

CHAPTER V BUDGET AND FINANCE

- 5.1 Introduction to Budgeting
- 5.2 Budget Process
- 5.3 Cash and Investments
- 5.4 Journal Vouchers
- 5.5 Monthly Financial Reports
- 5.6 Year---End Accounting Procedures
- 5.7 Annual Report
- 5.8 Audit Preparation
- 5.9 Reports to City/Town Council
- 5.10 Payroll Procedures
- 5.11 Payroll Reports
- 5.12 Payroll Quarterly Reports
- 5.13 Payroll Annual Report
- 5.14 Accounts Payable (Claims)
- 5.15 Revenue (Receipts)
- 5.16 Utility Procedures
- 5.17 Capital Assets Inventory
- 5.18 Volunteer Firemen’s Relief Association
- 5.19 Miscellaneous Tasks
- 5.20 Checklist for End---of---Year Entries
- 5.21 Special Assessment Districts
- 5.22 Special Improvement Districts
- 5.23 Debt Management

5.1 Introduction to Budgeting

The development and implementation of the city/town's annual budget is one of the most important policies established by the council as it creates the annual plan of action. It provides revenue sources and annual expenditure/expense appropriations for all activities of the city/town. The city/town's elected officials and staff work together to develop priorities and plans for city/town operations in the coming year. This section includes a step-by-step process for development of the Annual City/Town Budget.

5.2 Budget Process

Local Government Budget Act [7-6-4001, MCA, et seq](#)

Budget Calendar

Council/officials should develop a Budget Calendar for the city/town. Two important dates for the municipal budget calendar are set forth at sections [7-6-4410](#) and [7-6-4036, MCA](#). On or before the first Monday in August the Department of Revenue shall furnish a certified copy of the property tax record to all cities and towns. August. The governing body shall fix the levy by the later of the first Thursday after the first Tuesday in September or within 30 days after receiving the certified taxable values. The Department of Revenue shall certify to each taxing authority the total taxable value by the first Monday in August. State law requires that the final budget must be adopted within 30 days after receipt of the certified mill value.

Preliminary Budget

By Statute, [7-6-4020, MCA](#), the preliminary annual operating budget for each fund must include, at a minimum:

- a. a listing of all revenue and other resources for the prior budget year, current budget year and proposed budget year.
- b. a listing of all expenditures for the prior budget year, the current budget year, and the proposed budget year. All expenditures must be classified under one of the following categories:
 - i. salaries and wages;
 - ii. operations and maintenance;
 - iii. capital outlay;
 - iv. debt service; or
 - v. transfers out.
- c. a projection of changes in fund balances or cash balances available for governmental fund types and a projection of changes in cash balances and working capital for proprietary fund types. This projection must be supported by a summary for each fund or group of funds listing the estimated beginning balance plus estimated revenue, less proposed expenditures, cash reserves, and estimated ending balances.
- d. a detailed list of proposed capital expenditures and a list of proposed major capital projects for the budget year;
- e. financial data on current and future debt obligations;
- f. schedules or summary tables of personnel or position counts for the prior budget year, current budget year, and proposed budget year. The budgeted amounts for personnel services must be supported by a listing of positions, salaries, and benefits for all positions of the local government. The listing of positions, salaries and benefits is not required to be part of the budget document.
- g. all other estimates that fall under the purview of the budget.

Local Government Services has a downloadable budget document on the State of Montana website that meets the statutory criteria. Many software programs, such as Black Mountain Software, are available to assist in the preparation of the required information.

Budget Worksheets

Budget preparation begins with the preparation of the salary and benefit information by the clerk/finance department based on current labor contracts, wage schedules or ordinances. The clerk/finance department then distributes budget worksheets to appropriate department heads and officials. Budget worksheets include capital outlay worksheets, and preliminary salary worksheets. The budget worksheets are often distributed with a budget memo from the elected officials or administration setting the budgetary guidelines or expectations for the year, i.e. 3% increase, 5% decrease, same budgetary level, etc.

Expenditure Estimates

Clerk/finance department tabulates and enters the budget expenditure estimates from department heads/city officials for the operation and maintenance functions (#200's through 900's) into preliminary budget worksheets or software program. The preliminary payroll information determined from worksheets or software program should be updated for any additions or deletions of personnel, rate changes or benefit changes. Expenditure estimates are usually based on previous year's expenditures and adjusted for any changes such as rate increases.

Revenue Estimates

Clerk/finance department prepares revenue estimates based on last year's revenues, and any changes in revenue structures established for the year, such as rate increases, fee increases, anticipated loans, grants awarded, or other one-time revenue sources.

Tax revenues are calculated using the worksheet and formulas provided by the Department of Administration, Local Government Services, in compliance with state statute. The worksheet is made available on the State of Montana website usually in June. Tax revenues should be conservatively estimated until receiving the certified tax valuation from the MT Department of Revenue. The "Determination of Tax Revenue and Mill Levy Limitations under Section [15-10-420, MCA](#)" and "Certified Taxable Valuation Information" must be included in the city/town budget document.

Special assessment revenues for Special Improvement Districts such as Lighting Districts, Street Maintenance Districts, or Fire Hydrant Districts are determined by the provisions creating the District. Special assessment revenue estimates should be based on the annual resolution(s) assessing the property within the District. Lighting Districts are created under the provisions of [Title 7, Chapter 12, Part 43, MCA](#). Lighting assessments may be based on area, taxable valuation or frontage, as set by the governing body upon creation of the District. Street Maintenance Districts are created under the provisions of [Title 7, Chapter 12, Part 44, MCA](#). Street Maintenance assessments may be based on area, frontage, taxable valuation, and/or equal assessment of costs as set by the governing body upon creation of the District. Fire Hydrant Districts are created under the provisions of [Title 7, Chapter 12 Part 46, MCA](#). Other special improvement districts are created under the provisions of [Title 7, Chapter 12, Part 41, MCA](#).

