



MEMO

TO: Members of the Roster of Independent Auditors
FROM: Local Government Services
DATE: August 21, 2018
RE: Reminder: Testing Compliance of Local Charge for Services Fund

With turnover and new members to our Roster of Independent Auditors, it is time for a friendly reminder to perform compliance testing of local charge for services funds at counties, cities, and towns.

Per 17-2-302, MCA, a local government may not maintain a cash balance in a charge for service fund greater than twice the fund's appropriation. Per 17-2-303, MCA, if a local government maintains for more than 60 days a cash balance greater than the limitation in 17-2-302, MCA, a local government must reduce the charge for service within 120 days.

Additionally, per 17-2-302(3), MCA, an independent auditor performing an audit under the State of Montana Single Audit Act (2-7-501-522, MCA) shall make a determination of whether money is or has been retained in a charge for service fund contrary to the requirements of 17-2-302 and 303, MCA.

As such, please be sure to make the determination in all county, city, and town audits required to be submitted to the Department of Administration of whether your auditee complied with both 17-2-302, MCA and 17-2-303, MCA. Please report instances of noncompliance in accordance with Government Auditing Standards.

Please note:

- These compliance requirements are two of the few instances of when Montana law specifically mandates audit testing.
- These compliance requirements do not apply to special purpose districts, including school districts.

Because the Department of Administration is required per 17-2-304, MCA, to report to the State of Montana Legislature a list of each local government that had a cash balance in excess of the limitation at 17-2-302, we may follow-up with you to understand the status of any reported noncompliance. Please be sure that your working papers document testing, if applicable, of both requirements. Please also be sure to provide enough information in your findings so that we can understand the status or resolution of them, including in the schedules of prior-year findings.

Montana law (17-2-301(6), MCA) defines a local charge for service fund as one for which the exclusive source of revenue is one or more charges for services or interest or other income on the fund. Typical charge for service funds include water, sewer, landfill, and building code funds.

Suggested Audit Procedure:

- Determine if the local government has a local charge for services fund as defined in 17-2-301(6), MCA.
- If so, determine the month-end cash balances of the fund during the audit period.
- Compare those balances with the appropriated expenditures for the current fiscal year, as adopted in the official budget, and determine whether the cash balances were more than twice the appropriated expenditures.
- If there is excess cash balance, determine if the local government has documentation to support an emergency, a special or unusual circumstance, or a fluctuation in services.
- If there is excess cash balance and the local government has no such documentation, determine how long the cash balance has been in excess of the allowable balance. If for more than 60 days, verify that the charge for service has been reduced within the 120-day time frame.

If you have any questions or concerns, please reply to LGSPortalRegistration@mt.gov.

Thank You!

Local Government Services
Montana Department of Administration