

# SJ 8: Audit Concerns for Special Districts

REVENUE INTERIM COMMITTEE  
MEGAN MOORE – MAY 2026

## COMMITTEE INTERESTED IN SPECIAL DISTRICT AUDITS

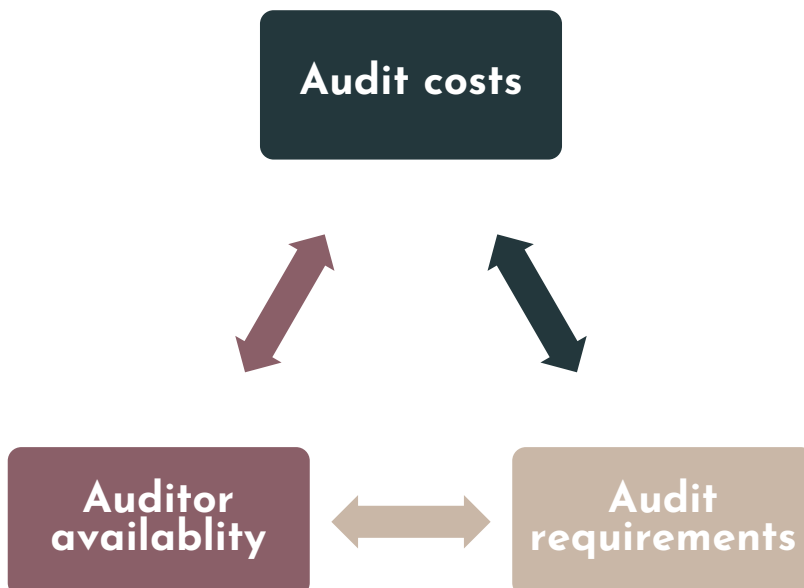
Pursuant to [2-7-503\(3\)](#), a local government entity — which includes certain special districts — must conduct an audit if the local government entity receives “revenue or financial assistance” greater than the dollar amount established by the director of the Office of Management and Budget under [31 U.S.C. 7502\(a\)\(3\)](#).<sup>1</sup> The federal regulations require an audit for a non-federal entity that expends \$1 million or more in federal funds during the fiscal year.<sup>2</sup>

During January committee discussions for the [Senate Joint Resolution 8](#) (SJ 8) study of special districts, members expressed interest in reducing audit costs and requiring audits for all districts over a longer time frame. Panelists at the February meeting addressed their experiences with audit requirements.

## STAKEHOLDERS HIGHLIGHT AUDIT CONSIDERATIONS

At the February meeting, the committee asked staff to further explore audit issues by meeting with stakeholders from the Montana League of Cities and Towns, Montana Association of Counties, Montana Society of CPA’s, and the Local Government Services Bureau of the Department of Administration.

The topics raised by participants can be grouped into three interrelated categories.



<sup>1</sup>Per [2-7-503\(3\)\(b\)](#), a local government entity that does not meet the audit requirement must have a financial review every 4 years if directed by the Department of Administration.

<sup>2</sup>United States. *Code of Federal Regulations*. [Title 2, sec. 200.501](#) (2026).

The following table summarizes audit concerns, contributing factors, and possible solutions raised by stakeholders.

Category	Contributing Factors	Possible Solutions
Audit costs	Not enough auditors	Attract audit firms to the state Employ state auditors
	Compliance with audit standards adds cost	Revise audit requirements/standards when federal audit not required
Auditor availability	Auditor retirements exceed entrants, especially for government audits	<ul style="list-style-type: none"> <li>Employ state auditors</li> <li>Use agreed upon procedures if audit not required</li> </ul>
	Difficult to hire auditor without annual audit contract	
Audit requirements	State use of Generally Accepted Accounting Principles (GAAP) may increase costs without adding value	<ul style="list-style-type: none"> <li>Revise audit requirements/standards when federal audit not required</li> <li>Use agreed upon procedures if audit not required</li> </ul>
	Some state grant programs require audit even when \$1M revenue requirement not met	

## NEXT STEPS, CONSIDER AUDIT IMPACTS ON SPECIAL DISTRICTS

When deciding how to proceed on the topic of audits, the committee may wish to consider the extent to which audit issues affect local governments broadly, rather than being limited to special districts.

Recent data from the Local Governments Services Bureau shows that about 12% of special purpose districts are required to conduct an audit under [2-7-503\(3\)](#).<sup>3</sup>

The threshold at which audits are required recently increased from \$750,000 to \$1 million.

The following factors may affect the number of districts required to prepare audits for FY25 and beyond:

1. The recent data on special purpose district audits includes fiscal years when local governments received federal money to address the COVID pandemic. That money is no longer available as of FY26.
2. Federal regulations increased the audit threshold from \$750,000 to \$1 million for fiscal years beginning on or after October 1, 2024. December 31, 2026, is the due date for many of those audits, if still required.
3. Stakeholders advised that some special districts with revenue below the threshold may also be required to prepare an audit if the special district receives funds from a state program that requires an audit.

<sup>3</sup> Special purpose districts requiring audits: 12% in FY2023 and FY2024 and 11% in FY2022. The figure excludes special districts administered by a city or county and included in the city or county audit. "Special Purpose Districts Revenue Interim Committee Report," Department of Administration, Nov. 12, 2025, available from [https://archive.legmt.gov/content/Committees/Interim/2025-2026/RIC/Meetings/November\\_12\\_13\\_2025/special-districts-DOA.pdf](https://archive.legmt.gov/content/Committees/Interim/2025-2026/RIC/Meetings/November_12_13_2025/special-districts-DOA.pdf).

If the committee wishes to devote additional time to this topic, possible next steps are outlined below.

### Finding and/or recommendation for future work

- Possible finding: audits are a concern for local governments, more work needed
- Possible recommendation: dedicated study of local government audits (study resolution)

### Suggest to committee with local government or audit expertise

- Suggest work on local government audit requirements to Local Government Interim Committee or Legislative Audit Committee

### Additional RIC work on the topic

- Gather information on what is included in special district audit and consider its usefulness
- Gather data on which districts require audits and whether the audit is required by federal law, state law, or state program funding rules
- Consider whether to revise audit threshold and/or requirements
- Consider methods for increasing availability of auditors