Tax Levy Requirement Schedule and Non-Tax Levy Requirement Schedule

The cash balance as of June 30th is vital to the completion of the Tax Levy and Non-Tax Levy Requirements Schedules. As soon after June 30th as possible, prepare the year-end journal entries that affect Revenues, Expenditures, Cash, Short-term Receivables, such as Due from other Governments and Interest, and Short-term payables, such as Accounts Payable, Due to Other Governments, Wages and Benefits Payable.

The Tax Levy and Non-Tax Levy Requirement schedules are then prepared entering the estimated revenues, expenditures, resources available (cash plus short-term receivables less short-term payables), and cash reserve.

Pursuant to Section [7-6-4034, MCA](#), the city/town shall determine the property tax levy needed for each fund by adding the total amount of appropriations and authorized expenditures for the budget year, adding an additional amount as a reserve to meet expenditures made from the fund during the months of July to November for the next fiscal year [7-6-4034, \(2\)\(b\)](#), a city's or town's fund may not exceed one-half of the total amount appropriated and authorized to be spent from the fund during the current fiscal year), subtracting the working capital (Resources Available); and subtracting the estimated non-tax revenue for the budget year. Note that the 50% reserve limitation applies specifically to funds requiring a property tax levy.

These forms are available in the Montana Department of Administration, Local Government Services downloadable budget document.

Preliminary Budget to Council

The preliminary budget is presented to the council by the administrator or mayor, as applicable, as determined by the city/town's budget calendar and the availability of required information, such as certified taxable valuation.

Public Hearing

Upon acceptance by council, a public hearing is set and noticed on the preliminary budget. The notice must:

- Provide that the governing body has completed its preliminary annual budget for the ensuing fiscal year.
- State that the budget has been placed on file and is open to inspection in the municipal office designated in the notice, usually the city clerk or finance department.
- Designate the date, time and place of the meeting at which the governing body will meet for approving the final budget and make appropriations.

State that any taxpayer or resident may appear at the meeting and be heard for or against any part of the proposed budget. Public hearing notices must be published according to the provisions of [7-1-4127, MCA](#). The public hearing must be held prior to final adoption of the budget. The city/town usually holds the public budget hearing early enough to assure final adoption of the budget by the first Thursday after the first Tuesday in September or within 30 days of receipt of certified taxable valuation from the Department of Revenue.

Council Approval of Final Budget

The governing body may amend the preliminary budget after the public hearing and after considering any public comment. The amended budget constitutes the final budget. The final budget must be balanced so that appropriations and reserves do not exceed the projected beginning balance (resources available) plus the estimated revenue of each fund for the fiscal year [7-6-4030, MCA](#).

The governing body shall adopt the final budget by resolution. The effective date of the resolution is July 1 of the fiscal year, even if the resolution is adopted after that date. The resolution must:

- (a) authorize appropriations to defray the expenses or liabilities for the fiscal year; and
- (b) establish legal spending limits at the level of detail in the resolution (i.e. fund, function, etc.).

The final budget resolution may authorize the governing body or a designated official to transfer appropriations between items within the same fund [7-6-4031, MCA](#). A local government may receive and expend money between July 1 of the fiscal year and date the final budget resolution is adopted [7-6- 4025, MCA](#).

Submit Budget to State

The final budget document must be submitted to the Montana Department of Administration, Local Government Services by October 1st or within 60 days of receiving the certified taxable values from the Department of Revenue [7-6-4003, MCA](#). The city/town shall use standard forms prescribed by the Department of Administration or may use an alternative budget format as long as they provide equivalent information and are acceptable to the Department

of Administration. *Local government budgets must conform to the fund structure prescribed by the Department of Administration (i.e. Budgetary, Accounting and Reporting System (BARS) for Montana Cities, Towns and Counties)* [7-6-4004, MCA](#).

5.3 Cash and Investments

See: Title 7, Chapter 6, Parts 2 and 6, MCA Sections [7-6-4602](#), [7-6-4603](#), [7-7-4102](#), [17-6-103](#), and [17-6-204](#).

The municipal treasurer shall:

- Receive, disburse, and serve as the custodian of all public money
- Provide for accountability of all local government cash receipts and for deposits and investments of all departments, offices and boards
- Pay out, in the order registered, all warrants presented for payment when there are funds in the treasury to pay warrants
- Require periodic departmental reports of money receipts and their disposition on forms that the municipal treasurer prescribes [7-6-612, MCA](#).

A city or town may only invest in the investments authorized in [7-6-202](#), [7-6-206](#), [7-6-213](#), and [17-6-204, MCA](#). A city or town may require pledged securities for that portion of the deposits in financial institutions that are not guaranteed or insured according to law, i.e. in excess of FDIC [7-6-207, MCA](#).

A city or town may maintain a *petty cash fund* for the purposes of paying incidental expenses, such as freight charges, express charges, postage and other similar expenses that must be immediately paid in cash pursuant to [7-6-615, MCA](#). The fund is maintained on an “imprest” basis, i.e. the fund is only reimbursed for cash paid out. If the fund was established by the governing body at \$100, the total cash and unreimbursed vouchers should always total \$100.

Monthly Reports and Reconciliation:

- Make sure all receipts have been posted.
- Make sure all journal vouchers have been posted.
- Redeem checks/warrants.
- Prepare monthly reconciliation and cash/investment report using manual or Excel format or software, such as Black Mountain Software. Report, by fund, includes beginning balance, plus cash receipts and transfers in, less disbursement and transfers out and ending balance. The total ending balance is reconciled to the bank balance: *bank statement(s) balance plus outstanding deposits less outstanding checks/warrants, including electronic payments such as payroll deposits, plus or minus other reconciling items, such as NSF checks or bank fees*. Adjusted bank balances plus petty cash and investments should agree with total cash/investment balance report.

