



**MONTANA
DEPARTMENT OF
ADMINISTRATION**

State Financial Services Division

Greg Gianforte, Governor
Misty Ann Giles, Director

Memorandum

TO: Independent Auditors Authorized to Conduct Audits of Montana Local Governments

FROM: Local Government Services Bureau, Department of Administration

DATE: March 2023

RE: FY2023 Town Financial Reviews

Section 2-7-503(3)(b), MCA, contains a provision that allows the Department of Administration (DOA) to direct local governments that do not meet the revenue threshold for an audit required under the provisions of the Montana Single Audit Act to have a “financial review” at least once every four years. By administrative rule, we have defined a financial review as an agreed-upon procedures engagement as prescribed in the Standards for Attestation Engagements in AT-C §215, “*Agreed-Upon Procedures Engagements*” and AT-C §315, “*Compliance Attestation.*”

We have notified the towns of this year’s requirement and sent them copies of the Standard Financial Review Contract and DOA’s “Roster of Independent Auditors Authorized to Conduct Audits of Montana Local Governments.” An individual or firm on the Roster must perform the financial review engagement and use our standard contract. We have listed towns selected for an FY2023 financial review on our website.

As with audits, towns’ methods of selecting a firm to perform their reviews may vary from informal phone solicitations to legal advertisements for proposal requests. Some of you may initiate contact with the various towns required for reviews. To reduce costs, towns within the same geographical area may join in selecting a firm to do the financial review. They may also agree to bring or send required records to a central location, such as a county office. If you are engaged to conduct financial reviews for a group of entities that jointly solicited proposals, you must still enter individual contracts with each entity, and any overall review fee for the group must be allocated among the different entities.

Please Note: We select entities on a rotating four-year cycle to alleviate pressure on the Audit Roster. We expect this to relieve upward pressure on audit fees (which have been increasing in recent years due to the lack of availability of audit firms). Still, also audit firms will have more time and availability to

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schedule financial reviews. *Even though a town was selected for a recent prior fiscal year financial review, it is also required to have a financial review for FY2023.*

Fees Charged

The fees charged by accounting firms for review engagements of towns required by the Department in prior years ranged from \$1000 to \$5600. Your fee for the agreed-upon procedures engagement should be separate from any time spent compiling or assisting in preparing an annual financial report. If a town requests assistance in its financial statement preparation, please enter into a separate agreement for this engagement, with a fee separate from the agreed-upon procedures engagement.

Since towns have until December 31, 2023, to prepare and submit their fiscal year ending June 30, 2023, annual financial reports, the start date for your agreed-upon procedures engagement should allow for this statutory due date. If a town has not prepared an annual financial report when you start your engagement, that fact would be indicated in the results of Procedure "A," and the remaining procedures would be performed using the town's accounting records only. If a town has prepared an annual financial report, but the contents of the report do not balance or reconcile appropriately, the financial statements prepared by the town would still be presented in Schedules A and B, and the results of your procedures would indicate any problems with those statements.

All documentation and information needed to complete a financial review for these towns is listed below and can be found on our website at <http://sfsd.mt.gov/LGSB> – Click on "Audit & Financial Review Resources" then click on "Financial Review Engagements."

1. Towns Selected for Financial Review for FY2023

These towns have been selected for financial review based on the prior year's (FY2022) revenues. **If total revenues for FY2023 exceed \$750,000, the entity must have an audit rather than a financial review.** If towns are required by some other state or federal agency, such as DNRC or Rural Development, to have an audit, they may request to submit their audit report in lieu of this financial review requirement.

2. Standard Financial Review Contract (Dated 2022)

This three-party contract will be entered into by the town, the independent accountant, and DOA. The body of the contract and Appendix A are applicable for financial reviews of any local government. HOWEVER, Appendix B and Appendix C of the contract are specific to the type of local government (in this case, towns) for which the financial review will be performed.

3. Sample Agreed-Upon Procedures Report

The enclosed sample report has been updated to conform to the provisions of AT-C §215 and §315 and includes illustrative language to be used for each procedure and associated result. **Please follow the format of these sample reports to ensure that your agreed-upon procedures reports follow the required provisions.** Appendix B of the contract lists agreed-upon procedures and required schedules.

4. Listing of Specified Requirements

AT-C §315.13 requires that the practitioner obtain an understanding of the specified compliance requirements. To that end, we are enclosing the sections, or partial sections, of Montana Code Annotated (MCA) and Administrative Rules of Montana (ARM), as applicable, referenced in the agreed-upon procedures reports.

5. Sample Management Representation Letter

AT-C §315.17 requires a practitioner to obtain written representations from the responsible party in an agreed-upon procedures engagement related to compliance with specified requirements, and AT-C §215.28 allows such management representations in other agreed-upon procedures engagements. The enclosed sample representation letter combines representations related to compliance and other assertions related to the agreed-upon procedures to be performed. Appendix C of the contract also includes a sample management representation letter.

If you have any questions, please contact us at (406) 444-9101 or LGSBhelp@mt.gov.

Enclosures: Listing of Towns Selected for a Financial Review