LEGISLATIVE AUDIT DIVISION

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MEMORANDUM

TO:	Members of the Legislative Audit Committee
FROM:	Alexa O'Dell, CPA, Deputy Legislative Auditor Jen Erdahl, CPA, Audit Manager Karen Cohlhepp, CPA, Audit Manager Katie Majerus, CPA, Audit Manager Jessica Curtis, CPA, Audit Manager
DATE:	June 24, 2026
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 years 2024 and 2025 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 to transition to an annual Single Audit and to adopt a risk-based audit model. 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 follow-up results under this new process are anticipated for the December 2026 committee hearing.
Phase 1	Internal Service Fund (ISF) & Charges for Services State Special Revenue Fund Testing (CFS-SSRF)	Two state laws require our office to consider and report on certain elements of ISF and CFS-SSRF. A stand-alone report including this information was presented at the September 2025 committee hearing. We will revisit our intent to pursue statutory change during the 2027 Legislative Session as part of the September 2026 committee hearing.
Phase 2	New Audit and Report Products	Survey of peer states is completed. At the September 2025 committee hearing, we discussed the need to revisit this segment of work in conjunction with next steps in adopting a risk-based approach to agency audits.
Phase 2	Financial Schedule Alternatives	A new financial schedule format was presented at the September 2025 committee hearing. Formal adoption of the proposed format will be requested at an upcoming legislative hearing.
Phase 2	ACFR Acceleration	For 2025, State Financial Services Division (SFSD) delivered an audit-ready ACFR by the November 30, 2025 deadline included in HB-2. Results of all financial statement audits supporting the 2025 Statewide Audit were presented to the committee at its April 2026 hearing. Collectively, the audit report was completed 55 days earlier than in 2024. We continue to work with SFSD, other state agencies, and component unit financial statement preparers to discuss strategies for accelerating the ACFR timeline.
Phase 2	Annual Single Audit	Similar to the ACFR audit, the Single Audit is now conducted under a single engagement with new audit structure. This structure will be also used for the first annual Single Audit for fiscal year 2026. Completion of the last biennial Single Audit for fiscal years 2024 and 2025 is anticipated in late summer 2026.
Phase 2	ACFR Transition (On & Off-Cycle Support)	Transition began as part of the 2025 Statewide Audit. This included a new audit structure and newly developed tools to achieve efficiencies and to ensure compliance with auditing standards. We intend to move to a three-cycle rotation informed by audit risk beginning with the 2026 Statewide Audit.
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.