5.4 Journal Vouchers

Certain monthly, quarterly and annual transactions can only be done by a manual Journal Voucher. These typically pertain to transfers to reserves, bank charges, or other charges, corrections and transfers. Note that cash can only be transferred to other funds pursuant to [7-6-613, MCA](#).

Water/Sewer Transfers – Review the previous month’s Journal voucher. In July and January determine the monthly

transfer amount for debt service. In July review the allocation for replacement and depreciation. This voucher can be done monthly, quarterly or annually.

Bank Charges – A Journal voucher is needed for bank charges and fees. The monthly service charges, wire fees, etc. are found on the bank statements.

Correcting Entry Errors – Other Journal Vouchers are needed for correcting entries that were input in error. These are normally found through reconciliation procedures, and through review of the initial Revenue and Expense reports done at the end of the month.

Interest Allocation – Interest earned is allocated to the fund that provides the funds for investment. An Interest Allocation voucher is prepared and posted in finance. These are typically done monthly. Interest is allocated according to [7-6-204, MCA](#).

Property Taxes and Assessment Charges – Once a year, a Journal Voucher is prepared to record the city/town's property taxes and assessment charges. These figures originate from the city/town, are transmitted to the county treasurer by means of the tax or assessment resolutions, and then are confirmed by the trial balance reports from the county treasurer. Property taxes are billed in October each year and are payable and due in two equal installments on November 30 and May 31 of each year [15-16-101](#) and [102, MCA](#). Taxes on mobile homes, manufactured homes and house trailers not taxed as an improvement to real property are billed as personal property. The first payment is due May 31st or within 30 days from the date of tax notice; and the second payment is due no later than November 30th of the year in which the property is assessed. The city clerk/finance department records the monthly receipts as received from the county treasurer. The city clerk/finance department reconciles the taxes/assessments receivable with the county's Trial Balance each month. Any voids, abatements or protests are vouchered by the city clerk/finance department when reported to the city/town by the county treasurer.

Capital Assets – Annually, the clerk or finance department will prepare the necessary vouchers adding assets, disposing of assets and recording annual depreciation expense. Cities/towns may use spreadsheets or software programs to track additions, disposals and depreciation expense. The Local Government Service annual report includes a Capital Asset tab that tracks the required information and calculates depreciation expense. The city/town should record capital assets according to adopted criteria. Typically, it is recommended that a capital asset have a value of at least \$5,000 and have a useful life of 5 years. Care must be taken to ensure that only bona fide assets are recorded.

Maintenance and repair items may exceed the \$5,000 threshold but are an operating cost and not a new capital asset. Additionally, the General Capital Asset Account Group can be maintained to track the additions, deletions and depreciation expense adjustments posted each year. The account group is no longer reported in the general-purpose financial statements, but the information is included and reported in the Statement of Net Position and Statement of Activities.

5.5 Monthly Financial Reports

The Monthly Financial Reports are prepared after the bank reconciliation is complete. They are presented to the city/town council at the council meeting each month or as set by city/town ordinance.

Preparation of Reports

After all transactions have been posted, and the cash is balanced, the following monthly reports should be prepared and submitted to the governing body:

- Cash/Bank Reconciliation
- Budget vs. Actual for Expenditures

- Budget vs. Actual for Revenues Trial Balance/General Ledger
- Any other reports required by governing body

Financial Statements

The Financial Statement package, subject to council approval on a monthly basis, includes the Cash/Bank Reconciliation Report, Financial Report of Revenue and Expenditure/Expenses at the detail level set by the governing body, i.e. Fund, Source, Activity, or Object.

5.6 Year End Accounting Procedures

A city/town's fiscal year is July 1st through June 30th of any given year as set by [7-6-610, MCA](#). Therefore, in July following the June 30th end date for a fiscal year, the following steps should be taken for year---end closing entries:

1. Properly record and report any short---term receivables or payables as of June 30th.
2. Review the June financial statements for accuracy and make journal entries as needed.
3. Make annual transfers, by journal voucher, to capital improvement funds. Make sure annual transfers to the water and sewer replacement and depreciation reserve funds have been made, if necessary.
4. Follow the instructions for year---end closing entries prepared by the Local Government Services Section of the Department of Administration.
5. In Capital Assets add new capital items and dispose of any items. Prepare the depreciation schedule.
6. Prepare the compensated absences worksheet for employees and record the necessary adjustment.
7. Prepare the Annual Financial Report format as prescribed by the State of Montana. Use the instructions included with the report. This report is due by December 31st. Typically, this report needs to be complete prior to the audit. A filing fee form and a filing fee, if applicable, must accompany the report when submitting to the state.
8. Schedule the annual Audit as soon as possible after closing the books for the year and completing the annual report.
9. Once the final audit report is issued to the city/town, a response to their findings must be submitted to the state within 30 days. Also, a notice in the newspaper must be published that the audit is available for public inspection.

5.7 Checklist for Year-End-Year Closing Entries

General

Review year---end budget to actual expenditure report for budget overdrafts. Cover budget overdrafts pursuant to a resolution of the governing body authorizing the transfer of appropriations per Section [7-6-4031\(1\), MCA](#). However, total budget appropriations should remain the same within each fund.

Verify the following:

- Operating Transfers In (383XXX) equal Operating Transfers Out (521XXX) within all funds.
- Interfund loans receivable (13XXXX) equal interfund loans payable (211XXX or 233XXX).
- The trial balance for each fund is in balance.
- The expenditure detail is equal to the expenditure control (242000), and that the revenue detail is equal to the revenue control (172000) in those systems where control accounts are used.

Taxes/Assessments Receivable:

- Reconcile all taxes/assessment receivable accounts (11XXXX) with the county treasurer's receivables, including protested taxes.
- Adjust deferred inflow of tax revenue accounts (223XXX) to the corresponding receivable accounts for real, personal, protested and special assessments, and offset to the appropriate revenue accounts. (Do not defer

taxes for proprietary funds.)

