

**CALIFORNIA STATE  
AUDITOR'S OFFICE**

**SACRAMENTO, CALIFORNIA**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2016**

# CALIFORNIA STATE AUDITOR'S OFFICE

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## **INDEPENDENT AUDITOR'S REPORT**

**Little Hoover Commission  
Sacramento, California**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the State Audit Fund of the California State Auditor's Office (State Auditor), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State Auditor's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Little Hoover Commission**

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***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the State Audit Fund of the State Auditor, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively compromise the State Auditor's basic financial statements. The budgetary comparison schedule and the schedule of expenditures are presented for the purpose of additional analysis and are not a required part of the financial statements.

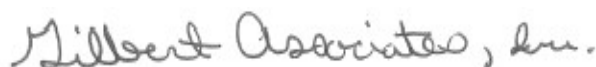
The budgetary comparison schedule and the schedule of expenditures are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule and the schedule of expenditures are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the State Auditor, and do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016 on our consideration of the State Auditor's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State Auditor's internal control over financial reporting and compliance.



**GILBERT ASSOCIATES, INC.  
Sacramento, California**

**December 16, 2016**

**CALIFORNIA STATE AUDITOR'S OFFICE**

**STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET  
JUNE 30, 2016**

	<u>State Audit</u> <u>Fund</u>	<u>Adjustments</u> <u>(Note 3)</u>	<u>Statement</u> <u>of Net Position</u>
<b>ASSETS:</b>			
Cash available	\$ 8,664,575		\$ 8,664,575
Due from other funds	3,776,884		3,776,884
Prepaid expenses	181,622		181,622
Capital assets, net		\$ 492,120	492,120
Total assets	<u>\$ 12,623,081</u>	<u>492,120</u>	<u>13,115,201</u>
<b>LIABILITIES:</b>			
Accounts payable	\$ 649,264		649,264
Due to other funds	28,881		28,881
Compensated absences due within one year		943,446	943,446
Compensated absences due in more than one year		1,541,121	1,541,121
Long-term lease liability			
Total liabilities	<u>678,145</u>	<u>2,484,567</u>	<u>3,162,712</u>
<b>DEFERRED INFLOW OF RESOURCES RELATED TO OPERATING LEASE:</b>			
		<u>2,082,987</u>	<u>2,082,987</u>
<b>FUND BALANCE/NET POSITION:</b>			
Committed fund balance	<u>11,944,936</u>	<u>(11,944,936)</u>	
Total liabilities and fund balance	<u>\$ 12,623,081</u>		
Net position:			
Invested in capital assets		492,120	492,120
Unrestricted		<u>7,377,382</u>	<u>7,377,382</u>
Total net position		<u>\$ 7,869,502</u>	<u>\$ 7,869,502</u>

**CALIFORNIA STATE AUDITOR'S OFFICE**

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>State Audit Fund</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
<b>EXPENDITURES/EXPENSES:</b>			
Audit activities:			
Personnel	\$ 20,064,160	\$ (50,642)	\$ 20,013,518
General	3,310,351	1,700,376	5,010,727
Consulting Services	2,204,916		2,204,916
Travel	723,070		723,070
Printing	93,512		93,512
Training	91,225		91,225
Depreciation		<u>115,677</u>	<u>115,677</u>
Total expenditures/expenses	<u>26,487,234</u>	<u>1,765,411</u>	<u>28,252,645</u>
Transfers in from other funds	<u>26,140,230</u>		<u>26,140,230</u>
Excess (deficiency) of transfers over (under) expenditures	(347,004)	347,004	
Changes in net position		<u>(2,112,415)</u>	<u>(2,112,415)</u>
<b>FUND BALANCE/NET POSITION:</b>			
Beginning of the year	<u>12,291,940</u>	<u>(2,310,023)</u>	<u>9,981,917</u>
End of the year	<u>\$ 11,944,936</u>	<u>\$ (4,075,434)</u>	<u>\$ 7,869,502</u>

# CALIFORNIA STATE AUDITOR'S OFFICE

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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### 1. DEFINITION OF THE REPORTING ENTITY

The financial statements present information on the financial activities of the California State Auditor's Office (State Auditor), which is an agency within the State of California funded primarily by the state's General Fund and the Central Services Cost Recovery Fund. The State Auditor was established by SB37, on May 7, 1993. The State Auditor provides independent audits of the programs and fiscal operations of the State of California. As an agency of the State of California, the related financial information is included in the totals for the State of California's basic financial statements.

