

# 600 AUDIT REQUIREMENTS AND OPI MONITORING

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## 600.1 AUDITS

### STATE AND FEDERAL AUDIT REQUIREMENTS

Recipients of state and federal funds are responsible for complying with audit regulations. Federal law requires an audit for each subgrantee that spends over \$750,000 per year of federal assistance; state law applies additional audit requirements for school districts and related cooperatives that spend less than \$750,000 per year. The requirements are explained below.

#### School Districts and Related Cooperatives

Montana school districts and related cooperatives are required by state law to be audited for each year the **combined revenues** of all funds of the entity total \$500,000 or more. Audits must be performed at least every two years; however, annual audits are encouraged. (Section [2-7-503](#), MCA)

For school districts and related cooperatives that meet the threshold requiring an audit, the type of audit depends on the level of **federal expenditures**:

1. If the entity spent \$750,000 or more of federal funds, including USDA commodities, in a year, the audit must conform to CFR Title 2, Subtitle A, Chapter 11, Part 200 "Uniform Administrative Requirements, Cost Principles & Audit Requirements for Federal Awards." This type of audit is called a "Single Audit" or "federal audit".
2. If federal expenditures did not exceed \$750,000, the entity must have an audit performed that meets generally accepted auditing standards. This type of audit is referred to as a "non-federal audit" or "Yellow Book" audit.

Districts and cooperatives which do not receive \$500,000 of total revenues per year must have an auditor perform a financial review at least once every four years, based on a schedule prepared by the OPI. Typically, the OPI will ask districts within a county for the financial review in the same year, to provide an opportunity for entities to contract with an auditor for combined services with neighboring districts.

School-related cooperatives and consortia with a school district prime applicant (i.e., fiscal host) must be audited as part of the school system that acts as the prime applicant. Cooperatives or consortia which do not use a school district as a host are responsible for contracting for their own audit to ensure compliance with state and federal audit laws and regulations.

## Subgrantees Other Than School Districts and Related Cooperatives

Nonpublic entities which receive federal money from the OPI are subject to federal audit requirements in CFR Title 2, Subtitle A, Chapter 11, Part 200 "Uniform Administrative Requirements, Cost Principles & Audit Requirements for Federal Audits" if the entity spends more than \$750,000 of federal assistance during the year (including USDA commodities). Requirements for "federal audits" in this section apply. If the entity does not spend \$750,000 or more of federal assistance, the entity is not subject to audit requirements unless specified by another subgrantor.

### **OPI AUDIT MONITORING RESPONSIBILITIES**

Federal audit regulations in 2 CFR, Part 200 require the subgrantor (e.g., the OPI) to monitor subrecipients to ensure they comply with federal audit requirements. The OPI must review the federal ("Single Audit") audit report and the subgrantee's responses to any audit findings listed in the report and follow up to ensure the subrecipient takes timely and appropriate action on all deficiencies pertaining to federal awards administered by the OPI and detected through audits. (2 CFR §200.331 (d)(2))

For nonfederal audits, the OPI monitors and assists the entity in addressing audit findings. Findings specific to federal programs and findings that affect the expenditure of federal dollars are more closely monitored, and failure to address audit issues may affect the risk assessment OPI uses to determine federal award eligibility and the level of monitoring applied to the entity's awards.

### **MORE INFORMATION ABOUT AUDIT REQUIREMENTS AND PROCESSES**

State administrative rules require school districts and related cooperatives to choose an auditor from a state roster and enter into a contract with the auditor including the Montana Department of Administration as a party to the contract (ARM [2.4.406](#) and [2.4.408](#)). The Department of Administration Local Government Services Bureau provides standardized contact forms and assistance with the process. See [Department of Administration - Local Government Services Audit Section](#).

Subgrantees who are not local government entities are not required to use the Department of Administration (DofA) auditor roster or to include DofA as a party to the audit contract.

See the [OPI Auditing website](#) for a summary of requirements and information about the audit process for school districts, cooperatives, and other OPI subgrantee organizations.

## **AUDIT COSTS**

Subgrantees must pay for their audits. Federal regulations restrict the cases in which a subgrantee can use federal funds to pay for an audit.

### Paying for a Federal Audit

The cost of a federal audit required by 2 CFR Part 200 may be charged as a direct or indirect cost to federal programs. The subgrantee may either prorate the cost of the audit as a direct charge across all state and federal programs or charge the cost to the indirect cost pool, which is funded by indirect cost recoveries drawn from all programs.

### Paying for a Non-Federal Audit or Financial Review

The cost of a non-federal audit or financial review cannot be charged to federal programs. In this case, the cost of the audit or review is an unallowable charge to federal funds, including the entity's indirect cost pool. The cost must instead be paid using the general fund, impact aid fund, or other available non-federal funds of the entity.

## **ACCESS TO RECORDS**

The awarding federal agency and the OPI as the subgrantor, or an authorized representative of either the federal agency or the OPI, shall have access to any documents and records of a subgrantee which are pertinent to the grant as necessary for audit, examination and review.