- Reconcile the deferred inflows of assessment receivable account (119000) for each S.I.D. district with the future year's principal assessments. (Verify that all prepaid assessments have been deducted from the deferred inflows of assessment receivable account.)

Governmental Funds and Account Groups

Review payroll and claims expenditures for possible accruals, if deemed material. This would include any goods or services received prior to the end of the fiscal year. Also, review debt service funds for accruing any bond interest payable at year-end or for bond principal payable within the next fiscal year. (Reclassify principal from general long-term debt account group to short-term payable of debt service fund.)

Review revenue accounts for possible accruals, if deemed material. Keep in mind that these revenues must meet the revenue recognition criteria of measurable and available. Revenue for federal and/or state grants that are reimbursed upon expenditure, should be recognized when the expenditure is made. (Some revenue susceptible to accrual may be interest on investments, state shared revenue, P & I on delinquent taxes, etc.)

If inventory of supplies is deemed material, establish or adjust inventory account (15XXXX) and offset to reserve for inventory of supplies (250100).

Capital assets purchased by governmental funds, including infrastructure, should be added to the general capital asset account group (GCAAG). Any assets traded-in or disposed of should be deleted. The balance in this account group should be reconciled with the capital asset inventory. Depreciation is required to be recorded in the GCAAG for all assets other than land and construction in progress at the functional level if possible. **Note: The GCAAG is no longer required to be reported under GASB #34 but is maintained to generate information for the government-wide statements.**

Prepare worksheet on unused vacation, sick leave, compensatory time and employer's related payroll obligation. Adjust compensated absences payable account within the general long-term debt account group (GLTDAG). **Note: The GLTDAG is no longer required to be reported under GASB #34 but is maintained to generate information for the government-wide statements.**

Adjust the appropriate long-term liability account (GLTDAG) for principal paid from governmental funds on contracts, loans, lease-purchase agreements, general obligation bonds and/or special improvement district (S.I.D.) bonds. This is also applicable to revenue bonds, if payments are made from governmental funds.

Adjust the appropriate amount available account (173XXX) in GLTDAG to the corresponding fund balance in the debt service fund types (3XXX) for general obligation bonds and special improvement district (S.I.D.) bonds. Adjust appropriate amount to be provided account (174XXX) for all long-term liability accounts within GLTDAG. This includes contracts, notes, lease purchases, compensated absences, G.O. bonds and S.I.D. bonds payable. Close out revenue and expenditure accounts to fund balance (271000).

Proprietary Funds

If interim revenue accounts are used for bond/loan proceeds and/or capital grants, close these accounts to the appropriate general ledger account. (23XXXX for bond/loan proceeds and 26XXXX for contributions.)

If interim expense accounts are used for capital asset acquisition or principal payments, close these accounts to the appropriate general ledger account. (18XXXX for capital asset purchases and 23XXXX for principal payments.)

Prepare Journal Vouchers for accrual of revenue and/or expenses, if deemed material.

- Utility charges
- Interest receivable on investments
- Other revenue accruals
- Claims payable
- Payroll payable
- Interest payable
- Reclassify long-term payable to short-term
- Prepaid expenses

Reconcile accounts receivable and deposits payable with detail of customer records. If inventory of supplies is deemed material, adjust inventory and offset to supply expense account(s). Reconcile appropriate capital asset account with capital asset schedules. Adjust for assets traded in, sold or disposed of. Adjust restricted net position accounts (25XXXX) to agree with appropriate restricted cash accounts (102XXX).

Prepare depreciation schedule for fiscal year. Prepare journal voucher for depreciation expense for each proprietary fund.

Determine the changes in closure and post closure costs and liability for the solid waste fund and adjust the necessary accounts appropriately. (Determined from a new engineer's estimate).

If interest expense is to be capitalized for assets constructed with tax exempt borrowings, close appropriate interest earnings/interest expense on borrowings to the appropriate asset account. (Limited to construction period only.) Adjust compensated absences payable per schedule and offset to payroll expense.

5.8 The Annual Report

The Annual Financial Report (AFR) is a thorough and detailed presentation of the city/town's financial condition. It reports on the city/town's activities and balances. The report is presented in three sections: Introductory, Financial, and General Information.

1. **The Introductory Section** includes the transmittal letter and a list of Elected and Appointed Officials.
2. **The Financial Section** consists of the Basic Financial Statements which include the Management's Discussion and Analysis (MD&A), government-wide financial statements, fund financial statements, and notes to the financial statements. Required supplementary information includes combining fund financial statements, schedule of federal/state grants, schedule of cash receipts and disbursements, all funds, and cash reconciliation.
3. **The General Information Section** includes levy information and other information about the city/town.

The annual report must be submitted to the Montana Department of Administration, Local Government Services by December 31 of each year on the form prescribed by the Bureau [2-7-503, MCA](#). Use the previous year's annual report as a guide for the current year. Some software programs assist in the substantial completion of the AFR. Depending on the software used, the clerk/finance department must utilize additional worksheets or programs to complete the Statement of Net Position and Statement of Activities. Local Government Services has provided a report format to assist in the preparation of the AFR, including the reconciliation from fund financial statements to Net Position and Statement of Activities.

5.9 Audit Preparation

The city/town must file an audit report with the Department of Administration within 12 months of the end of the

audited period per [7-6-611, MCA](#). An audit is an examination of the financial statements of the city/town resulting in the issuance of an independent opinion on whether the financial statements are fairly stated according to generally accepted accounting principles. The audit also reports any federal, state or local compliance issues as well as a report on internal control. The city/town contracts with a Certified Public Accountant for the audit. The CPA must be on the State of Montana's approved auditors list. The city/town council approves the contract each year. The contract, signed by the mayor/administrator and CPA, is then sent to the Montana Department of Administration for review, approval, signatures, and filing. The Montana Department of Administration will notify the city/town and CPA firm of its approval of the contract and will file the contract on the Department's online document web-portal so that the parties to the contract may retrieve it at their convenience.

