

LEGISLATIVE AUDIT DIVISION

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September 29, 2020

The Legislative Audit Committee
of the Montana State Legislature:

The community colleges at Miles City, Glendive, and Kalispell are defined in state law as units of the Montana University System. The community colleges are under the supervision and coordination of the Board of Regents. Primary funding sources include countywide property tax levies, state General Fund distributions, tuition and fees, and federal grants. By law, community colleges are subject to audit by the legislative auditor in the same manner as a state agency. A community college may contract for an audit with a private accounting firm subject to the legislative auditor’s approval. In accordance with state law, the Legislative Audit Division (LAD) submits community college audit cost estimates as part of the biennial submission of audit cost estimates for state agencies. The community college estimates are captured in the House Bill 2 narrative as the maximum cost allowed for the audits.

Initially, the Legislative Audit Division completed the community college audits. Just over 30 years ago, the LAD instead began contracting with public accounting firms for the audits. The change was made primarily to address employee turnover resulting from extended travel assignments. As discussed during the June 2020 Audit Committee meeting, the LAD is experiencing new challenges in administering these contracts. Locating a new contractor for the fiscal year 2019 and 2020 audits took approximately 10 months and the agreed upon price exceeds the audit cost estimate for the 2021 biennium. The process involved multiple requests for proposal; a limited solicitation; and finally, directly contacting audit firms to locate a contractor willing to accept the work. Previously, contractor bids fell within the audit cost estimates submitted to the legislature. This did not hold true for the fiscal year 2019 and 2020 audits. The contract amounts for the Miles and Dawson Community Colleges exceeds the 2021 biennium audit cost estimates by a total of \$31,248.

The following table outlines the growth in the audit cost estimates and the associated contract amounts over the past several biennia. The bolded dollar amounts illustrate the \$31,248 total difference between the contract amounts and the estimated audit costs. The 2022-2023 audit cost estimates are based on the contract amounts and projected market-based salary growth and will be considered by the 67th legislature.

Fiscal Year	Flathead Valley Community College		Miles Community College		Dawson Community College	
	Audit Cost Estimate	Contract Amount	Audit Cost Estimate	Contract Amount	Audit Cost Estimate	Contract Amount
2014	\$48,585		\$44,520		\$55,000	
2015		\$51,000		\$46,900		\$32,000
2016	\$51,500	\$50,000	\$46,900	\$46,000	\$64,000	\$60,000
2017		\$54,590		\$49,714		\$67,840
2018	\$54,590	\$54,590	\$56,987	\$46,714	\$77,765	\$67,840
2019		\$58,200		\$82,000		\$84,000
2020	\$62,577		\$86,994		\$89,116	
2021		\$66,388				
2022						
2023						

To ensure the community colleges continue to receive quality audits, the LAD agreed to pay the contractor for the cost of services in excess of the audit cost estimate during the 2021 biennium. This cost is anticipated to be less than \$31,248 and 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 division's available budget is not a sustainable long-term solution as it limits our ability to achieve the initiatives outlined in our strategic plan. We estimated the cost of bringing these audits back in-house and do not believe we can perform them for a comparable price.

We believe several options are available to the Legislative Audit Committee to avoid this situation in the future. These options do not eliminate the federal audit requirement established by the Single Audit Act Amendments of 1996. The community colleges are subject to financial and compliance audits as a condition of administering federal Student Financial Aid programs. The options include, but are not limited to:

- Repeal §14 of Chapter 392, Laws of 1979, to remove the legislative auditor's responsibility for community college audits.
- Amend §§20-15-229 and 5-13-402, MCA, to exempt community college audit cost estimates from the cost limitations established in §5-13-402(3), MCA, and remove the audit cost limits from the narrative in House Bill 2.
- Amend §20-15-229, MCA, to require a community college district to contract for an audit with a private accounting firm with the approval of:
 - The legislative auditor,
 - The college's Board of Trustees,
 - The Board of Regents, or
 - The Commissioner of Higher Education.
- If legislative change limits the legislative auditor's responsibility, enact legislation requiring the community colleges to submit their audit reports to the Legislative Audit Committee.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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cc: Casey Lozar, Chair, Board of Regents
Clayton Christian, Commissioner of Higher Education
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