



Consulting Report | Executive Summary

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MONTANA LEGISLATIVE AUDIT DIVISION

Submitted By:

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**what inspires you,
inspires us.**

TABLE OF CONTENTS

Executive Summary	3
Objective & Scope	3
Issue #1	4
Issue #2	5
Issue #3	5
Issue #4	6
Issue #5	6
Issue #6	6
Issue #7	7
Issue #8	7
Issue #9	7
Issue #10	8
Issue #11	8
Issue #12	9
Part 1: Complete and File Internal Controls Questionnaire	9
Part 2: Representation Letter Submittal to DOA	10
Part 3: Budget to Actual Statements Revenue and Expenditures	12
Suggested Changes to MCA Requirements	14
Organizational Chart of the Legislative Audit Division	27



Executive Summary

Eide Bailly LLP (“we,” “our” or “us”) was engaged by the Legislative Audit Division of the State of Montana (LAD) to provide consulting services (“consulting”) of the operations of LAD as detailed in our agreed scope of services dated February 2, 2022. The consulting services comprised multiple phases, including:

- **Phase 1:** Gathering of Perspectives of Stakeholders of LAD of LAD’s efficiency, effectiveness and operations in addition to benchmarking of LAD with peer states as identified by LAD.
- **Phase 2:** Review of the existing financial schedule format.
- **Phase 3:** Operational analysis of LAD.
- **Phase 4:** Comparing the operational provisions of LAD to auditing standards.
- **Phase 5:** Legal analysis-comparing current MCA requirements to *Government Auditing Standards*.
- **Phase 6:** Providing Solutions to LAD.

The engagement identified 12 issues and related opportunities for improvement to enhance the existing processes and achieve greater efficiency and effectiveness in addition to potential changes to the State of Montana Code Annotated (MCA).

LAD Management provided a separate document to the Legislative Audit Committee of its views in response to our recommendations. Consulting services do not require a response to our recommendations from Management. However, Management desired to provide responses to our recommendations as part of our engagement. Due to the nature of our engagement, we express no opinion on the responses provided by Management.

We appreciate and thank the input of the LAD’s executive team and the leadership of the State of Montana, including the Legislative Audit Committee and the various departments and agencies who contributed to enhancing our understanding of the LAD and are deeply committed to LAD’s future.

Objective & Scope

The objective of our consulting services was to work with LAD to provide consulting to potentially modernize the overall approach to auditing the State’s accounting records as defined in the State’s Legislative Audit Act, Title 5, chapter 13, MCA.

The **Scope** of the engagement included five different phases, in addition to this Executive Summary:

- Gathering of Perspectives of Stakeholders of LAD.
- Review of the Existing Financial Schedule Format of the State of Montana.
- Provide an Operational Analysis of LAD.
- Comparing Operational Provisions of LAD to Auditing Standards.
- Provide a Legal Analysis – Comparing Current MCA Requirements to *Government Auditing Standards*.

Please note that Eide Bailly LLP is not a law firm. The changes suggested are based on our experience providing consultative services relating to the impact of laws and regulations on operations.

Our service was provided in accordance with the *Statements on Standards for Consulting Services* issued by the American Institute of Certified Public Accountants (AICPA). We did not provide audit, review, compilation or financial statement preparation services to any historical or prospective financial information or provide attestation services under the AICPA *Statements on Standards for Attestation Engagements* and assume no responsibility for any such information.

Results of Comprehensive Review of LAD

We have identified **12** summary recommendations to address the concerns noted in our work.

Issue #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.

In analyzing the comments of the interviewees, we found that these were like the recommendations in our September 2013 report that Eide Bailly LLP presented to the Department of Administration and conveyed to LAD. Paragraph 3.71 of *Government Auditing Standards* allows for technical advice and training without impairing independence.

RECOMMENDATIONS FOR ISSUE #1

1a. Initiate an all – agencies daylong meeting (an Agency Fiscal Conference) with the following agenda:

- Listening to agency concerns.
- Why LAD engagements matter.
- Changes in auditing provisions agencies need to understand from previous engagements.
- Planning for engagements.
- Internal controls.

Additional elements may be added as warranted, including the elements identified in pages 16 through 18 of our September 2013 report.

1b. Initiate a working group with LAD and the Department of Administration (DOA) that will meet at least monthly and weekly during the ACFR audit to ‘block and tackle’ problems.

1c. Initiate a second working group to meet at least semiannually involving:

- All separately audited agencies (to facilitate the group audit of the State).
- A similar number of agencies randomly picked by LAD and DOA.

The goal of this second group would be to continue to foster communication and information exchange, preventing issues from escalating and solving problems.

1d. LAD should use a ‘prepared by agency’ (PBA) list of deliverables with dates due, explaining to agencies why delivery of information untimely results in a delay of the overall state audit. The PBA lists would be established collaboratively between the agency and LAD with most important deliverables prioritized.

Issue #2: Though the Deputy Legislative Auditor and others have professional certifications, additional certifications may be necessary to embrace changes in the audit environment (See also Issue #9).

RECOMMENDATION FOR ISSUE #2

LAD should encourage certifications wherever possible, including reimbursing for cost of certification, providing for study materials, time to take examinations and potential bonuses or compensation adjustments for attaining certifications. Certifications in need will be Certified Fraud Examiner (CFE), Certified Government Financial Manager (CGFM), Certified Internal Auditor (CIA) and Certified Information Systems Auditor (CISA). Once attained, staff could lead engagements using those credentials.

RECOMMENDATION FOR ISSUE #3

A case can be made that timelier and quality financial and single audits can be had by outsourcing discretely presented component units, fiduciary activities and all other business-type activities in alignment with peers. The following would fall under that category:

- Montana State Fund (statutory audit already performed in accordance with NAICS by an independent auditor).
- Lottery.
- Montana State University.
- University of Montana.
- Board of Investments.
- Board of Housing.
- Public Employees’ Retirement Administration.
- Teachers’ Retirement System.

Issue #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 in alignment with the State’s peers (See also Issue #4).