The Auditor will soon thereafter request copies of accounting and reporting information to verify the information reported and to test for statutory compliance. Information to have available includes, but is not limited to:

- Annual Report
- Annual Report Worksheets
- Annual & Sick Leave Worksheets
- Budget Resolutions
- Budget Amendment(s)
- Capital Asset Reports
- Certified Valuations
- Claim Approval list for July
- Compensated Absences Worksheets
- Contract documents
- Final Budget
- Finance Detail Ledger
- Grant documents
- Insurance coverage---liability & property
- June & July Bank Statements
- June financial Report
- Minutes since last Audit to date
- New Loans or Bonds
- New or updated Policies
- Resolution(s)
- Quarterly Payroll reports—workers comp, unemployment insurance, 941s
- Utility Aging Report

Near completion of the audit, the auditor will prepare a Management Representation Letter from the city/town to the auditor, which is to be signed and returned to the auditor. Also, the auditor will send a letter to the city/town attorney asking for disclosure of any significant legal issues. The Auditor will also schedule an exit conference to discuss many of the audit's significant conclusions and findings with governing officials and management. The governing body may or may not, depending on the status of the audit, receive a final copy of the audit report at the exit conference.

Thirty days after receiving the audit, the city/town is required to publish a summary of the audit in its local newspaper. See the attached letter below from the Montana Department of Administration.

**MONTANA DEPARTMENT OF ADMINISTRATION
LOCAL GOVERNMENT SERVICES - AUDIT REVIEW PROGRAM**

TO: City/Town Clerk/Treasurers and City/Town Officials
FROM: Montana Department of Administration
RE: Requirements Regarding:
1. Audit Report Publishing
2. Responses to Audit Report Findings and Recommendations

1. Audit Report Publishing Requirements

The Montana Single Audit Act [Title 2, Chapter 7, Part 5, MCA](#) requires each audited city or town to send a copy of their annual or biennial audit report to a newspaper of general circulation in their area. Entity officials will want to request their independent auditor to provide them with an additional copy of the audit report.

In addition, the law requires each audited city or town to send to their appropriate newspaper a Summary of Significant Findings, as prepared by the independent auditor. This summary must contain a statement indicating that it is only a summary and is not intended to be used as an audit report. The summary, which is not to exceed 800 words, must be published, along with a statement to the effect that the audit report is on file in its entirety and open to public inspection.

Publication is required to be done 30 days after you receive the audit report. Enclosed is a sample letter to the newspaper, and a sample publication.

2. Responses to Audit Report Findings and Recommendations

Local government entities are required to notify the Department of Administration in writing as to the actions they plan to take on any deficiencies or recommendations contained in their audit report. This response or corrective action plan is required to be submitted to the Department of Administration within 30 days of receipt of the audit report.

If you have any questions on the entity response requirements, please contact our office at 406-444-9101.

Enclosures: Sample Letter to Newspaper Regarding Audit Publication Sample Publication

AUDIT PUBLICATION

An audit of the affairs of _____ [Name of City/Town] has been conducted by _____ [Name of Auditor]. The audit covered the fiscal year(s) ended June 30, 20 _____ [and 20 _____]. Section [2-7-521, MCA](#), requires the publication of the following summary of significant findings.

Summary of Significant Findings

The audit report for _____ [Name of City/Town] for the fiscal year(s) ended June 30, 20 _____ [and 20 _____], contains an Independent Auditor's Report on the city's/town's basic financial statements. The report issued for the fiscal year(s) ended June 30, 20 _____ [and 20 _____] contains _____ [unqualified][qualified][adverse] opinion(s).

The audit report also contains several other auditor's reports. Following is a listing of the reports and a summary of the findings included in each. This is only a summary and is not intended to be used as an audit report.

1. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. *This report contains the following findings: (OR This report contains no findings.)*
2. [If applicable] Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A---133. *This report contains the following findings: (OR This report contains no findings.)*
3. [If applicable] Management letter to city/town officials or Report on Other Matters. *This letter/report contains the following other matters not included in the above two reports.*
4. Report on Prior Audit Report Recommendations. *This report summarizes the findings from the prior audit report (and management letter, if applicable), and the status of those findings.*

The complete audit report is on file in its entirety and is open to public inspection at the _____ City/Town Hall.

Sincerely,

[Name and Title of City/Town Official or Representative]

PUBLIC INSPECTION OF AUDIT REPORT

Date

Name of Newspaper Address
City, MT 59-----

RE: Audit Report Publication

Section [2-7-521, MCA](#), provides that thirty days after a city/town audit report is forwarded to the city/town officials, the city/town shall send to the official newspaper of the city/town for publication:

1. A summary of significant findings, including a statement indicating that it is only a summary and is not intended to be used as an audit report, and
2. A statement that the audit report is on file in its entirety and open to public inspection.

All publication costs are required by statute to be borne by the [name of city/town], so please bill us for those costs.

Enclosed for your information, as required by statute, is a complete copy of the audit report. The audit report is not required by law to be published. Only the Summary of Significant Findings should be published.

Thank you for your cooperation.

Sincerely,

[Name and title of City/Town of official/representative]

Pages enclosed to be published _____page(s) Billing Address:
[name of City/Town and mailing address]

5.10 Reports to the City/Town Council

The clerk/treasurer is required to report to the council as set by ordinance, on the financial state of the city/town [7-6-612, MCA](#). The governing body determines which reports they want to see on a monthly, quarterly or semi-annual basis.

5.11 Payroll Procedures

Employees should complete their time sheet/card. Department heads/supervisors review and approve the time sheets. The supervisor and the employee should both sign and date the time sheet/card. The time sheets/cards are turned into the clerk/payroll department to review for accuracy and compliance. Be sure to check for holidays, sick and annual leave, and overtime.

Enter the time sheet/card information into the city/town's Payroll Program or spreadsheet. Review all entries on the payroll worksheet, comparing data entered with the timesheet. Make sure everything balances. After balancing, complete payroll processing, including printing checks or preparing automatic deposits.

