

LEGISLATIVE AUDIT DIVISION

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MEMORANDUM

TO: Members of the Legislative Audit Committee

FROM: Cindy Jorgenson, Deputy Legislative Auditor
Jeane Carstensen-Garrett, Audit Manager
Jenny Erdahl, Audit Manager
Alexa O'Dell, Audit Manager
Karen E. Cohlhepp, Audit Manager

DATE: January 2024

RE: Financial Audit Model Reform – Scope Reductions for Selected State Agencies

ATTACHMENT: A - Federal and ACFR Support Work at Selected State Agencies

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We have started the transition to the new financial-compliance audit model envisioned under HB 132 of the 68th legislative session. As part of this process, we identified six audits currently underway of agencies whose most significant activity is audited in support of the Single Audit and/or the Annual Comprehensive Financial Report (ACFR). We believe it is prudent to limit these agency audits to the work necessary to support Single Audit and the ACFR audit. In taking this approach, we will forgo the issuance of a separate blue cover report for these agencies, which will save an estimated 800 hours and prevent historically duplicative audit reporting.

The six audits we identified are:

- Montana State University (MSU) compliance audit
- University of Montana (UM) compliance audit
- Department of Labor & Industry (DoLI)
- Department of Commerce
- Department of Public Health & Human Services (PHHS), and
- Department of Transportation (MDT).

The objective of the MSU and UM compliance audits is to determine compliance with the Research & Development, Student Financial Aid, and Education Stabilization – Higher Education Emergency Relief Fund (HEERF) federal programs. Federal findings identified during these audits are required to be included in the Single Audit report. As a result, issuing separate reports for MSU and UM compliance work unnecessarily duplicates reporting effort. We do not anticipate any changes to report issuance for the separate university financial statement audits.

For the other four agencies identified, we complete a significant amount of audit work to support Single Audit and the ACFR. In our judgment, the work completed over the financial activities of these agencies in support of the ACFR audit represents the riskiest activity at these agencies. We do not consider the additional work, beyond the ACFR support work, we traditionally do to issue an opinion at the agency level necessary to reduce risk of material misstatement for the state as a whole. If we identify any

significant deficiencies or material weaknesses over financial reporting though our audit work, we will consider them at the ACFR level and report them in the Statewide report as appropriate. Additionally, we complete significant federal compliance testing over federal programs at these agencies in support of the Single Audit. Any findings required to be reported for these federal programs will be included in the state's Single Audit report. Please see Attachment A for the activity audited at these agencies.

For each of the six audits, we will discuss this proposal with the affected state agencies and then modify the terms of the engagement to forgo issuing the agency audit report. We do intend to issue a summary product for each agency in lieu of an audit report for the committee's reference during the Statewide and/or Single Audit presentations.

Audit Committee Reporting

Audit reporting is a vital component of the Audit Committee's accountability role and will continue, even if we pursue these changes. Under this proposal the Legislative Audit Committee will continue to hold hearings where department directors or other responsible officials are present to present information and respond to questions. Audit Committee hearings will be structured around ACFR, Federal Single Audit, and standalone summary reports as necessary. For FY 2024, we anticipate the committee's June meeting will be the primary focus for this reporting.

We welcome any input you have at this stage in the transition process.

Attachment A – Federal and ACFR Support Work at Selected State Agencies

Agency	Federal Program	ACFR Activity Covered
DoLI	<ul style="list-style-type: none"> Unemployment Insurance (UI) 	UI is a separate opinion unit in the ACFR. The DoLI audit will complete audit work over UI activity.
Commerce	<ul style="list-style-type: none"> Coronavirus State & Local Fiscal Recovery Funds Emergency Rental Assistance Section 8 Projects Based Cluster Housing Voucher Cluster 	The Commerce audit covers cash, revenues, deferred revenues and expenditures activity related to the major federal programs. Additionally, local government investments are administered by the Board of Investments. The Board is audited separately. The results of that audit are considered in reviewing the Short Term Investment Pool (STIP) and Trust Fund Investment Pool (TFIP) investment activity recorded by the department.
MDT	<ul style="list-style-type: none"> Highway Planning and Construction Formula Grants for Rural Areas & Tribal Transit Program 	The MDT audit completes work over fuel taxes as well as revenues and expenditures related to the Highway Planning and Construction major federal program. Additionally, this major federal program is largely constructing or maintaining infrastructure such as roads and bridges. We complete audit work over these asset balances.
PHHS	<ul style="list-style-type: none"> Adoption Assistance Child Care and Development Block Grant Children's Health Insurance Program Epidemiology and Laboratory Capacity for Infectious Diseases Foster Care Title IV-E Immunization Cooperative Agreements Medicaid Cluster Pandemic EBT Food Benefits Supplemental Nutrition Assistance Program Cluster Temporary Assistance for Needy Families 	The significant activity at PHHS is administration of federal grants. As result, we complete audit work over federal revenues and expenditures as well as some General Fund and state special revenue fund expenditures that are primarily used as required match dollars for the federal programs.
MSU	<ul style="list-style-type: none"> Research & Development Student Financial Aid Education Stabilization – Higher Education Emergency Relief Fund (HEERF) 	The universities are component units of the state. Therefore, we audit the universities' financial statements and their audited financial statements are condensed and included in the ACFR. We perform procedures to ensure the audited financial statement amounts are what is presented in the ACFR.
UM	<ul style="list-style-type: none"> Research & Development Student Financial Aid Education Stabilization – Higher Education Emergency Relief Fund (HEERF) 	