

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

MEMORANDUM

TO: Members of the Legislative Audit Committee
FROM: Cindy Jorgenson, CPA, Deputy Legislative Auditor *CJ*
DATE: June 5, 2023
RE: Financial Audit Model Reform
ATTACHMENT: Draft Proposed Scope of Work and Other Parties Involved

In fiscal year 2022, the Legislative Audit Committee contracted with a consultant on modernizing the overall approach to auditing the state's accounting records. In June 2022, the consultant presented several recommendations for Legislative Audit Division consideration. Four of the recommendations directly relate to financial compliance audit and closely align with the team's strategic planning efforts. The four recommendations are included in the following table:

Consultant's Recommendations Directly Related to Financial Compliance Audit	
Issue #	Recommendation
#1	It is recommended that LAD improve its communication with Agencies as soon as possible in the form of a 'reset' in the relationship between LAD and Agencies.
#3	Timelier and enhanced accountability may be achieved for certain financial audits and the overall single audit of the State by outsourcing financial and single audits of discretely presented component units, fiduciary activities, and all other business-type activities with the State's peers (See also Issue #4).
#4	Only the State of Montana and the State of North Dakota engage in biennial audits. The Deputy Legislative Auditor is drafting an analysis of the potential costs of this change.
#12	The financial schedules are ineffective based on discussions with Stakeholders. This was an issue raised in our 2013 report transmitted by Eide Bailly, LLP presented to the Department of Administration and conveyed to the LAD focusing solely on the efficacy of Departmental Schedules.

In October 2022, we discussed the results of our strategic planning work with the committee. We proposed a new audit model that includes annual Single Audits, recurring financial statement audits, and risk-based work. We also discussed a proposal to contract for the Montana State Fund audit. Subsequently, we completed a sole source contract with Eide Bailly for the calendar year 2022 financial compliance audit. The audit report should be available for the October 2023 hearing. In cooperation with State Fund personnel, we also initiated a Request for Proposal for upcoming financial compliance and regulatory audits.

In December 2022, the committee reviewed draft transition-related legislation and a timeline of potential processes and events through the 2027 biennium. The draft legislation became House Bill 132, which was passed and approved on April 19, 2023. The initial transition plan included suspending several smaller agency audits for the 2025 biennium. These include:

- Commissioner of Political Practices
- Board of Public Education
- Montana School for the Deaf & Blind
- Montana Arts Council
- State Library
- Historical Society
- Office of the State Public Defender
- Facility Finance Authority

Suspending these audits will allow us to reallocate our people resources to transition efforts. The Facility Finance Authority continues to require an audit due to external reporting requirements associated with its long-term debt. We intend to contract for the Authority's upcoming audits.

Our transition to the new financial audit model will be a multi-year project requiring involvement of many parties at both the state and national level. Attachment A summarizes our initial draft proposed scope of work and the parties we anticipate contributing to our decision making. The Legislative Audit Committee will be apprised of work status at future meetings and be provided an opportunity to contribute to decision-making processes. Advance preparations will not be necessary; we will bring information and questions to the committee

Attachment A
Financial Audit Model Reform
DRAFT Proposed Scope of Work and Other Parties Involved

Year	Proposed Scope of Work		State Agencies	Audit Committee & Other Legislators	Federal Government	Others	Parties Providing Input to Decision Making Process
FY24	1A	New Audit and Report Products				√	Peer States
FY24	1B	Audit Appropriation Methodology	√			√	Department of Administration, Office of Budget & Program Planning, Peer States
FY24	1B	Billing Rate & Audit Billing Methodology (Statewide, Single Audit, Recurring Agency Audits)	√		√	√	Legislative Branch Financial Office, Tammie Brown (US Department of Health & Human Services), Peer States
FY24	1B	Options for Billing Risk-Based Work (Including Performance and Information Systems Audits)			√	√	Tammie Brown, Peer States
FY24	1C	Financial Schedules Format	√	√		√	Legislative Fiscal Division, Executive Branch Agencies, Elected Officials, Judicial Branch, Legislative Audit Committee, Appropriations Subcommittees, Interim Budget Committees, Peer States
FY24	1D	Prior Audit Recommendation Implementation Status				√	Peer States
FY24	1E	Internal Service Fund & Charges for Services Fund Testing	√	√			Legislative Fiscal Division, Department of Administration, Appropriations Subcommittee Section A, Interim Budget Committee Section A
FY25	2A	Annual Comprehensive Financial Report Acceleration	√			√	Department of Administration, Board of Housing, Board of Investments, Facility Finance Authority, Montana State Fund, Public Employees' Retirement Administration, Teachers' Retirement System, University of Montana, Montana State University, State Auditor's Office, and associated component units; Contract and Component Unit Auditors; Peer States
FY25	2B	Annual Single Audit Transition	√				Office of Budget & Program Planning, Agencies with Major Programs
FY25	2C	Annual Comprehensive Financial Report Transition (Agency Audit Work)	√				Department of Administration, Agencies with Significant Financial Activity
FY25	2D	Risk Analysis & Audit Prioritization Process				√	Peer States
FY25	2D	Frequency of Traditional Agency Audits under Risk-Based Approach	√	√		√	Executive Branch Agencies, Elected Officials, Judicial Branch, Commissioner of Higher Education, Legislative Audit Committee, Peer States
FY25	2D	Data Analysis Methodologies				√	Peer States
FY26	3A	Capacity Analysis					
FY26	3A	Workflow Analysis					
FY26	3B	Future Staff Experience and Recruiting Needs					
FY26	3C	Alignment of Statutory Requirements (Cleanup)	√	√			Affected Agencies, Legislative Audit Committee