5.12 Payroll Reports

Montana State Income Tax – The city/town may pay either electronically or by filling out a state coupon in black ink from the check amount and mailing payment and coupon in the envelope provided. Contact MT Department of Revenue to determine how your city/town should file.

PERS – Effective July 1, 2013, the total contribution for local government employers to the Public Employee's Retirement System is 8.07%. The employee contribution rate is 7.90%. The report is submitted monthly online. Gross wages are used to calculate PERS.

MPERA Online Reporting (Employer/Web Reporting)

1. Go to internet www.mt.gov and find Montana Public Employees Retirement Administration under agencies.
2. Click on Employer Web Reporting
 - a. Enter Username:
 - b. Enter Password:
3. Go to employer box and enter: CI0371 for PERS
4. There may be messages from PERS, read them and follow thru with them.
5. Go to box that says "Payroll"
 - a. Choose Copy from Previous Report Period
 - b. Update employee, wages, hours and employee share
 - c. Click on payroll Summary Messages. Warning can be processed but critical messages need to be cleaned up, edits can be done from this screen.
 - d. Payroll Summary tab
 - i. Verify amounts & enter total amt. remitted
 - ii. Validate Payroll
 - iii. Submit ACH Deposit
 - iv. Print Payroll Report
6. The reports remain unbalanced until the pay date, which is usually the next day. Then you submit the address file and there is a new employee, you need to delete them from the address file the first time because that payroll has not been "balanced", and it doesn't recognize that employee yet.

Federal, FICA, Medicare – Fill out the coupon in pencil from the check amount. Mark 941 and the appropriate quarter and then enter amount in the worksheet in the corresponding file.

Monthly Insurance Premium Checks and Changes in Insurance Benefits ---

1. Complete during the last week of the month along with payroll. Keep copies of any changes (i.e. health, life changes or additions) in the file during the course of the month.
2. Review changes (additions, deletions, new hires, status changes, etc.)
3. Reconcile each insurance invoice with the Payroll Register. The payroll register must match the invoice.
4. City/town retirees can continue to be on the health plan and the life plan. Some retirees choose to pay the premiums through their PERS retirement plan. If so, the State of Montana issues a check at the end of the month. PERS must be notified of any premium changes, by following their guidelines. Other retirees choose to pay the city/town by personal check once a month.
5. Once the invoices have been reconciled then the check needs to be issued through the finance program. Attach the invoice to the claim.
6. Checks need to be mailed on or before the last day of the month. Notes and Information: Insurance Benefits Administration.

Health Coverage – Your community may or may not provide access to benefits for employees. In addition, your community may also provide a contribution toward employee benefits. This will vary from group to group. You may get your coverage through an insurance company, or you may participate in the MMIA’s self-funded Employee Benefits Program.

Benefits for New Employees – Whatever benefits you provide for employees, you need to notify them of their options and required eligibility and waiting periods, which are defined by your city/town. Typically, an enrollment form must be filled out by the employee and sent on to your coverage provider.

Termination of Benefits – When an employee is terminating benefits (whether due to ineligibility or termination of employment) notice must be sent to your coverage provider in a timely manner. Federal law states that COBRA continuation of coverage must be offered within a specific time frame. You should contact your coverage provider to see what their requirements are.

For MMIA EB participants, please submit a termination form to MMIA within 30 days of the date of benefit termination. The participant’s health coverage will extend to the end of the month in which the qualifying event occurred. The participant will then receive COBRA information from the MMIA to notify them of their opportunity to continue coverage.

5.13 Payroll Quarterly Reports

941 Report

This report is for the filing of FIT, FICA and Medicare taxes. Make sure the payroll summary worksheet is finished. This is the one done every payday to figure social security and Medicare taxable wages and deductions.

Make sure the quarterly payroll summary worksheet is complete and balances with the three-monthly payroll summary worksheets. Complete the 941 report. Review for accuracy. When finished, sign, date and make copies of the originals for the files. Submit the report to the IRS. File the copies.

Workers’ Compensation

Requirements for reporting do differ based on who the Workers' Compensation coverage is through. Both MMIA and the State Fund do require rate reporting including for volunteers. Below are instructions for MMIA Workers' Compensation reporting, however, the State Fund plans also require it and it is recommended to read the instructions that accompany the report prior to filing.

- Read the instructions for the report. This should be reviewed for changes upon each report submission.
- Get volunteer information for any outside groups such as, Friends of the Library and Court community service workers including hours and rate if any.
- Put Volunteer firemen on the report as volunteers. They are reported at \$50.00 per month that they are active for a total of \$ 150.00 per quarter.
- Determine the correct class code for each employee and volunteers.
- On the quarterly payroll summary worksheet calculate each employee's W/C. Gross wage times the appropriate class code rate. This needs to be done for the volunteers, etc. **Note:** The Fire Chief is paid a wage and is not included with the Volunteers.
- Fill out the report, using the gross wages for each class code from the quarterly payroll summary worksheet for all employee and volunteers. Total the rates from all class codes and figure the MOD factor.
- Complete the employee and volunteer sheets and attach to the report.
- Review the report for accuracy sign and date the report.
- Make copies of originals for the files. Submit the report with a check to MMIA.

Unemployment and Montana Employer's Quarterly

Unemployment wage includes overtime, but it does not include elected officials. On the quarterly payroll summary worksheet calculate the unemployment insurance for each employee using the gross wages x the rate. The rate is located on the form from the state or in the file. Follow directions and fill out report. Make copies of all reports for the files.

Taxes Medicare

Gross Wage (This will differ for those with health insurance; it will be Gross wage minus the employee share of health insurance).

Medicare Base Wage x .0145 = Medicare withholding for employees

Social Security

Gross Wage (This will differ for those with health insurance; it will be Gross wage minus the employee share of health insurance).

