

Local Government Services

125 North Roberts | PO Box 200547 | Helena, MT 59620-0547

***Memorandum***

**TO:** Montana Towns

**FROM:** Local Government Services, Dept. of Administration

**DATE:** March 10, 2020

**RE:** FY2020 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 is one of those selected for a financial review for the fiscal year ending June 30, 2020.**

**Please Note:** This financial review requirement is *in addition* to the requirement that your Town prepare and submit to DOA an annual financial report within six months of your fiscal year end (MCA 2-7-503(1)). It will be necessary that you finalize your annual financial report prior to 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**.

**Please Also Note:** We have restructured the cycle by which we select towns for financial reviews. Going forward, instead of all town financial reviews being conducted every fourth year (approximately 50 towns), we will select 25 percent of towns each year. We have made this change to alleviate pressure on the Auditor Roster. We not only expect this to relieve upward pressure on audit fees (which have been increasing in recent years due to lack of availability of audit firms), but also audit firms will have more time and availability to schedule your financial review. *Even though we may have selected you for a fiscal year 2018 financial review, you are required to have a financial review for fiscal year 2020 as well.*

**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 that are 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 propose adjustments. The firm’s final report will indicate the circumstances as they are discovered during the engagement. No opinion will be rendered.
* These “financial review” engagements are similar to an “audit” as follows:
	+ For both types of engagement, 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.
	+ For both types of engagement, you may receive findings indicating legal noncompliance, lack of internal controls, or inaccurate financial reporting. In both engagements, you must respond to the findings and provide corrective action plans within 30 days from the receipt of 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 (A.R.M.s), 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 to perform your financial review. You and other towns geographically close to you might consider joining together in selecting 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.

A listing of towns selected for a financial review for FY2019 can be found on our website (<http://sfsd.mt.gov/LGSB>). Click on “Audit & Financial Review Resources,” then click on “Financial Reviews,” and under the heading “For Towns,” select “Towns Selected by LGS for FY 2020 Financial Review”.

The method you use to select a CPA firm to perform the review may vary. You may call or write individual firms and request proposals, or you may choose to formally request proposals for the review in legal advertisements in newspapers. Regardless of the method used, we strongly recommend that 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 FY 2020 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**

A.R.M. 2.4.410 requires that local government entities selected for a financial review pay a fee of $75. This fee is due by December 31, 2020, at the same time the annual financial report is due. The enclosed Financial Review Fee form should be completed and returned to DOA, along with payment of the $75 fee.

In addition to the $75 fee payable to DOA, the CPA firm you select will charge a fee for the financial review. The engagement fees for Financial Reviews of towns that were conducted in FY2019 ranged from $800 to $4,100. 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, 2020, as the review will have to be conducted sometime during the period from July 1, 2020, through June 30, 2021. The auditor must submit the financial review report to DOA by June 30, 2021.

**Contract**

You will have to enter into a contract with the CPA firm you select to perform the review. A standard financial review contract form, a copy of which is enclosed, is required to be used. Once you select the CPA firm to perform the review, the contract must be completed and signed by a representative of your Town and by the CPA firm. The contract must then be sent to DOA for approval. Assuming the contract is properly completed and the CPA firm is on the current Roster, we will sign the contract and return approved copies to you and the CPA firm.

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 on “Financial Reviews.”

1. Department of Administration - Standard Financial Review Contract (Dated 5/2019) –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 to be performed during the financial review engagement. Appendix C of this contract includes a sample management representation letter that you will be required to 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 that Roster must conduct your financial review. The current roster is also available on the Department’s web site at: (<http://sfsd.mt.gov/LGSB>) Click on “Audit & Financial Review Resources” then click on “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 at the same time that you submit your FY2020 annual financial report.
4. “Request to Submit Audit Report in lieu of Financial Review Report” form – Please send this form to DOA if, and when, you determine that your Town will be scheduling an audit engagement for FY2020. If your Town will be having an audit for FY2020 for any reason, you may submit your audit report in lieu of the financial review report.

If you have any questions regarding the financial review process, please contact us at 406-444-9101 or LGSPortalRegistration@mt.gov. If it is difficult for you to access information on our website and you would prefer to receive this information by mail, please contact us.

Enclosures: Roster of Independent Auditors Authorized to Conduct Audits of Montana Local Govts

Cover Letter and Standard Financial Review Contract