The State of California established the State Audit Fund and provided that the cost of audits made by the State Auditor would be supported from the fund. The Milton Marks Commission on California State Government Organization and Economy, commonly referred to as the Little Hoover Commission, is responsible for the oversight of the State Auditor.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State Auditor's Office conforms to generally accepted accounting principles as applicable to governments. The following is a summary of significant accounting policies:

#### A. FUND ACCOUNTING

The accounts of the State Auditor are organized in accordance with principles of fund accounting under standards issued by the Governmental Accounting Standards Board (GASB). Fund accounting is the process by which resources for various purposes are classified for accounting and reporting purposes into funds established in accordance with their nature and purpose. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, expenditures and transfers.

#### B. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the State Auditor. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Separate financial statements are provided for the State Auditor's operating fund, the State Audit Fund, a governmental fund type. This governmental fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the revenues are considered to be available if they are collected within 12 months of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

# CALIFORNIA STATE AUDITOR'S OFFICE

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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### C. DEFERRED INFLOW OF RESOURCES RELATED TO OPERATING LEASE

Deferred inflows of resources represent an acquisition of resources that apply to a future period(s) and will not be recognized as an inflow of resources until that time. The State Auditor's deferred inflows of resources represent rent expense recognized in excess of rental payments made. Note 9 explains the terms and recognition of expenses related to the operating lease.

### D. BUDGETS AND BUDGETARY ACCOUNTING

For the fiscal year 2015-2016, the State Auditor's budget appropriation was \$31,511,000 including reimbursements of \$710,000. The level of legal expenditure control is the current budget appropriation plus the carryover of the balance in the State Audit Fund.

The accompanying Budgetary Comparison Schedule is compiled using the State of California's legal basis accounting practices. The accounting records of the State Auditor are compiled using the legal basis to maintain budgetary accountability for the State Auditor's appropriation. After legal basis financial reports are prepared, adjustments are made to convert the legal basis financial reports to financial statements that conform to generally accepted accounting principles. The primary difference between the legal basis accounting practices and generally accepted accounting principles is the treatment of encumbrances.

### E. CAPITAL ASSETS AND DEPRECIATION

Capital assets, which include mainly computers, communications systems, and office equipment, are reported in the government-wide financial statements. The State Auditor's policy is to capitalize all capital assets with a useful life of at least one year and a unit acquisition cost of at least \$5,000. Depreciation is recorded using the straight-line method over the estimated useful lives of the capital assets, which range from 2 to 5 years. Depreciation expense for the year ended June 30, 2016 was \$115,677.

### F. FUND BALANCE

The fund balance remaining in the State Audit Fund at June 30, 2016 is committed. Government code section 8455.5(a) authorizes the State Audit Fund to receive transfers from the General Fund and the Central Services Cost Recovery Fund in the amount necessary to reimburse the State Audit Fund for the costs of audits to be performed and other expenses incurred by the State Auditor in fulfilling his or her responsibility. These funds are committed because a change in the use of the fund would require legislation, which is the highest level of decision making authority.

### G. RISK MANAGEMENT

The State Auditor is funded through the State of California's General Fund and Central Services Cost Recovery Fund, which are primarily self-insured against loss or liability. The State generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs or becomes fixed and determinable. There were no accrued losses at June 30, 2016 that met this criterion in the State Audit Fund. Additional disclosure details required by the Governmental Accounting Standards Board regarding risk management are presented in the basic financial statements of the State of California.



**CALIFORNIA STATE AUDITOR'S OFFICE**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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H. USE OF ESTIMATES

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

**3. RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET POSITION**

A. EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The following represents reconciliation between the governmental funds, fund balance, and the government-wide net position:

Fund balance	\$ 11,944,936
Amounts reported for governmental activities in the statement of net position are different because:	
Fixed assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The cost of the fixed assets is \$968,273, and the accumulated depreciation is \$476,153.	492,120
Long-term liabilities, including accrued vacation, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	(2,484,567)
Deferred inflows of resources relating to operating leases are not recognized in the governmental funds because they are applicable to future periods.	<u>(2,082,987)</u>
Net position	<u>\$ 7,869,502</u>

**CALIFORNIA STATE AUDITOR'S OFFICE**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

The following represents reconciliation between the governmental funds statement of revenues, expenditures, and changes in fund balance, net changes in fund balance and changes in net position of governmental activities as reported in the government-wide statement of activities:

Net change in fund balance \$ (347,004)

Amounts reported for governmental activities in the statement of activities are different because:

Personnel expense adjustments:

In the statement of activities, certain operating expenses – vacation accruals – are measured by the amounts earned each year. In the governmental fund, however, expenditures for this item are measured by the amount of financial resources used. This amount is the effect of a decrease in compensated absences in the current period. 50,642

General expense adjustments:

Governmental funds report fixed assets as expenditures. However, in the statement of net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount is the effect of depreciation expense for the current period. 382,611