Social Security Base x .062 = SS withholding for employees

State Unemployment

Elected officials do not pay unemployment. Gross Wage

State Unemployment Base Wage

FIT/SIT Base (Federal & State)

Gross Wage

(Deferred Comp. Health insurance premium)

(PERS)

FIT/SIT Base

Workers' Compensation

Gross wage x Class Code Rate

5.14 Payroll Annual Reports

W-2/W-3 – An IRS W-2 form must be prepared for each employee. Using the quarterly payroll worksheets prepare the annual payroll worksheet. Use the information in the W2 file and file the W2's online at www.irs.gov. Print the W2's and W3. One copy for city/town file and one copy to State of Montana. Mail the employees copies prior to January 31 of each year.

5.15 Accounts Payable (Claims)

Accounts Payable are the municipality's unpaid expenditures, expenses or bills. Invoices are either received by mail or turned in by the department heads. All invoices are reviewed by the department head with final approval by the city/town clerk or finance director pursuant to [7-6-4301\(3\)](#). Each claim is reviewed for accuracy and coding. Claims are processed according to city/town policy and [7-6-4301, MCA](#).

5.16 Revenue (Receipts)

A municipality receives cash, checks and direct deposits from various sources throughout the month such as taxes, licenses, donations, fines, grants, loans, interest, fees, etc. Write a receipt for all monies received.

5.17 Utility Procedures

Utility Procedures can vary depending upon the software being utilized to maintain the information. Most popular in Montana is Black Mountain Software (BMS) which comes with an instruction manual. This includes setting up and changing accounts, reports, billing, receipting, etc. Regardless of the software each municipality utilizes, clear written procedures should be developed.

Utility issues that may require the development of local policies for approval by the mayor and council include the following:

- Delinquency Letters
 - Past Due Notice
 - Remaining Balance Notice
- Shut-Off Procedure
- Meter Reading Process
- Setting Up New Accounts
- Special Billing Procedures
- Printing and Processing of Utility Bills
- Frozen or Damaged Meters or Damaged Remotes
- Turning Water on for Plumbing Inspections
- End of Month Procedure
- Service Work Order Procedures
- Changing Utility Rates
- Transferring Delinquent Utility Bills to Property Taxes
- Sewer Averaging for Residential Accounts
- Processing Payments

- State Department of Environmental Quality Annual Fee
- Consumer Confidence Report (CCR)—State

Mail **delinquent letters** approximately the 1st or 2nd of the month. On the morning of printing the letters, post all payments first. On tenant letters stamp “copy to landlord”. Make a copy for the landlord, address the landlord envelopes, stuff, and stamp. After three months if a tenant has not paid the bill, it is sent to the landlord for payment. As payments are received mark paid by the customer name on the past due report.

The state permits charging delinquent utility bills to the property owner’s property taxes, which helps keep the city/town losses to a minimum. For exact instructions on how to put delinquent utility bills on taxes, see MCA 7-13-4309. The city attorney should approve the notification letter that you must send. Check for payments periodically and mark off any who have paid. Normally this report is submitted to the Department of Revenue (DOR) by the 15th of August.

The **sewer average** is determined by the six winter months. Those winter months divided by 6 will be their average. Each account has its own average. Zeroes will not count. Five “0’s” and one “3” will average to 3. Use the appropriate software manual for the procedure for creating the sewer averages each May. Look at new accounts in May and any without a history. Look for 0’s or low consumption because of being off or vacant. “400” is the over---all city/town average for winter months.

The public works director will request preparation of the **Consumer Confidence Report (CCR)** by the lab that does the water tests. The Lab will send the report and invoice. Request the report be sent by email. Email the report to the local newspaper. The report must be published two times in the newspaper.

After the publication of the report, complete the form sent by the state and attached a copy of the report and originals of the ads.

5.18 Capital Assets Inventory

Yearly Inventory

On a yearly basis a capital asset inventory should be scheduled with the department heads. An inventory list should be printed for each department. Go into capital assets, reports, assets, and to assets by organization. An inventory is done with each department, checking off the items as they are found.

New Inventory

When an invoice comes through claims with an item to be inventoried, an inventory number is assigned to it and the inventory number is put on the item. The new items are added to an inventory list. Each inventory item is then put on as a new inventory item. Go to data, new item, and enter information. The new inventory item is identified with a type class and an item class code.

5.19 Volunteer Firemen’s Relief Association (VFRA)

The city/town is the custodian for the Volunteer Firemen’s Relief Association check book, files, records etc. On the first of March, June, September and December write checks for each name in the VFRA journal. DO NOT sign the checks. Prepare envelopes and put the stamps on them. Call the responsible official to pick up the checks for the required signatures and mailing. Enter the checks, deposits, etc. into the VFRA journal. Reconcile the bank statement monthly. Make sure the check book balances with the journal.

Once a year prepare the annual incorporation report for the Secretary of State and the \$15.00 check for the filing fee. Prepare two copies; one to mail and one for the file. Call the responsible official to pick up the checks for the required

signatures and mailing. This report must be filed before April 15 of each year.

The VFRA is on the same fiscal year as the city/town. At the end of the fiscal year prepare three copies of the Annual Report required by the State. Put the completed reports into a large envelope and mail to the responsible official for signatures. Also include a postage paid envelope addressed to the city/town to return the reports to the clerk's office. When the reports are returned place one copy in the file and send one copy to the State Auditor's Office and one copy to the Montana Department of Administration, Local Government Services.

State law requires the annual report be filed by December 31 of each year.

- Order 1099R forms and 1096 transmittal form from the IRS.
- Prepare the list of retirees and information for the 1099Rs. 1099R and 1099 are only required if it is over \$600 annually.
- Type the 1099R forms and 1096. The 1099Rs forms **must be mailed out** to the vendors by **January 31st**.

As soon as the forms are completed, send in the IRS copies and the summary form 1096 as per instructions on the form. Mail copies are to the state.

