

# LEGISLATIVE AUDIT DIVISION

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## MEMORANDUM

**TO:** Legislative Audit Committee Members  
**FROM:** Cindy Jorgenson, CPA, Deputy Legislative Auditor  
Alison OBrien, Associate Financial-Compliance Auditor  
**DATE:** September 12, 2024  
**RE:** 2027 Biennium Audit Appropriation Estimates and HB 132 Impact  
**ATTACHMENTS:** A & B

House Bill 132 of the 68<sup>th</sup> Legislative Session requires us to transition to annual Single Audits beginning with the audit of fiscal year 2026. This timing means we will complete two separate Single Audits during the 2027 biennium:

- The final biennial Single Audit, due March 31, 2026
- The first annual Single Audit, due March 31, 2027

This transition, combined with the effect of post-pandemic economic stimulus funds, contributes to significant increases in the estimated cost of our federal testing. To accommodate this increase, we identified additional agency audits to suspend during the 2027 biennium. Our focus for the next biennium includes audits of the Annual Comprehensive Financial Report (ACFR), certain Discretely Presented Component Units, statutorily required audits, and elected officials, in addition to Single Audit.

### New Approach for Single Audit and ACFR Audit Estimates

Under §5-13-402, MCA, the legislative auditor shall bill agencies for audit services he considers necessary. Annually, as required by federal regulations, LAD calculates a billing rate by comparing actual revenues generated to the actual cost of audit services. The rate is applied to the hours estimated to complete the work to arrive at the estimated audit costs. The legislative auditor is not allowed to bill an agency for audit services in excess of amounts appropriated for those services. LAD absorbs the excess costs.

Historically, an estimated audit appropriation was prepared for each agency's financial compliance audit. These appropriations included estimated hours for testing federal programs and work performed in support of the ACFR Audit. Transition to annual Single Audits will impact our ability to accurately predict federal programs we need to test on an agency-by-agency basis. The information needed to identify the programs for our next two Single Audits will become available over the course of calendar years 2025 and 2026, respectively, well after audit appropriations are finalized.

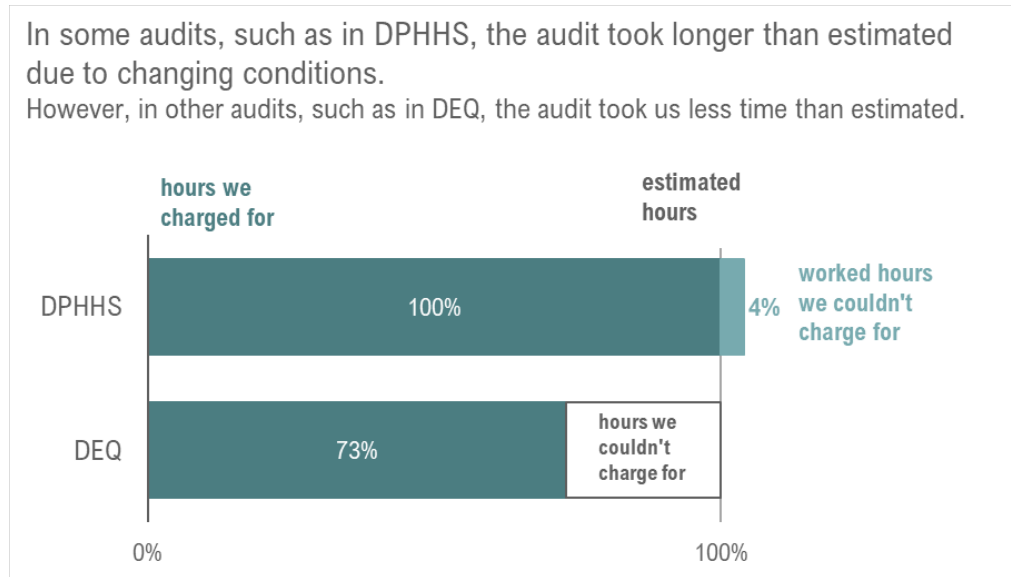
During our recent Single Audit, changing conditions impacted the time required to complete certain audits. For example, we anticipated testing two major programs at the Department of

