requirements was so serious in nine of the 37 major programs or program clusters that we had to qualify our opinion. Further, we could not express an opinion as to whether the State complied with certain requirements for 10 additional programs or program clusters because of insufficient documentation.
- We also reported issues that encompass all programs and are therefore statewide issues:
  - ✓ California's automated accounting system does not identify expenditures of federal awards for each individual federal program. As a result, the State prepares its Schedule of Federal Assistance (Schedule) on a cash-receipts basis instead of an expenditure basis as required under U.S. Office of Management and Budget Circular A-133.
  - ✓ When preparing its Schedule for fiscal year 2008–09, California identified funding received under the American Recovery and Reinvestment Act of 2009 (Recovery Act) based on e-mail assertions from its various state departments, as opposed to relying on accounting records. As a result, there is a heightened risk that the Recovery Act amounts shown on the Schedule may be inaccurate given the manner in which the state compiled this information.
  - ✓ The State cannot ensure local governments are taking prompt and appropriate corrective action to address audit findings after it receives the local governments' audit reports. The federal government requires the State as the pass-through entity to evaluate corrective action plans submitted in response to audit findings within six months of receiving the local governments' audit reports. However, our review found that the State Controller's Office (SCO)—which is responsible for obtaining and distributing these reports to state departments if audit findings are noted—did not always provide these reports to state departments immediately upon receipt. As a result, in some cases the SCO's practice has limited state departments' ability to issue timely assessments of corrective action plans.