5.20 Miscellaneous Tasks

1099's – These are required by the IRS to be issued to vendors who were paid \$600 or more in the calendar year, AND are a sole proprietor, partnership, attorney, or other entity that fall under the IRS rules. Refer to Publication 15 for more information on who fits the criteria. The process begins with a W-9 form that the city/town issues to the vendor to determine the eligibility (i.e. sole proprietor, corporation, etc.), and the Federal Tax ID number.

- Order 1099 forms and 1096 transmittal form from the IRS.
- Print the vendor queries for vendors that qualify for a 1099.
- Type the 1099 forms and 1096. The 1099 forms **must be mailed out** to the vendors by **January 31st**.

As soon as the forms are completed, send in the IRS copies and the summary form 1096 as per instructions on the form. Mail copies to the State.

Grant Administration – The clerk's office usually administers the various grants for the city/town such as TSEP, CDBG, DNRC, WRDA and FEMA. Each grant program has its own rules and regulations for reimbursement and reporting which can be found in the manuals issued or information provided by the entity or agency awarding the grant.

Loan Payments – The city/town makes various loan/bond payments throughout the year. Any loans from the Montana Board of Investment and the Intercap Loan Program have payments due in February and August. Most revenue bond payments are due on January 1st and July 1st. Refer to the appropriate file for each loan or bond payment.

5.21 Special Assessment Districts

Certain public works functions can be funded by property owners through a special assessment district. Typical examples of this are Street Lighting Districts and Street Maintenance Districts. The cost of operations and maintenance of these functions is spread over all property owners that benefit from the service. These districts are separate from the General Fund and utilize a Special Revenue Fund designed for that particular purpose. Assessments are usually based on property size (square foot, or frontage foot) or property value.

Street Lighting Districts are usually broken out into two types: residential and commercial. The distinction is based on the density of lighting required (number of light poles). More lighting is typically required in a community's commercial areas, and less lighting for residential. There are "lighting standards" that are followed. Northwestern Energy or an electric cooperative usually owns the light poles. They invest in the construction of the system, and then "lease" it back to the community. An agreement needs to be in place for this arrangement.

Street Maintenance Districts (SMD) are usually broken out into types of street: paved or unpaved. There is more cost associated with maintaining an unpaved street versus a paved one. However, there is more initial construction cost of a paved street, which is usually done through a *Special Improvement District* (see below). Whether a community does their own maintenance (pot hole filling) or contracts it out to the private sector, it is a matter of dividing up that annual cost to all property owners that are adjacent to the streets.

These districts usually come after the improvement has been made. They require an annual resolution and public hearing to set the amounts to be assessed, and that is usually done in conjunction with the budget process. The statutes particular to these districts are found in [Parts 41 - 46 of Chapter 12, Title 7](#). The steps to create the "maintenance" districts are similar to the ones to create the "improvement" district and are outlined below.

5.22 Special Improvement Districts

In order to perform construction projects that "improve" a system, a community usually must find the funding to do so. Most of the time, the community must borrow the money, and therefore must have the means to pay back the loan. Special Improvement Districts (SID) are formed for that purpose and have been used extensively throughout the years to put in water lines, sewer lines, paved streets, curbs, gutters, sidewalks, etc. Certain steps and requirements must be followed and [Part 41 of Chapter 12 in Title 7](#) of Montana Code Annotated should be reviewed and followed.

The steps required to form an "SID" are as follows:

1. Define the purpose (construct/reconstruct a street, curb, gutters, sidewalk, water line, etc.)
2. Define the boundaries – which property owners benefit from the improvement
3. Determine the costs – construction, bond counsel, financing
4. Prepare Resolution of Intent, outlining the above
5. Conduct a Public Hearing
6. Prepare Resolution to Create the District, and levy the assessment
7. Send to county treasurer to be put on tax bills.

A SID can be requested either by the property owners, or by the city/town council (commission). If, during the public hearing portion of the process, 51% or more of the property owners protest the issue, it cannot proceed. Timing is important since the "financing" of these types of projects is through the taxation process.

5.23 Debt Management

Debt management is an intrinsic part of municipal finances. The council has the authority to contract indebtedness on behalf of the municipality, and borrowing has many forms: issuing bonds, issuing notes, leases, lease---purchase agreements, and installment purchase contracts. There are debt limitations in Montana Code Annotated, [Title 7, Chapter 7, Parts 41 through 46](#). Different funds have different forms of debt that can be issued.

The General Fund can issue debt up to 2.5% of the total assessed value of taxable property. The Department of Revenue determines a municipality's value and issues such through the Certified Taxable Valuation form in August. If a municipality chooses to simply get a loan through INTERCAP for a police car, for example, then the debt limitation

is required on the loan application. If a municipality chooses to build a new swimming pool, for example, then typically a General Obligation Bond would be required to raise a large amount of money for that purpose. This would first require a vote of the people. The municipality would then have to follow the process outlined in MCA and coordinate the effort with the county election administrator. A municipality can also go to their local bank for a loan.

The Enterprise Funds and Special Revenue Funds have different requirements for issuance of debt. Typically, a Revenue Bond is issued for purposes such as water line construction, street construction, and other revenue---generating functions. State agencies, such as the State Revolving Fund (SRF) loan program are of great assistance for funding water and sewer projects. The ability to pay the loan back is based on the fees charged by the municipality (water, sewer, garbage, etc.). In the case of a SID, the loan is based on the ability to assess the fee on a property owner's taxes. Typically, a legal opinion from a specialty attorney, called a bond counsel, is required for any bond issuance. This is to ensure the tax exempt status of bonds issued by a municipality and is an additional cost to the project. A bond reserve account, as well as a debt service account (sinking and interest) is needed.

Accounting for projects requires several steps. In general, the revenue from the loan offsets the cost of the project. This should be reflected in the fund where the work occurs. The debt service funds are needed for certain debt obligations: general obligations bonds, special improvement bonds, and a SID revolving fund. Please refer to the BARS chart of accounts.