Like every state above and every state that is not a peer, the State Auditor would remain group auditor but have a selection with input from the auditee. This would build accountability as well. A process could be in place in accordance with AU-C Section 600 *Group Audits* to set materiality and expectations, reporting and other aspects between the outsourced auditors, the agencies and the LAD. LAD has the ability in the MCAs to outsource where expertise is not available at LAD.

Issue #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.

RECOMMENDATION FOR ISSUE #4

We strongly recommend converting to an annual audit. This will produce more timely information and potentially lower the risk of some federal programs, paying dividends in the future after an initial conversion period. We are not recommending outsourcing the annual comprehensive financial report (ACFR) audit at this time as it would be a major change in the structure of LAD. We understand changes to the MCA would be necessary to do this conversion and potentially other costs may occur. But we think this is vital for timeliness and accountability.

RECOMMENDATION FOR ISSUE #5

We recommend that the LAD, in conjunction with the Legislative branch, perform a regularly-scheduled separate engagement for compensation analysis based on:

- Credentials.
- Skill set, including engagement leadership skills (see following).
- “Customer service” (agency audit feedback).
- Upper management review.

Issue #5: LAD’s salaries for leadership (managers and above) are below the national average.

Leadership salaries should at the very least align to national averages plus inflation (given the age of the survey). **We understand that a survey is in process as of the date of this Report.**

Issue #6: LAD’s team needs additional skills to keep pace with change. LAD should also enhance their quality assurance program by establishing a separate function solely focused on quality assurance of engagements, skills enhancement and training and reporting directly to the Legislative Auditor (see also Issue #7).

RECOMMENDATION FOR ISSUE #6

Auditing is morphing into the digital age. At the very least, LAD will need data scientists and a data analytics function. Other functions may be contracted for including actuaries, statisticians, and economists as needed. We recommend that LAD outsource for Medicaid (if audited by LAD in the future). Finally, as part of other recommendations, we recommend that LAD have a quality assurance division that is independent of the other audit teams. This function would also work on training.

Changes may be necessary at LAD to comply with Statements on Auditing Standards (SAS) SAS’ 142- 145, especially regarding the data-driven provisions of evidence, the auditing of estimates, the use of third parties and other specialists, especially in investment valuations at the Board of Investments and assessing risk. As discussed in previous sections, the use of data scientists and data analytics will be a key growth area of practice. LAD needs to hire such specialists, going beyond traditional degrees and certifications.

RECOMMENDATION FOR ISSUE #7

Ideally, training would fall under the purview of a recommended division of professional services.

Training should be budgeted annually for all professional staff at a rate of \$40 per continuing professional education (CPE) credit hour (to be further refined). *Government Auditing Standards* (GAGAS) requires auditors who plan, direct, perform

engagement procedures for, or report on an engagement conducted in accordance with GAGAS (including attestations) to have at least 80 hours of CPE in every two-year period. 24 hours are required relating to subject matter directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates. The remaining 56 hours are required in subject matter that directly enhance the auditors' professional expertise to conduct engagements. At least 20 hours must be completed annually.¹

Issue #7: LAD's team should be trained in accordance with standards each year and have the budgetary resources provided for that training.

Per a review of documentation provided by LAD, staff are in process of meeting these thresholds ranging from 15 to 49 hours taken as the date of receipt. LAD does make sure 80 hours are received over the two-year period. However, compensating for those hours would be a significant benefit.

Issue #8: Executive Branch agencies should establish internal audit (IA) functions as soon as possible. IA is becoming essential for many states' operations and should eventually enhance accountability at Agencies and provide more timely audits.

RECOMMENDATION FOR ISSUE #8

We recommend a change to MCA to establish guidelines for internal control systems for various State Agencies, based on guidance provided by the Department of Administration in coordination with LAD. Part of this may include the minimum standards and credentials of internal audit (IA) at Agencies (CIA certification mandatory, as an example), for departments over a minimum threshold of budget or revenue. We understand that a proposal for IA is being developed for Executive Branch agencies. We would encourage that such a proposal be brought to fruition as it will greatly streamline LAD's work in the future.

RECOMMENDATION FOR ISSUE #9

The importance of data integrity and privacy will only increase in the future. Making this investment will strengthen the LAD's role.

Issue #9: IT audit leadership at LAD should require a CISA. The deputy position should focus solely on IT audits.

¹ *Government Auditing Standards* 2021, pars. 4.16-4.17

Issue #10: Audit Working Papers and Software are not fully electronic and use Microsoft Office Tools, which is not best practice.

RECOMMENDATION FOR ISSUE #10

We recommend that LAD transition from MS Office tools as soon as possible to an audit management software system such as CCH, CaseWare or Teammate. This transition will allow all workpapers to be easily prepared, and allow for workflow, review, closure, archiving and retrieval. LAD should also initiate a SharePoint (or similar) site to transfer workpapers from agencies securely and electronically.

AICPA AU-C Section 230.A4-A5 allows flexibility in the form, content, and extent of audit documentation dependent on factors such as:

- the size and complexity of the entity.
- the nature of the audit procedures to be performed.
- the identified risks of material misstatement.
- the significance of the audit evidence obtained.
- the nature and extent of exceptions identified.
- the need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
- the audit methodology and tools used.
- the extent of judgment involved in performing the work and evaluating the results.

In this vein, AU-C Section 230.A5 continues: Audit documentation may be recorded on paper or on electronic or other media. AICPA QC section 10 addresses an (audit organization)'s responsibility to establish procedures designed to maintain the integrity, accessibility and retrievability of documentation; for example, when original paper documentation is electronically scanned or otherwise copied to another media for inclusion in the audit file.

Due to the digital age, a best practice would be to have as many workpapers as electronically prepared, stored and indexed for retrieval.

RECOMMENDATION FOR ISSUE #11

We recommend the office continue to push for certifications at all levels and compensate for attainment. However, for inexperienced staff, LAD may want to consider skills above certifications for hire, with a provision that certifications be attained after given periods of time. LAD should consider enhancing benefits, especially for other certifications, such as those related to the CISA and CIA. On-going compensation enhancements could be beneficial in retaining staff and improving audit quality.

Issue #11: Skills and certifications at staff and rewards for those certifications should be embraced. This will enhance recruiting and advancement.

