

**Report by the Director of the Department of Administration to the Legislature on
Local Government Compliance with Title 17, Chapter 2, Part 3, MCA, “State and Local Charges for Services – Limit on Fund Balance.”**

August 30, 2023

§17-2-304(2), MCA, requires that the Director of the Department of Administration shall report to the Legislature at the time and in the manner required by §5-11-210 a list of each local government entity that did not comply with the statutory provisions of Title 17, Chapter 2 Part 3, MCA , during the previous 12 months. §5-11-210 requires that the report be submitted to the appropriate legislative committee by September 1.

§17-2-302(1), MCA - ...a local government entity that deposits money into a local charge for services fund may not maintain a cash balance in the fund greater than twice the annual appropriation for that year...

§17-2-303, MCA - ...a local government entity that maintains a cash balance in a local charge for services fund contrary to the limitation provided in 17-2-301(1) for more than 60 days shall, within 120 days after the end of the 60-day period, reduce the charge for services ...until the cash balance in the local fund complies with the limitation in 17-2-302(1).

§17-2-302(3), MCA, requires that an independent auditor shall include in an audit performed ...pursuant to Title 2, Chapter 7, part 5, a determination of whether money is or has been retained in a ...local charge for services fund contrary to the requirements of this section or 17-2-303.

A review by the Department of Administration of local government entity audit reports submitted by independent auditors disclosed the following audit findings that reported local government entities were not in compliance with these statutory provisions. The reviews were conducted of local government entity audit reports received as of August 30, 2023, and covering the fiscal years ended June 30, 2021, and 2022.

Local Gov't Entity & Audit Period	Local Charge for Services Fund	Balance in a local charge for services fund contrary to 17-2-302(1)?	Failed to reduce the charge as provided in 17-2-303?	Local Gov't Entity's Response to Audit Finding
City of Ronan Annual Audit for FY2022	Special Improvement District #12	Yes	Yes	Since the finalization of the Year Ended June 30, 2022 Audit, the Clerk-Treasurer has sought more information pertaining to the requirements on reserves during the budget process. Clerk-Treasurer has reviewed MCA 7-6-4034 and MCA 17-2-302 and has also printed and reviewed the training handouts "Budgeting Series: Cash Reserves & Levy Requirement Schedules", from the Local Government Services Bureau; and has discussed the requirements with a professional in municipal finance.
	Water	Yes	Yes	See response immediately above.
City of Ronan Annual Audit for FY2021	Storm Water Utility	Yes	Yes	Moving forward, the City will seek professional guidance in the budgeting process to ensure budget cash reserves are within allowable provisions of the Montana Code.
City of Big Timber Annual Audit for FY2022	Sewer	Yes	Yes	The City had been saving to purchase a piece of equipment using some of these funds, however the City has decided not to purchase at this time and is reconsidering how best to utilize these funds.
Town of Sunburst Annual Audit for FY2022	Street SID	Yes	Yes	The Town learned of this requirement in the budget process during the FY21 Audit, after the FY22 budget was already adopted. The Town's finance officer and mayor corrected this action by budgeting to expend these accumulated Street SID reserve funds in the subsequent FY23 and current FY24 budget years, which will be used to pay for upcoming street projects. This was a repeat finding in FY21 & FY22 but will not be repeated in FY23.
Town of Winifred Annual Audit for FY2021	Sewer	Yes	Yes	The Town of Winifred understands the importance of maintaining a proper cash balance in a charge for services fund. The Town of Winifred will budget to not allow a cash balance greater than twice the annual appropriations for that budgeted year.
City of Cut Bank Annual Audit for FY2021	Street Maintenance #4	Yes	Yes	We will make sure that we budget no more than 200% cash reserves in the Special Revenue Funds, and we will spend down so that we don't have reserves above that amount as well.