

# LEGISLATIVE AUDIT DIVISION

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December 4, 2020

The Legislative Audit Committee  
of the Montana State Legislature:

During the October 2020 Legislative Audit Committee meeting, we discussed recent challenges specific to the contract audits of Montana's community colleges at Miles City and Glendive. In summary, the contractor bid for the fiscal year 2019 and 2020 audits for Miles and Dawson Community Colleges exceeds the audit cost estimates by a total of \$31,248. The Legislative Audit Division agreed to pay the contractor for the cost of services in excess of the audit cost estimate during the 2021 biennium. This cost will be charged to the division's carryforward appropriation authority. Given current economic conditions, we anticipate community college audit costs to continue to grow. Continuing to commit a portion of the Legislative Audit Division's available budget is not a sustainable long-term solution.

After the October 2020 Legislative Audit Committee meeting, we met with community college and Montana University System representatives to further discuss options for avoiding this situation in the future. Community college personnel are proposing contract management responsibilities be transferred to them, anticipating local connections may allow them to secure a lower price and develop productive relationships with the audit team. The community colleges also requested continued General Fund support for audit costs, indicating removal of that support will significantly impact their ability to secure a quality audit. The General Fund appropriations for community college support includes a provision for audit costs. For the 2021 biennium, 48.2 percent of the total maximum audit costs established in House Bill 2 are funded through General Fund appropriations, 51.8 percent from other community college funds, and the amount in excess of the maximum from the Legislative Audit Division's carryforward authority. The Attachment summarizes the statutory amendments necessary to accomplish the community college's proposal.

It is important to note the proposed statutory changes do not eliminate the federal audit requirement established by the Single Audit Act Amendments of 1996 or alter the community college's ability to continue to contract for biennial Single Audits. The U.S. Department of Education requires annual financial statement audits in conjunction with the biennial Single Audit. Allowing the community colleges to continue with biennial Single Audits is anticipated to limit audit costs in the future. The proposed changes also provide for the Legislative Audit Committee's continued receipt and consideration of the audit reports.

In the event the statutory amendments are unsuccessful, the 2022-2023 audit cost estimates are based on the current contract amounts and projected market-based salary growth and will be considered by the 67<sup>th</sup> Legislature.

We ask for the committee's support in pursuing these statutory changes.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver  
Legislative Auditor

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Attachment

cc: Casey Lozar, Chair, Board of Regents  
Clayton Christian, Commissioner of Higher Education  
(2) copies for Tyler Trevor, Deputy Commissioner for Budget & Planning, Chief of Staff  
Jane Karas, President, Flathead Valley Community College  
Rob Slinger, President, Miles Community College  
Scott Mickelsen, President, Dawson Community College

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## Attachment

### Proposed Legislation - Community College Audit Requirements

20-15-229. Audit of district. A community college district is subject to audit ~~by the legislative auditor~~ in the same manner as a state agency. A community college district ~~shall~~ ~~may~~ contract for an audit with a private accounting firm, subject to approval of the legislative auditor. The community college districts are financially responsible for the portion of the contract costs not appropriated by the legislature. The community college districts will furnish a copy of each audit report to the Legislative Auditor.

5-13-402. Audit costs. (1) Prior to July 1 of the year preceding the regular session in which the legislature is adopting a state budget, the legislative auditor shall advise each agency and the budget director of the estimated audit costs for the following biennium. Each agency shall include the estimated audit costs in its proposed budget submitted to the budget director pursuant to 17-7-112. The budget director shall notify the legislative auditor if the executive budget recommendation to the legislature for audit costs differs from that proposed by the legislative auditor.

(2) Prior to July 1 of the year preceding the regular session in which the legislature is adopting a state budget, the community college districts shall advise the budget director of the estimated audit costs for the following biennium. The budget director shall notify the community college districts if the executive budget recommendation to the legislature for audits costs differs from that proposed by the community college districts.

~~(23)~~ Not later than 60 days after adjournment of each legislature, the budget director shall provide to the legislative auditor a schedule reflecting, by fund, amounts appropriated to each agency for audit costs.

~~(34)~~ The legislative auditor shall bill agencies for audit services that the legislative auditor considers necessary. The legislative auditor may not bill an agency for audit services in excess of amounts appropriated for audit services. Additional audit-related services may be provided by the legislative auditor at a cost agreed to by an agency and billed to the agency.

#### House Bill 2 Narrative:

Total audit costs are estimated to be \$ \_\_\_\_\_ for the community colleges for the biennium. The general fund appropriation for each community college provides 48.2% of the total estimated audit costs in the \_\_\_\_\_ biennium. The remaining ~~51.8% of these~~ costs must be paid from funds other than those appropriated from Community College Assistance—~~Legislative Audit~~. Audit costs for the biennium are estimated to be \$ \_\_\_\_\_ for Flathead Valley CC, \$ \_\_\_\_\_ for Miles CC, and \$ \_\_\_\_\_ for Dawson CC.