Issue #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.

RECOMMENDATION FOR ISSUE #12

Part 1: All Departments (at least) Annually, Complete and File Internal Controls Questionnaire

Based on a legislative change discussed in Part 5, we recommend that the Department of Administration work with the Legislative Auditor to determine a 'baseline' internal controls questionnaire to be filed by agencies. The plan would be updated annually or when there is a change in internal controls to be defined by the Department of Administration with the Legislative Auditor.

An agency's internal control plan (ICP) would include the following:

- Statement of compliance with MCA 5-13-315 (new internal control section proposed in Phase 5).
- Enterprise Risk Management (ERM) Components, inclusive of:
 - Internal Environment: Leadership demonstrates a commitment to integrity, ethical values, and competence.
 - Tone at the Top, Mission Statement, Ethical Expectations, Standards and Adherence to Conduct.
 - Agency Head statement of support of the Internal Control Plan.
 - Is the ICP readily available, distributed and communicated throughout the organization?
 - Objective Setting: Measurable targets or purpose of the organization's efforts.
 - Goals and Objectives are defined and aligned to the Mission Statement.
 - Event Identification" Occurrences that could prohibit the accomplishment of objectives.
 - Have risks that may impede the achievement of each objective been identified?
 - Are risks linked to objectives?
 - Risk Assessment – Impact and likelihood of occurrence for each potential risk identified.
 - Assessment of risks is performed in determining how risks should be managed.
 - Potential for Fraud is considered in assessing risks.
 - Risk Response: How the organization will respond to an event.
 - Are responses appropriate for significance of risks?
 - Necessary changes and management of risks is determined in order to achieve objectives.
 - Control Activities: Mitigation steps that are linked to risk events.
 - Policies and procedures.
 - Preventive and Detective controls.
 - Segregation of duties.
 - Are control activities linked to risks?
 - Information and Communication: Internal and external.
 - Information: Quality information is generated for and/or from both external and internal sources.
 - Communication: Internal communication is disseminated throughout the organization, and information to external parties is appropriately communicated
 - Monitoring: Each component is evaluated to keep the Internal Control Plan up to date.
 - Ongoing and separate evaluations are used to ascertain whether each of the components of ERM is present and functioning.

Each agency would file a mission statement, a current organizational chart (as of the date of preparation) and other elements of ERM as necessary and aligned to the agency's goals and objectives. LAD would then perform inquiries on the plan, including, but not limited to:

1. Does the agency have an internal control plan written in the correct format? If so, when was it last updated?
2. Is the internal control plan a high-level summarization, on a department-wide basis, of the agency's goals, objectives, risks and of the controls used by the agency to mitigate those risks?
3. Is the internal control plan supported by lower-level detail such as agency policies and procedures (details of the policies and procedures do not need to be included in the internal control plan)?
4. Were the agency head and senior management instrumental in developing the plan?
5. Does the internal control plan include an agency -wide risk assessment? Or, does the risk assessment include only fiscal? Are any business areas missing from the risk assessment?
6. Does the risk assessment identify the most significant areas that could keep the agency from attaining its mission, goals, and objectives?
7. Are the stated risks cross-referenced to internal controls?
8. Does the internal control plan include programs and controls to prevent, deter and detect fraud?
9. Do the policies, procedures, and organizational structure (control activities) attempt to control the risks that were identified in the risk assessment?
10. Does the internal control plan include information explaining how and when management monitors each ERM component in the plan?
11. Does the internal control plan describe the method that should be used by staff to report internal control issues such as unresolved reconciling items and policy violations; the process to report unaccounted for variances, losses, shortages or theft of funds or property to the Legislative Auditor?
12. Is the internal control plan shared with all employees?
13. Has the agency trained employees in internal controls within the past year? Have employees attended the internal control training provided by the Department of Administration and the Legislative Auditor?

As indicated, training would be provided by DOA and LAD. It is contemplated that this filing would be made online, and procedures would be performed by LAD to test controls annually based on the annually updated questionnaire.

We believe this would greatly enhance internal controls, lower the risk of ongoing findings, and assist in facilitating annual audits. **We believe that implementing this provision is vital but may take two years.**

Part 2: Representation Letter from Agencies with GAAP Package Submittal to DOA

DOA has a robust set of filings from Agencies already, especially from agencies without separate GAAP audits. The filings are required to assist in the preparation of the ACFR. An element that is missing is a **management's representation letter (MRL) to DOA** in accordance with AICPA AU-C Section 580. An MRL facilitates a series of reliance's on agencies to allow the DOA to sign their MRL to the LAD. The MRL would be a 'sign off' on the package submittal.

Elements of the MRL would need to be tailored to each agency by LAD working with DOA. The MRL is in writing and signed by management with appropriate responsibilities and knowledge of the matters concerned. Basic requirements of an MRL include, but are not limited to management providing:

- It is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

- For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- DOA and LAD with all relevant information and access, as agreed upon in the terms of the audit engagement.
- All transactions have been recorded and are reflected in the financial statements.
- Acknowledgement of its responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud.
- It has disclosed to DOA and LAD the results of its assessment of the risk that the financial statements may be materially misstated because of fraud.
- It has disclosed to DOA and LAD its knowledge of fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, or others when the fraud could have a material effect on the financial statements and has disclosed to LAD and DOA its knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators or others.
- All instances of identified or suspected noncompliance with laws and regulations whose effects should be considered by management when preparing financial statements have been disclosed to the DOA and LAD.
- Whether it believes the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the financial statements as a whole. A summary of such items should be included in, or attached to, the written representation.
- All known actual or possible litigation and claims whose effects should be considered by management when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.
- It believes significant assumptions used by it in making accounting estimates are reasonable.
- It has disclosed to the DOA and LAD the identity of all the entity's related parties and all the related party relationships and transactions of which it is aware, and it has appropriately accounted for and disclosed such relationships and transactions.
- All events occurring after the date of the fiscal period end and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

The date of the written representations should be as of the date of the submittal of the GAAP package by the Agency to DOA. It would be addressed to the DOA and made available to the LAD.

DOA can question the Agency about the elements of the GAAP package. If the elements change, management may sign an updated letter.