In the statement of activities, certain operating expenses – lease accruals – are measured by recognizing the expense on the straight-line basis over the term of the lease. In the governmental fund, however, expenditures for this item are measured by the amount of financial resources used. This amount is the effect of an increase in deferred inflows related to leases in the current period. (2,082,987) (1,700,376)

Depreciation expense adjustments:

Governmental funds report fixed assets as expenditures. However, in the statement of net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount is the effect of depreciation expense for the current period. (115,677)

Change in net position \$ (2,112,415)

# CALIFORNIA STATE AUDITOR'S OFFICE

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### 4. CASH AVAILABLE

Cash available is held in the State Treasury in two separate accounts and, at June 30, 2016, consists of the following:

General	\$ 8,066,750
Revolving imprest/petty cash	<u>597,825</u>
Total cash available	<u>\$ 8,664,575</u>

The State Treasurer administers a pooled investment program. This program enables the Treasurer to combine available cash from all funds within their respective systems and to invest cash that exceeds current needs to maximize returns.

The State Treasurer has agreements with certain banks to maintain cash on deposit that does not earn interest income for the State. Income earned on these deposits compensates the banks for services and uncleared checks that are deposited in the State's accounts.

All demand and time deposits that were held by financial institutions at year-end were insured by federal depository insurance or by collateral held by the State or by an agent of the State in the State's name. The California Government Code requires collateral pledged for demand and time deposits to be held by the State Treasurer.

Additional disclosure details required by Governmental Accounting Standards Board Statement No. 3 and No. 40 regarding cash deposits and investments are presented in the basic financial statements of the State of California.

### 5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets, being depreciated:				
Equipment	\$ 679,656	\$ 382,611	\$ (93,994)	\$ 968,273
Less accumulated depreciation for:				
Equipment	<u>(454,470)</u>	<u>\$ (115,677)</u>	<u>93,994</u>	<u>(476,153)</u>
Total capital assets, net	<u>\$ 225,186</u>	<u>\$ (266,934)</u>	<u>\$</u>	<u>\$ 492,120</u>

# CALIFORNIA STATE AUDITOR'S OFFICE

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### 6. LONG-TERM LIABILITIES

State Auditor employees are granted vacation in varying amounts, depending upon the employees' length of service. These hours are accrued for all employees on the basis of monthly payrolls. Upon separation, employees are paid for accumulated vacation days. All vacation pay is accrued when incurred in the government-wide financial statements as compensated absences. Accrued vacation for State employees follows them from agency to agency and was not necessarily earned since the inception of employment with the State Auditor. Long-term liability activity for the year ended June 30, 2016, was as follows:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 2,535,209	\$ 1,302,330	\$ (1,352,972)	\$ 2,484,567	\$ 943,446

### 7. RETIREMENT PLAN

All eligible State Auditor employees participate in the California Public Employees' Retirement System (CalPERS), which is included in the State of California's (State) Comprehensive Annual Financial Report in the General Fund. CalPERS administers the Public Employees' Retirement Fund (PERF). PERF is an agent multiple-employer defined benefit retirement plan. Funds, departments and agencies within the State, including the State Auditor, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State funds/agencies. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at [www.calpers.ca.gov](http://www.calpers.ca.gov).

The significant actuarial assumptions used to compute the actuarially determined State contribution requirements are the same as those used to compute the State pension benefit obligation as defined by CalPERS. The State charges the State Auditor's Office for its share of required contributions. For the year ended June 30, 2016, the State Auditor's Office was charged \$3,479,909, for its share of the CalPERS contribution.

Generally, full-time and permanent part-time employees are eligible to participate in CalPERS. The benefits for the Plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five or ten years of credited service.

Additional disclosure detail required by Government Accounting Standards Board Statement No. 68, regarding the defined benefit plan are presented in the Comprehensive Annual Financial Report of the State of California, which is available on the State Controllers website at [www.sco.ca.gov](http://www.sco.ca.gov).

### 8. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The State of California (the State) provides health care and dental benefits to annuitants of retirement systems to which the State contributes as an employer. A portion of the State's post-retirement benefit costs are attributable to the employees of the State Auditor.

# CALIFORNIA STATE AUDITOR'S OFFICE

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Additional disclosure detail required by Government Accounting Standards Board Statement No. 45, regarding post-retirement benefits are presented in the Comprehensive Annual Financial Report of the State of California.

