

# LEGISLATIVE AUDIT DIVISION

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## MEMORANDUM

**TO:** Members of the Legislative Audit Committee

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

**DATE:** June 17, 2024

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

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

We continue taking steps to transition to the new financial-compliance audit model envisioned under HB 132 of the 68<sup>th</sup> Legislative Session. As presented to you in January 2024, we identified six 2023 cycle audits for which we limited our work to that necessary to support the Single Audit and the Annual Comprehensive Financial Report (ACFR) audit. Since January, we identified an additional six agencies for the 2024 cycle where we plan to limit our work in a similar manner.

These six audits are:

- Department of Administration (DOA)
- Department of Revenue (DOR)
- Department of Corrections (Corrections)
- Department of Natural Resources and Conservation (DNRC)
- Department of Environmental Quality (DEQ)
- Department of Military Affairs (DMA)

The delayed submission of the Single Audit report for the two fiscal years ended June 30, 2023, will require us to complete our final biennial Single Audit in a 21-month, rather than 24-month, period. Limiting scope for these six audits will allow us to repurpose an estimated 5,500 hours to accelerating our audit schedule. We believe this will also help position our team to navigate the transition to annual Single Audits.

We complete a significant amount of financial work at DOR, DOA, and DNRC in support of our ACFR Audit. We perform more targeted financial work at Corrections and perform federal work in support of our Single Audit at DOA, DNRC, DEQ and DMA. In our judgment, the work completed over the financial or federal activities at these agencies in support of the ACFR audit and Single Audit represents the riskiest activities at those agencies. We do not consider additional financial work beyond the ACFR support work, traditionally completed to support an opinion at the agency level, to reduce risk of material misstatement for the state as a whole. Similar to our last proposal, we will forgo the issuance of separate blue cover reports for these agencies. Any identified significant deficiencies or material weaknesses in

internal control over financial reporting will be considered at the ACFR level and reported in our Statewide report as appropriate. Likewise, any findings required to be reported for federal programs will be included in the state's Single Audit report. Please see Attachment A for the financial and federal support work at these agencies.

In addition to the specific ACFR support work detailed in Attachment A, we will complete additional analytic procedures over the financial activity at these and all other state agencies as part of setting scope and assessing risk for the ACFR audit. This change is necessary to ensure we identify significant changes in agency-level financial activity and consider whether additional work is necessary to support the ACFR audit.

For each of the six agencies, we will discuss this approach as part of our entrance conferences and include appropriate details in our engagement letters. As discussed in the January 2024 memo, the Legislative Audit Committee will continue to hold hearings where department directors or other responsible officials are available to present information and respond to questions.

We welcome any input you have regarding this next step in our transition process.

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

Agency	Federal Program(s) Normally Audited	ACFR Activity Normally Audited
DOA	State and Local Fiscal Recovery Fund	The DOA audit covers General Fund cash and cash equivalents, transfers activity, and fund equity balances, as well as pension related liabilities for the state as a whole. Additionally, the Montana State Lottery is administratively attached to DOA. Montana State Lottery is audited separately and conclusions over lottery charges for services and expenditures are necessary to support the ACFR.
DOR	None	The DOR audit covers tax revenues for the General Fund, State Special Revenue Fund, and Coal Tax opinion units, as well as associated receivables and payables (i.e. tax refunds) for the state. The DOR audit also considers revenue and expenditure activity related to the state Liquor Warehouse. This audit also relies on investment assurances provided by the Board of Investments audit.
Corrections	None	The Corrections audit focuses on General Fund expenditures for room and board.
DNRC	State and Local Fiscal Recovery Fund	The DNRC audit completes work over the Land Grants opinion unit (Montana’s land trusts). Additionally, the DNRC audit covers various lease-related activities and balances as well as cash and cash equivalents, long-term loan balances, and fund equity associated with the state’s Clean Water and Drinking Water state revolving fund loan programs.
DEQ	Clean Water State Revolving Fund Cluster Drinking Water State Revolving Fund Cluster	
DMA	National Guard Operations & Maintenance Disaster Relief Fund (presidentially declared disasters)	