If DOA has concerns about the competence, integrity, ethical values or diligence of management or about management's commitment to, or enforcement of, these, the auditor should determine the effect that such concerns may have on the reliability of representations (oral or written) and audit evidence in general.

If written representations are inconsistent with other evidence, LAD should perform audit procedures to attempt to resolve the matter. If the matter remains unresolved, LAD should reconsider the assessment of the competence, integrity, ethical values, or diligence of management or of management’s commitment to, or enforcement of, these and should determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general.

If management does not provide one or more of the requested written representations, DOA and LAD should

- Discuss the matter with management.
- Reevaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general.
- Take appropriate actions, including determining the possible effect on the opinion in the auditor’s report on the entire State.

Part 3: Budget to Actual Statements | Revenue and Expenditures for Each Agency Subject to Appropriation

The Biennium budget contains provisions including sections delineating the beginning fund balance, the General Appropriations Act, inclusive of “HJR2” revenues and changes, “Non-HJR2” disbursements and executive proposals, other disbursements and ending fund balances. Legislative analysts also perform additional analysis on the budgetary line items once passed.

Agencies and the DLA have almost uniformly remarked that the financial schedules have outlived their efficacy. We have the following recommendation to increase accountability:

- A. *HJR2 Revenue Budget to Actual Analysis*: Each revenue source code that is more than 5% of total revenues in HJR2 would be analyzed with the following information:

<i>Dollars except where indicated</i>	Base	Statewide Present Law	Present Law Change Packages	New Proposal Change Packages	Reimbursement and Planned Reversions	Total
HJR2 As Approved for Biennium	\$	\$	\$	\$	\$	\$
Amendments to Revenue Budget						
Total of HJR2 and Amendments	\$	\$	\$	\$	\$	\$
Actual Revenue	\$	\$	\$	\$	\$	\$
Dollar Variance (Actual – Total of HJR2 and Amendments)	\$	\$	\$	\$	\$	\$
Percentage Variance (Dollar Variance / Total of HJR2 and Amendments)	%	%	%	%	%	%
Analyses of Variances more than 5 Percent	Text	Text	Text	Text	Text	Text

MONTANA LEGISLATIVE AUDIT DIVISION CONSULTING LAD22-0017NH – EXECUTIVE SUMMARY

B. *HJR2 Disbursements Budget to Actual Analysis:* Each appropriated line item would be analyzed similarly to revenue for each Agency as follows. The analyses would be limited to amounts where the dollar variance was more than 5% (over or underspending):

<i>Dollars except where indicated</i>	Biennium Appropriated Budget (A)	Amendments to Appropriated Budget (B)	Total Appropriated Budget (C)	Dollar Variance (C – A)	Actual Spending (D)	Dollar Variance (D – C)	% Variance	Analyses
Program (insert)	\$	\$	\$	\$	\$	\$	%	Text
Program (insert)	\$	\$	\$	\$	\$	\$	%	Text
Program (insert)	\$	\$	\$	\$	\$	\$	%	Text
Program (insert)	\$	\$	\$	\$	\$	\$	%	Text
Program (insert)	\$	\$	\$	\$	\$	\$	%	Text
Total	\$	\$	\$	\$	\$	\$	%	

C. *Analysis of Contracts That Do Not Lapse into the Following Fiscal Period:* A schedule would be included containing the following information on contracts that carryforward into the future biennium, that comprise beginning fund balance. Only contracts to vendors above \$10,000 would be included. No payments to individuals (such as employee payroll, retirees, or tax refunds) would be included individually:

	Contractor Name	Good(s) or Service(s) provided	Reported As:				Contract Period	Total
			Nonspendable	Restricted	Committed	Assigned		
Aggregated accrued payroll and benefits	N/A	Payroll and benefits					N/A	\$
Retiree payments	N/A	Payments to retirees					N/A	\$
Other payments to individuals	N/A	Payments to beneficiaries					N/A	\$
Balance of inventory	N/A	Inventory		N/A	N/A	N/A	N/A	\$
Nonspendable principal	N/A	Corpus of Permanent Funds		N/A	N/A	N/A	N/A	\$
Long-term notes / receivables:								
Payee 1				N/A	N/A	N/A		\$
Payee 2				N/A	N/A	N/A		\$
Payee 3				N/A	N/A	N/A		\$
Prepaid Expenses:				N/A	N/A	N/A		
Contracts that are encumbered above \$10,000:								
Program (insert)								\$
Program (insert)								\$
Program (insert)								\$
Program (insert)								\$
Total								\$

On all schedules, the fundamental question of ‘why’ would be answered. The analyses would be used for:

- The State’s Management’s Discussion and Analysis in the ACFR.
- The notes to Required Supplementary Information in a budget to actual schedule.
- Risk assessment for the following period’s audits.
- Future appropriations.

Many states that Eide Bailly interacts with have similar GAAP packages and internal control questionnaires. We believe this is an important improvement and may alleviate the staffing constraints currently experienced. Lower-level engagements would occur based on risk. Further, materiality would adjust as materiality might no longer be established at each Agency.

Suggested Changes to MCA Requirements Contained in the Montana Legislative Audit Act

We have performed a legal analysis of the Montana Legislative Audit Act (Title 5, Chapter 13) of the MCA. Each section of the MCA was compared to existing sections of GAGAS and where warranted, other authoritative literature and best practices. Where changes are suggested, a reasoning for the change is also provided.

Please note that Eide Bailly LLP is not a law firm. The changes suggested are based on our experience providing consultative services relating to the impact of laws and regulations on operations.