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Environmental Quality (DEQ). When we started the Single Audit, we determined the DEQ programs met the criteria to be considered low risk, which requires no federal testing. Therefore, the audit required significantly fewer hours than originally anticipated. DEQ was only billed for the actual time to complete their audit. Programs tested at the Department of Public Health and Human Services (DPHHS) required more time than originally estimated. This was due to a continued influx of pandemic-related federal assistance and new program requirements requiring audit attention, such as Medicaid unwinding. Completing this audit required significantly more hours than originally anticipated. LAD absorbed the excess costs. The figure below illustrates how these changing conditions impact our office.



In an annual Single Audit model, we expect this scenario to occur more frequently. This is due to changes in federal funding and the requirement to replace low-risk high-dollar programs with high-risk low-dollar programs in our testing on an annual basis.

We surveyed other states to identify other acceptable methods for estimating and billing Single Audit costs. Other states use a pool approach, with billed costs subsequently allocated to agencies using an allowable allocation methodology, such as the Statewide Cost Allocation Plan (SWCAP). Other states also use this approach for ACFR audits.

We are proposing two pools, one for the Single Audit and one for the ACFR audit. All work associated with the Single Audit and ACFR audits will be billed against those pools, regardless of the underlying projected composition of the testing. There are two significant benefits to this change. First, the approach accommodates unpredictable changes in federal programs and in financial activity that impact our testing. Second, the use of a pool for Single Audit should allow agencies to enhance their compliance with §17-7-141, MCA. This statute requires agencies to charge audit costs to federal funds to the maximum extent possible. Our historical approach was not transparent enough to allow agencies to fully comply with this statute.

#### Single Audit Cost Drivers

The Single Audit estimates for the 2027 biennium are significantly higher than previously anticipated. In September 2022, we estimated the time associated with an additional Single Audit each biennium. We calculated this using fiscal year 2023 expenditures. Those estimates are

shown in the Pro Forma Estimate Column below. The submitted estimates are the hours underlying the 2027 biennium estimated audit costs.

Single Audit Estimated Hours			
	Pro Forma Estimate	Submitted Estimates	
Fiscal Year(s)	2023	2024/2025	2026
Projected Major Programs	28	30	29
Estimated Hours	8,500	17,215	16,574

The submitted estimates include factors not fully anticipated in the pro forma estimate. These include:

- Time for implementation of a new audit standard expanding information technology considerations.
- More significant America Rescue Plan Act (ARPA) activity requiring audit.
- New Infrastructure Investment and Jobs Act (IIJA) activity.
- Some programs, such as the Education Stabilization Fund, continuing to expend pandemic-related federal assistance.
- Work over the Schedule of Expenditures of Federal Awards was moved from the ACFR Audit to the Single Audit.
- A continued higher than normal volume of major programs, audit findings, and delays in receiving needed information.

We believe the transition to annual Single Audits will, over time, reduce the volume of federal findings and delays contributing to the higher hour estimates. We also anticipate a reduction in the time required to audit certain programs once the pandemic and post-pandemic federal assistance ends.

Next Steps

As required by §5-13-402, MCA, each agency includes the estimated audit costs in its proposed budget submitted to the budget director pursuant to §17-7-112, MCA. As outlined in Attachment A, the Single Audit and ACFR audit cost pools will be incorporated into the proposed budgets for the Governor’s Office and Department of Administration, respectively. Personnel at those agencies are working on plans for further allocating the costs to the agencies. Attachment B contains the estimated audit appropriations submitted to the Office of Budget and Program Planning and estimated contract audit costs.