### 9. COMMITMENTS AND CONTINGENCIES

#### OPERATING LEASES

The State Auditor negotiated a lease agreement for office space commencing in September 2013 and ending on August 31, 2024. The lease was amended in September 2014 to include additional office space. The base rent under the lease is a "fully serviced" gross rent inclusive of base rent, operating expenses, real estate taxes, insurance premiums and other charges. The base rent is adjusted annually. The lease term includes reduced rent periods at the beginning and ending of the lease and scheduled rent increases. The State Auditor also negotiated a lease agreement for storage space commencing on September 1, 2014 and ending on August 31, 2024. The monthly rent is adjusted annually based on the consumer price index.

Rent expense is recognized on a straight-line basis over the term of the lease. Deferred inflows of resources at June 30, 2016 of \$2,082,987 represent rent expense recognized in excess of rental payments made, resulting from reduced rent periods at the beginning and ending of the lease and scheduled rent increases. Rents paid under operating leases were \$2,006,467 for the year-ended June 30, 2016.

The base rent for the remaining terms of the leases by fiscal year are shown as follows:

<u>Fiscal Year Summary</u>	<u>Office Lease</u>	<u>Storage Lease</u>	<u>Total</u>
2016-2017	\$ 2,033,517	\$ 6,336	\$ 2,039,853
2017-2018	2,069,938	6,336	2,076,274
2018-2019	2,106,359	6,336	2,112,695
2019-2020	2,142,781	6,336	2,149,117
2020-2021	2,179,202	6,336	2,185,538
2021-2022	2,215,623	6,336	2,221,959
2022-2023	2,252,044	6,336	2,258,380
2023-2024	2,288,465	6,336	2,294,801
2024-2025		6,336	6,336
Total	<u>\$ 17,287,930</u>	<u>\$ 57,024</u>	<u>\$ 17,344,954</u>

#### SICK LEAVE

A contingent liability exists at June 30, 2016 of \$690,767 for accumulated sick leave. Accumulated sick leave benefits are not recognized as liabilities. The policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable.

**CALIFORNIA STATE AUDITOR'S OFFICE**

**SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
(SEE NOTE 2 C)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>FUNDS AVAILABLE:</b>				
General Fund appropriation	\$ 17,541,000	\$ 17,541,000	\$ 17,541,000	
Central Service Cost Recovery Fund	13,260,000	13,260,000	13,260,000	
Reimbursements	<u>710,000</u>	<u>710,000</u>	<u>577,250</u>	\$ <u>132,750</u>
Total funds available	<u>\$ 31,511,000</u>	<u>\$ 31,511,000</u>	<u>\$ 31,378,250</u>	\$ <u>132,750</u>
<b>EFFECT OF OPERATIONS:</b>				
Transfers in from other funds	<u>\$ 31,511,000</u>	<u>\$ 31,511,000</u>	<u>\$ 26,140,230</u>	\$ <u>5,370,770</u>
Expenditures:				
Personnel	25,650,000	25,650,000	20,064,160	5,585,840
General	2,861,000	2,861,000	3,254,337	(393,337)
Consulting services	2,250,000	2,250,000	413,471	1,836,529
Travel	500,000	500,000	723,070	(223,070)
Training	140,000	140,000	91,225	48,775
Printing	<u>110,000</u>	<u>110,000</u>	<u>93,512</u>	<u>16,488</u>
Total expenditures	<u>31,511,000</u>	<u>31,511,000</u>	<u>24,639,775</u>	<u>6,871,225</u>
Increase to fund balance	<u>\$</u>	<u>\$</u>	<u>\$ 1,500,455</u>	\$ <u>1,500,455</u>

# CALIFORNIA STATE AUDITOR'S OFFICE

## SUPPLEMENTARY INFORMATION SCHEDULES OF EXPENDITURES - FUND BASIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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### PERSONNEL EXPENDITURES:

Audit staff and administrative salaries	\$ 13,821,620
Benefits	<u>6,242,540</u>
Total personnel expenditures	<u>\$ 20,064,160</u>

### GENERAL EXPENDITURES:

Office lease	\$ 2,034,329
Equipment purchase	468,217
Data processing	262,770
Leasehold improvements	116,166
Miscellaneous	107,844
Subscriptions	83,898
Telephone	51,868
Recruiting expense	43,226
Overhead	39,916
Supplies	38,187
Conferences and registration	27,272
Professional dues	17,566
Postage and messengers	12,656
License fees	<u>6,436</u>
Total general expenditures	<u>\$ 3,310,351</u>

**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***

**Independent Auditor's Report**

**Little Hoover Commission  
Sacramento, California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the State Audit Fund of the California State Auditor's Office (State Auditor), an agency within the State of California as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State Auditor's basic financial statements, and have issued our report thereon dated December 16, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the State Auditor's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Auditor's internal control. Accordingly, we do not express an opinion on the effectiveness of the State Auditor's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State Auditor's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**December 16, 2016**