California
Arts Council

CALIFORNIA ARTS COUNCIL

ARNOLD SCHWARZENEGGER, GOVERNOR

CELEBRATING EXCELLENCE IN THE ARTS SINCE 1976

MURIEL JOHNSON, DIRECTOR

March 3, 2008

Mr. Michael C. Genest, Director
c/o Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Dear Mr. Genest:

We are providing this letter in connection with the audit of the basic financial statements of the State of California, as of June 30, 2007, and for the period then ended. We are responsible for assuring that our Department's financial reports conform with legal and regulatory requirements and the State Administrative Manual. The State Controller's Office relies upon state agency financial reports as well as their own records to prepare the general purpose financial statements of the State of California. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and designing and implementing programs and controls to prevent and detect fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm to the best of our knowledge and belief, as of March 3, 2008, the following representations:

1. The financial statements prepared by our Department are fairly presented in conformity with generally accepted accounting principles in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

2. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on our financial statements.

3. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of federal assistance.

1300 I STREET, SUITE 930 SACRAMENTO, CA 95814 (916) 322-6555 FAX (916) 322-6575 WWW.CAC.CA.GOV

4. We have no knowledge of any—

   a. Fraud or suspected fraud involving management or employees who have significant roles in internal control.

   b. Fraud or suspected fraud involving others that could have a material effect on our financial statements.

   c. Allegations of fraud or suspected fraud affecting the State of California received in communications from employees, former employees, analysts, regulators, or others.

5. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.

6. The following, if any, have been properly recorded or disclosed in our financial statements:

   a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, guarantees, and amounts receivable from or payable to related parties.

   b. Guarantees, whether written or oral, under which the State of California is contingently liable.

   c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates are reasonable in the circumstances, consistently applied, and adequately disclosed.

   d. All component units as well as joint ventures with an equity interest and all other joint ventures and other related organizations.

   e. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.

   f. Agreements to repurchase assets previously sold.

   g. Amounts due to other governments for services mandated by the State during fiscal year 2006-07 or earlier, even if no appropriation has been made to satisfy the obligations.

7. We are responsible for our Department's compliance with laws, regulations, and provisions of contracts and grant agreements applicable to it; including tax or debt limits and debt contracts; and we have identified and disclosed to the auditor all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

8. There are no—

a. Violations or possible violations of the Budget Act, laws and regulations (including those pertaining to adopting and amending budgets), provisions of contracts or grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in our financial statements or as a basis for recording a loss contingency, or reporting on noncompliance.

b. Unasserted claims or assessments that counsel has advised are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies.*

c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.

d. Reservations or designations of fund equity that were not properly authorized or approved.

9. The State of California has satisfactory title to all Department owned assets, and there were no liens or encumbrances on such assets nor has any asset been pledged as collateral.

10. The Department has complied with all aspects of contractual agreements that would have a material effect on our financial statements in the event of noncompliance.

11. With respect to the federal award programs:

a. We are responsible for complying, and have complied with, the requirements of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133).

b. The schedule of federal assistance is accurate and complete in all material respects. We have identified for you awards provided during the year ended June 30, 2007, by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees and other non-cash awards, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

c. We are responsible for complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs.

d. We are responsible for establishing and maintaining, and have established and maintained effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs. We believe that internal control is adequate and is functioning as intended. Also, there have been no changes subsequent to June 30, 2007, in internal control over compliance or other factors that might significantly affect internal control, except for corrective action taken with regard to reportable conditions (including material weaknesses) as disclosed in the corrective action plan in the schedule of findings and questioned costs.

e. We have received no requests from a federal agency to audit one or more specific programs as a major program.

f. Amounts claimed or used for matching were determined in accordance with the applicable cost circulars and administrative requirements

g. Information presented in federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the Department's basic financial statements have been prepared.

h. We have charged costs to federal awards in accordance with applicable cost principles.

i. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133.

j. Except as disclosed to you in an attachment to this letter, if applicable, we have issued management decisions on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and ensured that subrecipients have taken appropriate and timely corrective action on findings. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.

k. There have been no irregularities or instances of fraud involving management, employees who administer federal programs, or other employees that could have a material effect on federal programs.

l. There has been no known noncompliance occurring subsequent to June 30, 2007, or events occurring subsequent to that date that would require adjustment to or disclosure in the schedule of federal assistance.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Sincerely,

Signed _____ Date: March 3, 2008
Muriel Johnson, Director

Signed _____ Date: March 3, 2008
Scott Heckes, Chief of Administration