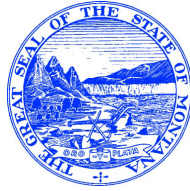


LEGISLATIVE AUDIT DIVISION

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
DATE: September 29, 2022
RE: Montana State Fund Contract Audit Proposal

A handwritten signature in blue ink, appearing to read "CJorg", is written over the "DATE:" field.

State law authorizes the Legislative Auditor to contract with CPA firms for completion of statutorily required financial and compliance audits.

We issued the Single Audit report for the two fiscal years ended June 30, 2021, in June 2022, three months later than normal. The pandemic-related federal program testing we performed during fiscal year 2022 required significantly more hours than initially estimated. Of the hour increase for the 2023 Biennium shown in the table below, approximately 1,500 involved anticipated pandemic-related federal testing. Unanticipated federal testing amounted to another 3,500 hours and contributed to our delayed completion of the fiscal year 2021 audit cycle and start of the fiscal year 2022 audit cycle.

During the spring of 2022, we prepared the audit appropriation estimates for the 2025 biennium. We worked with state agencies to gain a more thorough understanding of planned expenditures of pandemic-related federal assistance. This allowed us to prepare more precise estimates for the associated federal testing that will occur during the 2025 Biennium. We do not anticipate a return to pre-pandemic hours until the 2029 Biennium.

Comparison of Initial Estimated Hours for Audit Appropriations			
<u>Estimated Hours</u>	Biennium		
	2021	2023	2025
All Agencies – HB 2	56,136	57,180	57,830
Selected Agencies – HB 632 (ARPA Appropriations)		<u>1,225</u>	
Total		58,405	
Change in Total		2,269	(575)
Montana State Fund Estimated Hours	1,100	1,100	1,100

We do not anticipate extensions to the Single Audit reporting deadline will be granted in the future, which means we need to actively manage workload to submit the next Single Audit by March 31, 2024. Contracting for audit services is one method for managing workload.

We propose contracting with a CPA firm to complete the Montana State Fund financial compliance audit for the next few years. Once we return to pre-pandemic hours, we will revisit this. The factors contributing to our proposal to pursue a contract for this audit include:

- We consider Montana State Fund a low-risk agency. This is due to stability in board oversight, key personnel, and agency operations.

- Montana State Fund has a history of clean audits, receiving no recommendations through LAD financial compliance audits since fiscal year 2012. Montana State Fund has a similar history with the regulatory audits performed by Eide Bailly.
- We anticipate Montana State Fund will experience cost savings with one CPA firm completing both the financial compliance and regulatory audits.

The contractor will be expected to perform the audit in accordance with *Government Auditing Standards*, AICPA Professional Standards and the requirements of §39-71-2361, MCA. We intend to refer to the contractor's report as part of our audit of the state's Annual Comprehensive Financial Report, which will require the contractor's cooperation as outlined in the AICPA Professional Standards. The audit report will continue to be presented to the Legislative Audit Committee.

Montana State Fund's existing contract with Eide Bailly expires in September 2023. LAD is proposing a sole source contract with Eide Bailly for the calendar year 2022 financial compliance audit. This approach will require State Procurement Bureau approval. The remaining audit appropriation for the 2023 biennium is approximately \$47,000. Eide Bailly anticipates being able to complete the added testing for the financial compliance audit for less than \$30,000, as the firm already completes much of the necessary testing as part of the regulatory audit. Other firms will not have the benefit of having completed the regulatory audit, so associated costs are anticipated to be more than \$47,000.

In addition, LAD will initiate a Request for Proposal for both the financial compliance and regulatory audits in early 2023. Because the regulatory audit is outside of LAD statutory responsibilities, LAD will work with State Fund personnel through the RFP scoring process to ensure their statutory needs are met. The estimated audit appropriation for 2025 biennium is \$98,525, which we anticipate is sufficient for the financial compliance audit portion of the contract.

We are seeking Legislative Audit Committee input regarding this proposal.