



**MONTANA
DEPARTMENT OF
ADMINISTRATION**

State Financial Services Division

Greg Gianforte, Governor
Misty Ann Giles, Director

Memorandum

TO: Town of _____

FROM: Local Government Services Bureau, Department of Administration

DATE: March 2023

RE: FY2023 Town Financial Reviews

MCA Section 2-7-503(3)(b) contains a provision that allows the Department of Administration (DOA) to direct local governments that do not meet the revenue threshold for an audit requirement to have a “financial review” at least once every four years. **Your Town was selected for a financial review for the fiscal year ending June 30, 2023.**

Please Note: This financial review requirement is *in addition* to the requirement that your Town prepares and submit an annual financial report to DOA within six months of your fiscal year-end (MCA 2-7-503(1)). **It will be necessary that you finalize your annual financial report before the financial review engagement.** If total revenues for the fiscal year are \$750,000 or greater, you will be required to have an audit rather than a financial review.

We select entities on a rotating four-year cycle to alleviate pressure on the Auditor Roster. We expect this to relieve upward stress on audit fees (which have been increasing in recent years due to the lack of availability of audit firms). Also, audit firms will have more time and availability to schedule your financial review. **Even though we may have selected you for a recent prior fiscal year financial review, you must also have a financial review for the fiscal year 2023.**

What is a “Financial Review”?

A “financial review” differs from an “audit” as follows:

- In an audit, an auditor performs a level of audit testing based on the condition of the local government’s internal controls. In these “financial reviews,” the CPA firm will only perform the exact procedures indicated in the contract.
- In an audit, an auditor may propose audit adjustments to the financial statements to correct errors so that the auditor can issue a “clean” opinion. In these “financial reviews,” the CPA firm will not

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406-444-3092

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P.O. Box 200102
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**Local Government
Services**
Mitchell Bldg, Rm 255
P.O. Box 200547
Helena, MT 59620
406-444-9101

**State Procurement
Bureau**
Mitchell Bldg, Rm 165
P.O. Box 200135
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propose adjustments. The firm's final report will indicate the circumstances discovered during the engagement. No opinion will be rendered.

These "financial review" engagements are similar to an "audit" as follows:

- The cost will be lower for your local government if your financial records are well organized and in good condition and if you are prepared for the engagement when scheduled by the CPA firm.
- You may receive findings indicating legal noncompliance, lack of internal controls, or inaccurate financial reporting. You must respond to the findings and provide corrective action plans within 30 days of receiving your final report.

Note: If you are below the audit threshold of \$750,000 in revenues but are required to have an audit for another purpose or have voluntarily contracted for an audit, you may request to submit your audit report instead of the financial review report. See enclosed "Request to Submit Audit Report In lieu of Financial Review" form. The audit must be performed under *Government Auditing Standards* (aka "Yellow Book audit").

Selection of CPA Firm

Under the provisions of the Montana Single Audit Act and the Administrative Rules of Montana (ARMs), your financial review must be conducted by an independent CPA firm on DOA's "Roster of Independent Auditors Authorized to Conduct Audits of Montana Local Governments" (the Roster). You may select any independent CPA firm from the Roster for your financial review. You and other towns geographically close to you might consider joining together in choosing a firm to do your financial reviews. In this manner, the travel costs of the CPA firm, if there are any, may be reduced or shared.

The method of selecting a CPA firm to perform the review may vary. You may call or write individual firms and request proposals or formally request proposals for review in legal newspaper advertisements. Regardless of the method used, we strongly recommend you check references for any CPA firm you are considering contracting with for your financial review. The list of local governments required to be reviewed for FY2023 is being distributed to all CPA firms on DOA's Roster, and some of those firms may contact you regarding your review.

Cost of Financial Review

ARM 2.4.410 requires local government entities selected for a financial review to pay a fee of \$75. This fee is due by December 31, 2023, when the annual financial report is due. The enclosed Financial Review Fee form should be completed and returned to DOA, along with the \$75 fee payment.

In addition to the \$75 fee payable to DOA, the CPA firm you select will charge a fee for the financial review. In past years, the engagement fees for Financial Reviews of towns ranged from \$1,000 to \$5,600. We encourage you to request proposals from several CPA firms as soon as possible. Variables that could affect the fee include travel costs for the CPA firm and the condition of your financial records.

You should consider both the CPA firm's fee and the \$75 financial review fee in developing your budget for the fiscal year beginning July 1, 2024, as the review will have to be conducted sometime from July 1, 2023, through June 30, 2024. The auditor must submit the financial review report to DOA by June 30, 2024.

Contract

You must contract with the CPA firm on the current Audit Roster to perform the review. A standard financial review contract form, a copy of which is enclosed, must be used. The contract must be

completed and signed by a representative of your Town and the CPA firm. The contract must then be sent to DOA for approval. Once the contract is received, we will sign the contract, and you will receive a confirmation email.

All documentation and information related to this financial review engagement is listed below and can be found at our website at <http://sfsd.mt.gov/LGSB> – Click on “Audit & Financial Review Resources,” then click “Financial Reviews.”

1. Department of Administration - Standard Financial Review Contract (Dated 2/2022) –This contract is a three-party contract that will be entered into by the Town, the independent CPA firm and DOA. Appendix B of this contract includes the procedures for the financial review engagement. Appendix C of this contract contains a sample management representation letter you must sign as part of the financial review process.
2. The Department's current “Roster of Independent Auditors Authorized to Conduct Audits of Montana Local Governments.” A CPA firm on the Roster must conduct your financial review. The current roster is also available on the Department’s website at: (<http://sfsd.mt.gov/LGSB>). Click “Audit & Financial Review Resources,” then click “Auditor Roster” for an up-to-date report generated directly from our database.
3. Financial Review Fee form – Please submit this form, with the required \$75 fee, to DOA when you submit your FY2023 annual financial report.
4. “Request to Submit Audit Report instead of Financial Review Report” form – Please send this form to DOA if you determine your Town will be scheduling an audit engagement for FY2023. If your Town is having an audit of FY2023 for any reason, you may submit your audit report instead of the financial review report.

If you have any questions regarding the financial review process, please get in touch with us at 406-444-9101 or LGSBhelp@mt.gov. Don’t hesitate to contact us if you need help accessing the information on our website and would prefer to receive it by mail.

Enclosures:

Cover Letter and Standard Financial Review Contract
A Roster of Independent Auditors Authorized to Conduct Audits of Montana Local Govts
Request to Submit Audit Report in-Lieu-of Financial Review Report
Financial Review Fee form