Where changes may be warranted:

Existing Text	Potential Changes to Section due to GAGAS	Why?
5-13-302. Appointment and qualifications.		
<p>1) (a) The committee shall appoint the legislative auditor and set the legislative auditor's salary in accordance with the rules for classification and pay adopted by the legislative council.</p> <p>(b) The legislative auditor's employment may not be conditioned based on the review, recommendation, or feedback of a state agency. However, this subsection (1)(b) does not prevent the legislative auditor from seeking feedback of state agencies for the purposes of evaluating the performance of employees of the legislative audit division.</p> <p>(c) A tie vote by the committee does not negate approval of the legislative auditor's continued employment after initial appointment or reappointment.</p> <p>The legislative auditor shall hold a degree from an accredited college or university with a major in accounting or an allied field and shall have at least 2 years'</p>	<p>None required if the Deputy Legislative Auditor is empowered to sign auditor’s reports. See 5-13-305.</p>	<p>GAGAS 4.10 – 4.11. Directors are responsible for signing the report.</p> <p>GAAS AU-C Section 220.09</p>

Existing Text	Potential Changes to Section due to GAGAS	Why?
<p>experience in the field of governmental accounting and auditing.</p>		
<p>5-13-304. Powers and duties.</p>		
<p>The legislative auditor shall: (1) conduct a financial and compliance audit of every state agency every 2 years covering the 2-year period since the last audit, unless otherwise required by state law;</p>	<p>We suggest the following edits: The legislative auditor shall: (1) conduct a financial and compliance engagement audit of every state agency annually every 2 years covering the 2-year period since the last audit, unless otherwise required by state law; The legislative auditor may engage specialists, including, but not limited to, qualified, independent, certified public accounting firms to perform these provisions to the extent deemed prudent and necessary by the legislative auditor. The engagements shall be based on provisions of Government Auditing Standards and Generally Accepted Auditing Standards, as amended from time to time. The extent of procedures performed at a state agency shall be based on an annual risk assessment with procedures developed in accordance with such standards.</p>	<p>Though Title 2, Code of Federal Regulations, Part 200.504 allows biennial audits if the state performed audits as such prior to January 1, 1987, only Montana and North Dakota remain. Due to the biennial nature, the state and all audits are presumed to be a high risk, despite risk assessment per 200.520(a).</p> <p>Further, attestation engagements (examinations, agreed-upon procedures etc.,) may be more prudent for small departments.</p>
<p>(2) conduct an audit to meet the standards and accomplish the objectives required in 5-13-308 whenever the legislative auditor determines it necessary and shall advise the members of the legislative audit committee;</p>	<p>(2) conduct an engagement audit to meet the standards and accomplish the objectives required in 5-13-308 whenever the legislative auditor determines it necessary and shall advise the members of the legislative audit committee;</p>	<p>Allows the hiring of specialists and outsourcing as needed to perform engagements where expertise is needed. (Also in 5-13-305-1).</p> <p>Aligns MCA to changes in GAGAS and GAAS, which may be amended from time to time.</p>
<p>(3) make a complete written report of each audit. A copy of each report must be furnished to the department of administration, the state agency that was audited, each member of the committee, and the legislative services division.</p>	<p>(3) make a complete written report of each engagement audit. A copy of each report must be furnished to the department of administration, the state agency that was audited, each member of the committee, and the legislative services division.</p>	<p>Allows engagements to be determined by the legislative auditor based on annual risk assessments based on internal controls questionnaire filed annually and other procedures (see other sections).</p>
<p>(4) report immediately in writing to the attorney general and the governor any apparent violation of penal statutes disclosed by the audit of a state agency and furnish the attorney general with all information available relative to the violation;</p>	<p>(4) report immediately in writing to the attorney general and the governor any apparent violation of penal statutes disclosed by the engagement involving audit of a state agency and furnish the attorney general with all information available relative to the violation;</p>	

Existing Text	Potential Changes to Section due to GAGAS	Why?
(5) report immediately in writing to the governor any instances of misfeasance, malfeasance, or nonfeasance by a state officer or employee disclosed by the audit of a state agency;	(5) report immediately in writing to the governor any instances of misfeasance, malfeasance, or nonfeasance by a state officer or employee disclosed by the engagement involving audit of a state agency;	
(6) report immediately to the commissioner of political practices any instances of apparent violations of the state code of ethics provided for in Title 2, chapter 2, part 1;	(6) – no changes needed.	
7) report immediately to the surety upon the bond of an official or employee when an audit discloses a shortage in the accounts of the official or employee. Failure to notify the surety does not release the surety from any obligation under the bond	(7) – no changes needed.	
(8) have the authority to audit records of organizations and individuals receiving grants from or on behalf of the state to determine that the grants are administered in accordance with the grant terms and conditions. Whenever a state agency enters into an agreement to grant resources under its control to others, the agency shall obtain the written consent of the grantee to the audit provided for in this subsection.	(8) - have the authority to perform an engagement involving the audit records of organizations and individuals receiving grants from or on behalf of the state to determine that the grants are administered in accordance with the grant terms and conditions. Whenever a state agency enters into an agreement to grant resources under its control to others, the agency shall obtain the written consent of the grantee to the audit provided for in this subsection.	

Existing Text	Potential Changes to Section due to GAGAS	Why?
5-13-305. Employees, consultants, and legal counsel — background checks — cure for impairment.		
<p>The legislative auditor may appoint and define the duties of employees and consultants who are necessary to carry out the provisions of this chapter within the limitations of legislative appropriations. The legislative auditor shall set the pay for employees in accordance with the rules for classification and pay adopted by the legislative council. The legislative auditor may employ legal counsel to conduct proceedings under this chapter.</p> <p>(a) The legislative auditor may not employ a prospective employee to conduct or supervise audits without conducting or having conducted a background check on the prospective employee. The background check must include a state and federal fingerprint-based check by the Montana department of justice and the federal bureau of investigation. When reporting the results of the background check, the Montana department of justice shall specifically report any previous conviction of the prospective employee for embezzlement or other financial crimes. The purpose of the background and fingerprint checks is to determine whether the prospective employee is an appropriate person to audit the records of one or more state agencies or programs.</p> <p>(b) A copy of the results of the background check must be delivered to the legislative auditor. If the legislative auditor determines, based upon the results of the background and fingerprint checks, that a prospective employee is not an appropriate person to audit one or more state agencies or programs, the legislative auditor may not employ the prospective employee.</p> <p>(3) The legislative auditor shall inform the legislative council and the legislative audit committee in writing of</p>	<p>1) The legislative auditor may appoint and define the duties of employees and consultants who are necessary to carry out the provisions of this chapter within the limitations of legislative appropriations. The legislative auditor shall set the pay for employees in accordance with the rules for classification and pay adopted by the legislative council but may also recommend adjustments to national averages as needed to the legislative audit council, based on information from the National State Auditors Association and / or a compensation study performed by a human resources consultant hired by the Legislature. The legislative auditor may employ legal counsel to conduct proceedings under this chapter.</p> <p>New Subsection (4) The legislative auditor shall establish a function responsible for policies and procedures for monitoring the Division’s System of Quality Control, training Division and state agency personnel in matters salient to the Legislative Audit Division’s functions and engagements, monitoring continuing professional education and licensure of employees and providing technical assistance to state agencies as needed. The function shall be managed independently of all other functions of the Legislative Audit Division and report to the legislative auditor and the legislative audit committee. The director of the function shall issue an annual report of the System of Quality Control and other matters in this subsection to the legislative auditor and the legislative audit committee, along with corrective actions taken.</p>	<p>The legislative auditor’s pay and the deputy legislative auditor’s pay is lower than national averages. Other provisions in terms of hiring consultants align to 5-13-304 suggested changes.</p> <p>Responds to a frequent concern of state agencies and enhances the leadership responsibilities of LAD as outlined in GAGAS 5.02 – 5.07, as well as 3.71 for technical assistance. Currently, the function is established within the office and management, but this strengthens the positioning.</p>