Attachment A  
Legislative Audit Division  
Summary of Hour Estimates Used for 2026-2027 Biennium Audit Appropriations

Agency #	Agency Name	2026-2027	2024-2025	Increase (Decrease)	Percent Increase (Decrease)	Hours transferred to	
		Biennium Estimated Hours	Biennium Estimated Hours			Single Audit	ACFR Audit
2110	Judicial Branch	600	650	(50)	-8%		
3101	Governor & Lt Gov	775	1,025	(250)	-24%	√	√
<b>3101</b>	<b>Single Audit</b>	<b>33,789</b>	<b>900</b>	<b>32,889</b>	<b>3654%</b>		
3201	Secretary of State	650	600	50	8%		
3202	Comm. Of Political Practices	0	250	(250)	-100%		
3401	State Auditor	610	720	(110)	-15%	√	
3501	Office of Public Instruction	300	1,450	(1,150)	-79%	√	√
4110	Justice	994	1,150	(156)	-14%		√
4201	Public Service Regulation	450	450	-	0%		
5101	Education, Board of	0	225	(225)	-100%		
5102	CommHighEd/BdRegents	0	800	(800)	-100%		√
5103	U of M - Missoula	1,479	3,500	(2,021)	-58%	√	
5104	MSU - Bozeman	1,372	3,500	(2,128)	-61%	√	
5113	School for the Deaf & Blind	0	325	(325)	-100%		
5114	Arts Council	0	350	(350)	-100%		
5115	State Library	0	325	(325)	-100%		
5117	Historical Society	0	500	(500)	-100%		
5201	Fish, Wldlf & Parks	0	1,400	(1,400)	-100%	√	
5301	Environmental Quality	0	1,750	(1,750)	-100%	√	
5401	Transportation	0	2,450	(2,450)	-100%	√	√
5603	Livestock	0	650	(650)	-100%		
5706	Natl Resource & Conservation	0	1,850	(1,850)	-100%	√	√
5801	Revenue	0	2,300	(2,300)	-100%		√
6101	Administration	0	2,845	(2,845)	-100%	√	√
<b>6101</b>	<b>Statewide Audit</b>	<b>11,674</b>	<b>3,900</b>	<b>7,774</b>	<b>199%</b>		
6101	Administration: SABHRS	1,900	1,900	-	0%		
6101	Administration: Lottery Finan,AgencyPays	800	800	-	0%		
6101	Administration: Lottery Security Audit	770	770	-	0%		
6103	State Fund	0	1,100	(1,100)	-100%		
6104	PERD	2,300	2,250	50	2%		
6105	TRD	1,760	1,650	110	7%		
6108	Public Defender	0	775	(775)	-100%		
6201	Agriculture	0	620	(620)	-100%		
6401	Corrections	0	1,500	(1,500)	-100%		√
6501	Commerce	0	1,800	(1,800)	-100%	√	√
6501	Investments	1,350	1,350	-	0%		
6501	Facility Financing Authority	0	250	(250)	-100%		
6501	Housing	750	700	50	7%		
6602	Labor & Industry	0	1,850	(1,850)	-100%	√	√
6701	Military Affairs	0	1,200	(1,200)	-100%	√	
6901	Public Health and Human Services	0	5,400	(5,400)	-100%	√	√
TOTAL:		62,323	57,780	4,543	8%		

Attachment B  
 Legislative Audit Division  
 2026-2027 Biennium Estimated Audit Appropriations

Agency #	Agency Name	Amount
2110	Judicial Branch	\$ 59,400
3101	Governor & Lt Gov	76,725
3101	Single Audit	3,345,111
3201	Secretary of State	64,350
3401	State Auditor	60,390
3501	Office of Public Instruction	29,700
4110	Justice	98,406
4201	Public Service Regulation	44,550
5103	U of M - Missoula	146,421
5104	MSU - Bozeman	135,828
6101	Statewide Audit	1,155,726
6101	Lottery Finan, Agncy Pays	79,200
6101	Lottery Security Audit	76,230
6101	SABHRS	188,100
6104	PERD	227,700
6105	TRD	174,240
6501	Investments	133,650
6501	Housing	74,250
	Total	<u>\$ 6,169,977</u>

Contracted Audits		
Agency #	Agency Name	Amount
6103	State Fund	\$ 75,920
6501	Facility Finance Authority	\$ 53,872