LEGISLATIVE AUDIT DIVISION

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Chet McLean
State Internal Controls Coordinator
Office of Budget and Program Planning
State Capitol, Room 277
Helena, MT 59601-0802

Dear Coordinator McLean:

The Legislative Audit Division is aware of the increased federal scrutiny and inquiries that state agencies and universities are experiencing due to the delayed submission of Montana's 2024/2025 Single Audit, which was due March 31, 2026. We are also aware of a formal letter issued by the U.S. Department of Health and Human Services in May 2026 announcing the launch of AERO (Audit Enforcement and Risk Oversight), an initiative intended to strengthen accountability for persistent audit noncompliance among grant recipients. The letter put states on notice that chronic audit noncompliance, unresolved audit findings, and delinquent audit submissions will no longer be tolerated and may result in increased federal oversight and enforcement actions.

Given these actions and federal grantor agency inquiries, we would like to provide an update on the status of the engagement and outline how agency staff involved in federal program administration can assist in achieving the earliest possible submission.

Projected Single Audit Completion

The current Single Audit cycle will be the last biennial audit before we move to an annual cycle as mandated by House Bill 132, passed by the legislature during the 2021 legislative session. These changes were designed in partnership with the executive branch, in part, to allow for more timely federal compliance reporting. We still believe this will be the ultimate outcome, but we have also recognized that the current biennium would pose challenges in terms of timeliness. Based on the current status of major federal program testing and the remaining work necessary to compile and finalize the Single Audit report, we currently project completion of the 2024/2025 Single Audit by late August or early September 2026.

Auditor Improvements in Efficiencies and Ability to Achieve Milestones are Needed

The financial-compliance team continues to evaluate and implement efficiencies related to major federal program testing and audit documentation. For example, during the 2024/2025 audit we attempted to obtain preliminary internal control documentation and examples in advance of meetings with agency staff. While this approach provided some benefit, implementation was not as consistent or effective as intended, and we plan to refine the process for the 2026 Single Audit. Additionally, competing priorities associated with other audit engagements have affected our ability to consistently meet scheduled milestones for individual federal program testing. We are actively working to improve planning, coordination, and resource management for the remainder of this engagement and for the 2026 Single Audit.

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Accurate and Timely Communication with Auditors

In several instances, communication between agencies and auditors has not resulted in a complete or accurate understanding of federal program policies and procedures. When audit procedures are developed based on incomplete or inaccurate information, additional time is required to revise testing approaches and complete supplemental procedures.

Agencies can assist in timely audit completion by ensuring auditors receive accurate, complete, and responsive information at the time of the initial request. Early clarification of program requirements, internal controls, and operational processes helps minimize delays and reduces the need for expanded follow-up work.

Continued Improvements in Federal Program Management Are Needed

As previously communicated, the 2022/2023 Single Audit included 79 recommendations related to internal control deficiencies or noncompliance with federal program requirements. Of these, 42 were repeat findings from the prior audit cycle. As a result, the current audit required heightened testing expectations, expanded documentation requirements, and more extensive follow-up procedures.

Preliminary results for the 2024/2025 Single Audit indicate we expect a significant number of findings, including a high percentage of repeat findings. Findings involving material noncompliance or material weaknesses in internal control generally require the related federal program to be audited again in the subsequent Single Audit, provided federal expenditures remain above the applicable threshold.

At this time, we project at least 26 federal programs will require major program audit coverage for the 2026 Single Audit, including two federal programs that are new to the state or that have new significant expenditure activity. While there are indications that some improvements in federal program management have occurred during 2026, substantial audit work will not begin until after the financial statement audit season during the fall and winter of calendar year 2026.

If future audits result in fewer programs with material noncompliance or significant internal control deficiencies, we are hopeful subsequent Single Audits can be completed and submitted more timely.

Summary

Timely completion of the Single Audit depends heavily on strong federal program management practices, accurate documentation, and responsive communication throughout the audit process. We appreciate the cooperation and assistance agencies and universities continue to provide as we work toward completion of the 2024/2025 engagement.

Please let me know if you have questions or would like additional information.

Sincerely,

/s/ Alexa O’Dell

Alexa O’Dell, CPA
Financial-Compliance Audits

Enclosure

Cc: Tammie Brown, National Single Audit Coordinator