Existing Text	Potential Changes to Section due to GAGAS	Why?
<p>an administrative policy or rule adopted under 5-11-105 that may impair the independence of the division, along with a statement of the reasons for the opinion and suggested changes to cure the impairment. The legislative council shall review the rule in question and adopt a revision that is generally applicable to the legislative branch and that is designed to cure the impairment. While the impairment exists, the legislative audit committee may adopt a specific exemption to the questioned rule that states the alternative rule to be employed under the exemption. If prepared, a compilation of written reports must be provided to the legislature in accordance with 5-11-210.</p>		
<p>5-13-308. Audit standards and objectives.</p>		
<p>The objectives of financial compliance, performance, and information system audits of state agencies or their programs conducted by the legislative auditor are formulated, defined, and conducted in accordance with industry standards established for auditing to determine whether:</p> <p>(1) the agency is carrying out only those activities or programs authorized by the legislature and is conducting them efficiently, effectively, and in accordance with legislative intent;</p> <p>(2) expenditures are made only in furtherance of authorized activities and in accordance with the requirements of applicable laws and regulations;</p> <p>(3) the agency collects and accounts properly for all revenues and receipts arising from its activities;</p> <p>(4) the assets, including information technology, of the agency or in its custody are adequately safeguarded and controlled and utilized in an efficient manner;</p> <p>(5) reports and financial statements by the agency to the governor, the legislature, and central control agencies disclose fully the nature and scope of the</p>	<p>The objectives of financial compliance, performance, and information system audits of state agencies or their programs conducted by the legislative auditor are formulated, defined, and conducted in accordance with industry standards established for auditing to determine whether the agency is complying with applicable laws and regulations issued by the State of Montana, including compliance with approved budgets, along with relevant provisions of generally accepted accounting principles for governments as well as the relevant provisions of compliance contained in federal awards and / or Title 2, Code of Federal Regulations, Part 200, or other relevant federal regulation.</p> <p>(1) the agency is carrying out only those activities or programs authorized by the legislature and is conducting them efficiently, effectively, and in accordance with legislative intent;</p> <p>— (2) expenditures are made only in furtherance of authorized activities and in accordance with the requirements of applicable laws and regulations;</p>	<p>Aligns to <i>Government Auditing Standards</i> and <i>Generally Accepted Auditing Standards</i> is contained in 5-13-304, this aligns to elements contained in GAAP, laws, regulations, and other salient provisions.</p>

Existing Text	Potential Changes to Section due to GAGAS	Why?
<p>activities conducted and provide a proper basis for evaluating the agency's operations.</p>	<p>— (3) the agency collects and accounts properly for all revenues and receipts arising from its activities; — (4) the assets, including information technology, of the agency or in its custody are adequately safeguarded and controlled and utilized in an efficient manner; — (5) reports and financial statements by the agency to the governor, the legislature, and central control agencies disclose fully the nature and scope of the activities conducted and provide a proper basis for evaluating the agency's operations.</p>	
<p>5-13-309. Information from state agencies</p>		
<p>(1) All state agencies shall aid and assist the legislative auditor in the auditing of books, accounts, activities, and records.</p> <p>(2) The legislative auditor may examine at any time the books, accounts, activities, and records, confidential or otherwise, of a state agency. This section may not be construed as authorizing the publication of information prohibited by law.</p> <p>(3) The head of each state agency shall immediately notify both the attorney general and the legislative auditor in writing upon the discovery of any theft, actual or suspected, involving state money or property under that agency's control or for which the agency is responsible.</p>	<p>(1) All state agencies shall aid and assist the legislative auditor in the auditing of books, accounts, activities, and records, or the legislative auditor's appointed specialists or independent public accounting firm.</p>	<p>Clarification – ties to previous sections.</p>
<p>5-13-311. Legislative auditor to establish and maintain toll-free number for reporting fraud, waste, and abuse — procedures.</p>		
<p>(1) The legislative auditor shall establish and maintain a toll-free telephone number for Montana residents to report fraud, waste, and abuse in state government. The legislative auditor shall review all telephone calls received at the toll-free number and maintain a record of each call. The legislative auditor shall:</p> <p>(a) analyze and verify the information received from each telephone call; or</p>	<p>(1) The legislative auditor shall establish and maintain a toll-free telephone number for Montana residents to report fraud, waste, and abuse in state government. The toll-free telephone number should be monitored continuously either by personnel of the legislative auditor's quality control division or a specialist or an independent certified public accounting</p>	<p>The 'whistleblower hotline' is currently only staffed from 7AM to 2PM MT Monday to Friday. Reports are often generated outside of those times. By outsourcing monitoring, independence is maintained.</p>

