

Local Government Services

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

***Memorandum***

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

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

**DATE:** March 10, 2020

**RE:** FY2020 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 for 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.” The financial review engagement must be performed by an individual or firm that is on the Roster and must use our standard contract. We have placed a listing of towns selected for an FY2020 financial review on our website.

As is with audits, the methods used by towns to select a firm to perform their reviews may vary from informal phone solicitations to legal advertisements for requests for proposal. Some of you may choose to initiate contact with the various towns required to have reviews. To reduce costs, towns within the same geographical area may join together 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 for proposals, you must still enter into individual contracts with each entity, and any overall review fee for the group must be allocated among the different entities.

**Please 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 financial reviews. *Even though a town was selected for a FY2018 financial review, it is required to have a financial review for FY2020 as well.*

**Fees Charged**

The fees charged by accounting firms for review engagements of towns required by the Department for the year ended June 30, 2020 ranged from $800-$4100. Your fee for the agreed-upon procedures engagement should not include any time spent compiling or assisting in the preparation of an annual financial report. If a town requests assistance in their financial statement preparation, please enter into a separateagreement for this engagement, with a fee separate from the agreed-upon procedures engagement.

Since towns have until December 31, 2020, to prepare and submit their fiscal year June 30, 2020, 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 as 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 Reviews.”

1. Towns Selected for Financial Review for FY2020

These towns have been selected for financial review based on the prior year (FY2019) revenues. **If total revenues for FY2020 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, the towns may request to submit their audit report in-lieu-of this financial review requirement.

1. Standard Financial Review Contract (**Dated 5/2018**)

This contract is a three-party contract which 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 type of local government. Appendix B and Appendix C to the contract are, however, specific to the type of local government (in this case, towns) for which the financial review will be performed.

1. 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 are in compliance with the required provisions.** A listing of agreed-upon procedures and required schedules are also included in Appendix B to the contract.

1. 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, that are referenced in the agreed-upon procedures reports.

1. 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 as well as to other assertions related to the agreed-upon procedures to be performed. A sample management representation letter is also included in Appendix C of the contract.

If you have any questions, please contact us at (406) 444-9101 or [LGSPortalRegistration@mt.gov](mailto:LGSPortalRegistration@mt.gov) .

Enclosures: Listing of Towns Selected for a Financial Review