

# ***Denning, Downey & Associates, P.C.***

## **CERTIFIED PUBLIC ACCOUNTANTS**

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## **Letter from an Auditor**

Dear Montana Local Government:

I hope everyone enjoyed last month's letter about the American Rescue Plan Act (ARPA). Special thanks to all those whom responded with additional questions and comments, keep them coming. I hope to have a Q&A section in future letters.

### **COVID, COVID, COVID**

Like most of you I am getting really tired of everything being blamed on COVID. The high price of everything, the shortage of workers, the cost of housing blah blah blah. I'm sure some of it is just hype while much of it is unfortunately real. Yesterday (July 20<sup>th</sup>) the Wall Street Journal ran an article about emerging housing markets, Billings, MT ranked #1 followed by Coeur D'Alene as #2. Based on these ratings and the population explosion in our beautiful state it sure seems like Montana has been discovered. 😞 BTW- Just for fun I looked at the bottom of the emerging housing markets list and noted at spot #299 was NY-NJ-PA and spot #300 was Odessa, TX both spots unchanged for the last 2 years in a row. Go figure.

With that sobering thought still in your mind, let's discuss **Audits and COVID**. We all know it's getting hard to hire these days. If I could hire all the staff I want, it would still take me 2+ years to train a new auditor. That combined with many college students taking a "covid break" (year off) makes finding new staff darn near impossible. And the cherry on top is all the **CARES** and **ARPA** money the federal government doled out to the local governments.

Below are our firms audit projections for FY 20/21

	<u>FY 19/20</u>	<u>FY 20/21</u>	<u>% increase</u>
% Audits that are Federal	our firm 37.5%	our firm projected 75%	100%
Total gov audits (statewide)	About 500	estimated 650	30%

### **Bottom line**

A perfect storm is brewing, if you don't have an auditor lined up then get one now and get assurances that the auditor will be able to get your work completed on time.

## **LET'S TALK ABOUT AUDITS**

When is a "Regular Audit" required?

MCA requires local governments that have annual revenues in excess of \$750K to have an audit.

### What is a Federal Audit?

Often called a “Single Audit”, a “Uniform Guidance Audit”, or a “Really Expensive Audit” is required when the local government’s annual federal expenditures exceed \$750K.

### How is a Federal Audit different?

A federal audit is a regular audit **plus** additional testing and reporting as required by the federal granting agencies.

### Who are the users of the audit?

I know most of my clients have never had anyone come in and ask for a copy of their audit. However, a lot of entities review the audit reports behind the scenes. Here is a list to name a few:

- Elected officials
- County Attorney
- Local Newspapers
- Banks
- Bonding companies
- State agencies
- Federal granting agencies
- MT Historical Society

### When is your audit due? (Gestation period of your audit baby)

A Regular audit is due 12 months after your fiscal year end.

A Federal audit is due 9 months after your fiscal year end.

### What opinions can an auditor give?

Unqualified – also called a “clean opinion”. The financials are fairly presented.

Qualified – The financials are fairly presented EXCEPT for this or that problem.

Disclaimer – The auditor could not come to an opinion. Not a good sign.

Adverse – The financial statements are NOT fairly presented. Very bad.

Going Concern – There is substantial doubt the entity will continue in the future. Also, very bad.

### What is a Biennial Audit?

Auditing two fiscal years in one report. While not real popular, it does allow governments to save a few \$\$ if their books are in good shape.

### How about audit findings?

Findings/Recommendations are errors or risks that the auditor discovered which were deemed important enough to include in the report. There are two types of findings:

Significant Deficiencies – An error or risk in which management would not normally identify.

Material Weaknesses – A BIG significant deficiency.

### **In need of an audit or accounting help?**

Please feel free to contact us if you have any accounting questions.

For the time being, we are still accepting new audit clients. Please contact us if you would like a proposal.

Thanks, and enjoy the Sunshine!



Robert K Denning CPA, CGFM, CITP, CFF

Shareholder of Denning, Downey and Associates CPA’s P.C.

The dad joke of the month is from Pam in Ekalaka MT.

The distance from Ekalaka MT (client) to Bigfork MT (my home) is the same distance as Bigfork MT is to Ekalaka MT.