Existing Text	Potential Changes to Section due to GAGAS	Why?
<p>(b) refer the information for appropriate action to the agency that is or appears to be the subject of the call.</p> <p>(2) A state agency that receives information referred to it by the legislative auditor pursuant to this section shall take adequate and appropriate action to investigate and remedy any fraud, waste, or abuse discovered as a result of the referral. The agency shall report in writing to the legislative auditor concerning the results of its investigation and those measures taken to correct any fraud, waste, or abuse discovered as a result of the referral.</p> <p>(3) Information received at the toll-free number is confidential until the time that the legislative auditor or other appropriate agency determines the validity of the information and takes corrective action. After the legislative auditor or other appropriate agency takes action to verify the fraud, waste, or abuse complained of and takes any corrective action, information concerning the subject of the complaint and the remedy, if any, is public information unless precluded by law.</p> <p>(4) The legislative auditor shall, as directed by the legislative audit committee, periodically report to the committee on:</p> <ul style="list-style-type: none"> (a) the use of the toll-free number; (b) the results of the reviews, verifications, and referrals; and (c) any corrective actions taken by the appropriate agencies. <p>(5) Information received at the toll-free number concerning a governmental entity other than state government may be referred by the legislative auditor to an appropriate federal, state, or local government agency.</p>	<p>firm that can facilitate continuous monitoring.</p>	

Existing Text	Potential Changes to Section due to GAGAS	Why?
<p>(6) (a) If the legislative auditor determines that as a result of a review and verification or referral pursuant to this section, a waste of state resources has occurred, the legislative auditor shall report the matter in writing to the legislative fiscal analyst.</p> <p>(b) Upon completion of the investigation, the legislative auditor shall provide a copy of the report to the legislature in accordance with 5-11-210. Confidential or personal information must be redacted.</p> <p>(7) The legislative auditor shall advertise the existence and purpose of the toll-free number in an appropriate manner.</p>		
<p>5-13-313. Audit selection based on risk.</p>		
<p>(1) In selecting and prioritizing the agencies or programs for audit under 5-13-304, the legislative auditor shall consider the agency's or program's financial, operational, and technological risks associated with meeting its intended purpose, goals, objectives, and legal mandates.</p> <p>(2) To aid in identifying agencies and programs for audit, the committee shall, before July 1 of each odd-numbered year, request that the governor, the board of regents, and the judiciary furnish the committee with a list of any recommendations for agencies and programs within the governor's, board of regents', or judiciary's respective jurisdiction to be considered for audit during the next biennium pursuant to this chapter. The list may be prioritized and must set forth the reasons for recommending each agency or program to be considered based on the risk criteria in subsection (1).</p> <p>(3) The legislative auditor shall review the lists, suggestions from legislators and legislative committees, staff</p>	<p>(1) In selecting and prioritizing the agencies or programs for audit under 5-13-304, the legislative auditor shall consider the agency's or program's financial, operational, and technological risks associated with meeting its intended purpose, goals, objectives, and legal mandates, as well as applicable provisions of <i>Government Auditing Standards</i>, Title 2 Code of Federal Regulations Part 200 and <i>Generally Accepted Auditing Standards</i>.</p> <p>(2) To aid in identifying agencies and programs for audit, the committee shall, before July 1 of each odd-numbered year, request that the governor, the board of regents, and the judiciary furnish the committee with a list of any recommendations for agencies and programs within the governor's, board of regents', or judiciary's respective jurisdiction to be considered for audit during the next biennium pursuant to this chapter. The list may be prioritized and must set forth the reasons for recommending each agency or program to be considered based on the risk criteria in subsection (1).</p> <p>—(3) The legislative auditor shall review the lists, suggestions from legislators and legislative committees,</p>	<p>Simplifies section and allows for updating of standards due to alignment.</p>

Existing Text	Potential Changes to Section due to GAGAS	Why?
<p>recommendations, and any other relevant information and consult with the committee as necessary.</p>	<p>staff recommendations, and any other relevant information and consult with the committee as necessary.</p>	
<p>5-13-315</p>		
<p>New Section</p>	<p>The following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and shall constitute the criteria against which such internal control systems will be evaluated.</p> <p>Internal control systems for the various state agencies shall be developed in accordance with internal control guidelines established by the Department of Administration in coordination with the Legislative Auditor.</p> <p>The Agency head shall certify in a format acceptable to the Department of Administration and the Legislative Auditor as follows:</p> <p>(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical; applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.</p> <p>(B) All transactions and other significant events are to be promptly recorded, clearly documented, and properly classified.</p>	<p>This establishes a basic set of internal controls with responsibility at state agencies. The Department of Administration will work with the legislative auditor to provide for the questionnaire, testing and reporting.</p>

Existing Text	Potential Changes to Section due to GAGAS	Why?
	<p>Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.</p> <p>(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should include the specific conditions and terms under which authorizations are to be made.</p> <p>(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to insure that effective checks and balances exist.</p> <p>(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.</p> <p>(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic</p>	

