LEGISLATIVE AUDIT DIVISION

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MEMORANDUM

TO: Members of the Legislative Audit Committee

FROM: Alexa O'Dell, Deputy Legislative Auditor
Jeane Carstensen-Garrett, Audit Manager
Jenny Erdahl, Audit Manager
Karen Cohlhepp, Audit Manager
Katie Majerus, Audit Manager
Jessie Curtis, Audit Manager

DATE: June 13, 2025

RE: Financial Audit Model Reform – Status Update

We continue to transition to the new financial-compliance audit model envisioned under HB 132 of the 68th Legislative Session. Previous updates were provided to the Legislative Audit Committee at various meetings in calendar year 2024 and memoranda summarizing those discussions are available at: https://archive.legmt.gov/lad/financial-audit-model-reform/.

At a high level, the financial-compliance function is tasked with transition to an annual Single Audit and a move toward risk-based audits. This is in addition to completing audit work at every state agency on a cyclical basis as well as completing other annual audits of certain state agencies in accordance with state law. Transition is planned to take place in three phases with multiple steps within each phase. The table on the next page summarizes the status of each step.

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Phase	Scope of Work	Status
Phase 1	Audit Appropriation and Billing Methodology	New appropriations estimates were discussed during the 2025 Legislative Session, and we will begin billing under the new methodology in July 2025. This step is considered complete.
Phase 1	Prior Audit Recommendation Implementation Status	For audits not recurring annually or biennially, we will follow-up on recommendations and prepare memos to the Legislative Audit Committee communicating implementation status. The first memo under this new process in anticipated for the fall committee hearing.
Phase 1	Internal Service Fund & Charges for Services Fund Testing	Two state laws require our office to consider and report on certain activities as part of our regular audits, as follows: • Internal Service Fund fees, charges, and fund equity balances - a stand-alone report for this work is anticipated for the fall committee hearing. • Charges for Services – we plan to pursue a statutory change in the 2027 Legislative Session to remove the requirement for our office.
Phase 2	New audit and report products	Survey of peer states is completed. Update regarding audit types anticipated for presentation at the fall committee hearing.
Phase 2	Financial Schedule Alternatives	New financial schedule presentation is being vetted internally and feedback will soon be solicited from external stakeholders. New format could be presented to the Legislative Audit Committee as early as fall 2025.
Phase 2	ACFR Acceleration	Completed survey of states able to finish ACFR audit within 180 days. Soon, we plan to work with State Financial Services Division, other state agencies, and component unit financial statement preparers to discuss strategies for accelerating timeline to receive audit-ready ACFR.
Phase 2	Annual Single audit	Work is beginning for our last biennial Single Audit for the fiscal years 2024 and 2025. A new audit structure was adopted to best position us for success for the first annual Single Audit for fiscal year 2026. This also includes newly developed tools to achieve efficiencies and to ensure compliance with auditing standards.
Phase 2	ACFR Transition On & Off-Cycle Support)	Transition is underway as part of the 2025 Statewide Audit. This includes a new audit structure as well as newly developed tools to achieve efficiencies and to ensure compliance with auditing standards.
Phase 3	• Analysis for Risk-Based Audits and Prioritization • Frequency of Traditional Agency Audits • Capacity and Workflow Analysis • Future Staff Experience and Recruiting • Clean-Up	Not yet started.