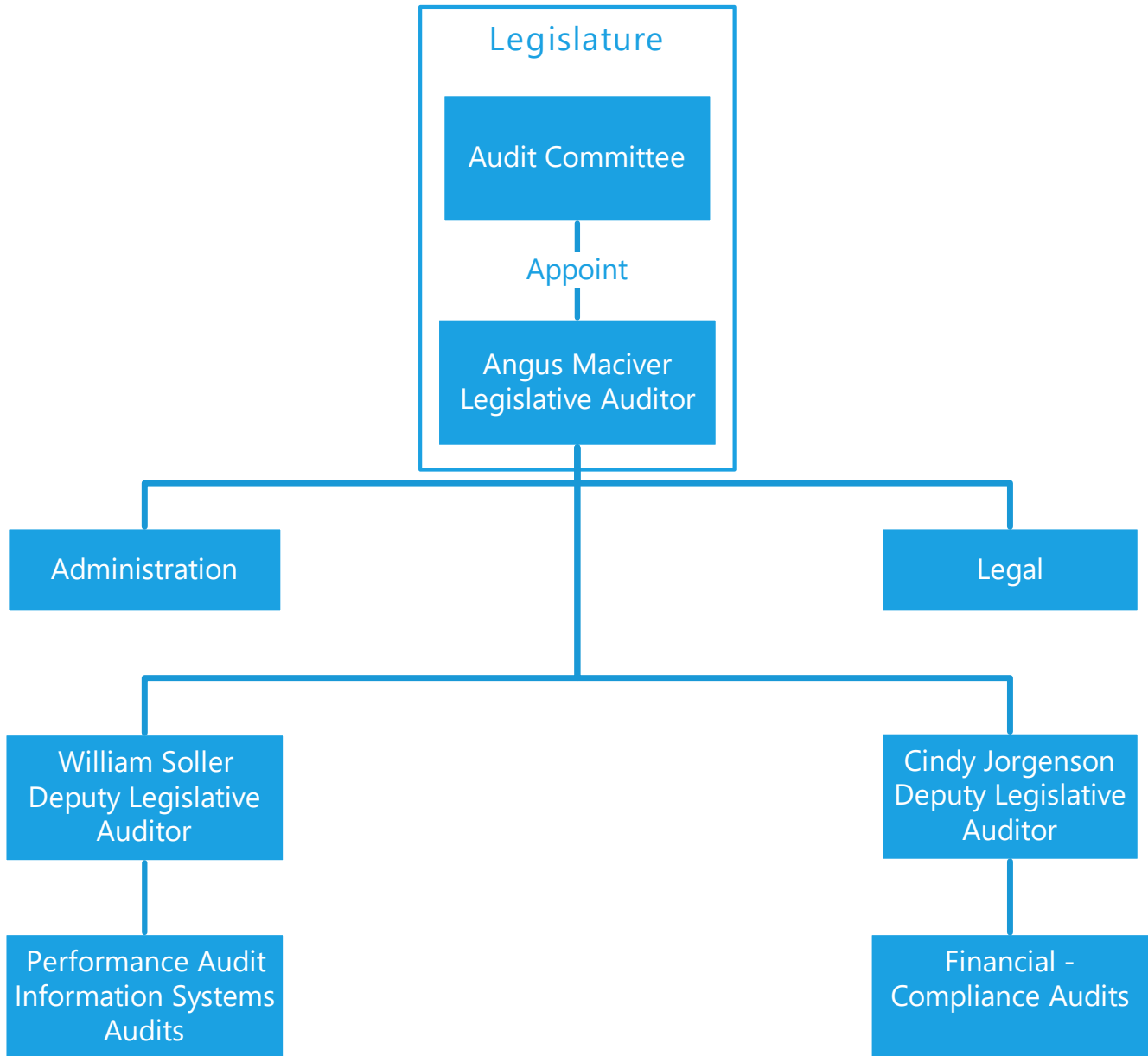
Existing Text	Potential Changes to Section due to GAGAS	Why?
	<p>comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison. Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the agency head, whose responsibility, in addition to their regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system, and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the Department of Administration and the legislative auditor, (2) the results of audits and recommendations to improve agency internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the legislature. All unaccounted-for variances, losses, shortages or thefts of funds or property shall be immediately reported to the legislative auditor, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weakness that contributed to or</p>	

Existing Text	Potential Changes to Section due to GAGAS	Why?
	<p>caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.</p>	
<p>5-13-402. Audit costs.</p>		
<p>(1) Prior to July 1 of the year preceding the regular session in which the legislature is adopting a state budget:</p> <p>(a) 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.</p> <p>(b) 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 audit costs differs from that proposed by the community college districts.</p> <p>(2) 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.</p> <p>(3) The legislative auditor shall bill agencies for audit services that the</p>	<p>(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 provide the budget director and the director of administration the estimated audit costs for the following biennium. The audit costs shall be included as part of the statewide cost allocation plan in accordance with Title 2, Code of Federal Regulations, Part 200, Appendix V, as may be amended from time to time. The audit costs shall be allocated in a manner in accordance with Appendix V as a central service of the State, and shall exclude audit costs paid directly by a state agency to a certified public accounting firm designated by the legislative auditor to perform the audit of said state agency.</p>	<p>Aligns the budget and costs of the legislative audit division to the Statewide Cost Allocation Plan. Allows for adjustments in the following period for over / under recoveries. Allows more flexibility for legislative audit division to hire specialists as needed, but maintains accountability through 5-13-403.</p>

Existing Text	Potential Changes to Section due to GAGAS	Why?
<p>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.</p>		
<p>5-13-404. Legislative audit specialist services reserve account.</p>		
<p>(1) There is an account in the state special revenue fund established by 17-2-102 to the credit of the legislative auditor to be known as the legislative audit specialist services reserve account. Money may be deposited in the account through an allocation of money to the account or as provided in 17-7-304.</p> <p>(2) The money in the account is statutorily appropriated, as provided in 17-7-502, to the legislative auditor and may be used only for contracted services necessary to provide specialist expertise in support of activities authorized under this chapter.</p> <p>(3) Allocations of money to the account must be approved by the legislative audit committee provided for in 5-13-201, and the balance in the account may not exceed \$50,000, not including interest earnings.</p> <p>(4) The money in the account may be expended with the approval of the legislative auditor, who shall advise and consult with the legislative audit committee on the use of the money and the disposition of the account.</p> <p>(5) The money in the account must be invested pursuant to Title 17, chapter 6. The income and earnings on the account must be deposited in the account.</p>	<p>(3) Allocations of money to the account must be approved by the legislative audit committee provided for in 5-13-201, and the balance in the account may not exceed \$50,000, as adjusted by the percentage growth in the budget from the prior biennium, not including interest earnings, but not less than the prior year, as calculated by the budget director.</p>	<p>Affords flexibility for specialists and adjusts for inflation.</p>

Organizational Chart of the Legislative Audit Division

State of Montana Legislative Audit Division



CULTURE

THE FOUNDATION OF SUCCESS



Caring for our external and internal clients with a passion to go the extra mile.

Respecting our peers and their individual contributions.

Conducting ourselves with the highest level of integrity at all times.

Trusting and supporting one another.

Being accountable for the overall success of the Firm,
not just individual or office success.

Stretching ourselves to be innovative and creative, while managing the related risks.

Recognizing the importance of maintaining a balance between work and home life.

Promoting positive working relationships.

And, most of all, enjoying our jobs ... and having fun!



What inspires you, inspires us.
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