## **AUDIT DEADLINES**

### Federal Audits (aka "Single Audits")

If the subrecipient spent \$750,000 or more of federal funds for the year, a federal Single Audit under 2 CFR Part 200 must be completed and submitted to the OPI within nine months of the close of the fiscal year, or by March 31. Annual audits are required unless two-year audits have been approved by the Department of Administration.

The entity's written response to the audit findings, including necessary corrective action plans, should be submitted within the audit report. If the response is not included in the report, it must be submitted to the Department of Administration and the OPI within 30 days after the audit report was issued ([ARM 2.4.409](#)).

### Non-Federal (aka "Yellow Book") Audits

If the subgrantee spent less than \$750,000 of federal funds in a year and received more \$500,000 or more in total revenues in a year, the entity is responsible for ensuring the audit commences no later than nine months after the close of the fiscal year, which means the audit must be started by April 1. The audit report must be completed and submitted to the OPI within one year of the close of the fiscal year, or by the following June 30.

The entity's written response to the audit findings, including necessary corrective action plans, should be submitted within the audit report. If the response is not included in the report, the entity must submit it to the Department of Administration and the OPI within 30 days after the audit report was issued ([ARM 2.4.409](#)).

### Financial Reviews

School districts and related cooperatives that receive less than \$500,000 of total revenue annually will receive a notice from the OPI every four years regarding the need for a financial review under Section [2-7-503](#), MCA. The deadlines for non-federal audits also apply to financial reviews (see "[Non-Federal Audits](#)" above).

### **RESOLVING AUDIT FINDINGS**

For all types of audits and financial reviews, subrecipients are responsible for follow-up and corrective action, as defined by 2 CFR §200.26, on report findings. The auditee must prepare a corrective action plan to address each audit finding included in the current year's audit report for current year audit findings. (2 CFR §200.511(e))

As defined by 2 CFR §200.26, "Corrective Action" means action taken by the auditee that:

- (a) Corrects identified deficiencies;
- (b) Produces recommended improvements; or
- (c) Demonstrates that audit findings are either invalid or do not warrant auditee action.

The school district or cooperative must submit to the OPI a written response to all audit findings, either included in the audit report or financial review report or submitted separately, within 30 days after receiving the report.

The response must list a corrective action plan addressing each audit finding and questioned cost listed in the report. The response should specify:

1. The action planned, or an explanation of the reason the entity plans not to take the recommended action;
2. The person who will be responsible for the corrective action; and
3. The anticipated completion date.

If the response is not clear, the OPI may request additional information or additional corrective action plans from the entity. In the next audit, the auditor must determine whether the subrecipient accomplished the planned corrective action.

If the subgrantee does not agree with an audit finding or the required corrective action, the entity may explain their objection in writing. Auditors may be willing to resolve the difference of opinion before the final report is issued.

The auditor will submit a copy of any federal audit report to the Federal Audit Clearing House as required by federal audit regulations on behalf of the subgrantee.

The OPI will notify the Department of Administration if the auditee's response is not adequate. The OPI will state the reason(s) and what action is needed by the auditee in order to make the response or corrective action plan acceptable. The Department of Administration will notify the school district or cooperative that the response is accepted or that additional action is required.

After receiving a notice stating the response or corrective action plan is not acceptable, the audited entity must resubmit an acceptable response or corrective action plan to the Department of Administration and the OPI within 30 days.

Within that 30 days, if the auditee feels the action, response, or corrective action required by the OPI is not in accordance with state or federal laws or regulations, the auditee may submit a written request for hearing (see "200.4 Complaints and Hearings" in [Section 200](#) of this handbook).

### **FAILURE TO SUBMIT ACCEPTABLE AUDIT RESPONSE**

After 30 days, if the auditee did not request a hearing and the subgrantee's response is still not sufficient, the Department of Administration may request state agencies to withhold state funding from the auditee pending receipt of an acceptable response or corrective action plan. Money withheld will be released upon written order of the Department of Administration after the acceptable response is received ([ARM 2.4.409](#)).

### **FAILURE TO SUBMIT AUDIT OR RESOLVE FINDINGS**

Subgrantees must comply with federal and state laws, regulations, and federal audit requirements that apply to them.

If a subgrantee fails to submit to an audit in compliance with federal law or to resolve federal audit findings, the OPI may take appropriate actions such as: (2 CFR §200-505 and §200.338)

1. Withholding some or all of the federal awards and/or withholding further awards until the audit is completed satisfactorily;
2. Suspending cash disbursements for federal awards until the audit is conducted;
3. Terminating the federal awards(s).

If a subgrantee fails to submit to an audit in compliance with state law or to resolve audit findings, the OPI may take appropriate action such as:

1. Notifying the Board of Public Education of the failure of the school district or cooperative to comply with audit requirements;

2. Requesting the Board of Public Education to require the entity's management to appear before the Board to discuss the noncompliance and planned corrective action; and/or
3. Requesting the Board of Public Education to order withholding of the district's state funding received from the OPI until the audit report is completed satisfactorily. ([MCA 20-9-344\(2\)\(a\)](#))

Additionally, entities are subject to fines imposed by the Department of Administration under [2-7-517, MCA](#) for failure to submit audits.

## **600.2 OPI MONITORING PROCEDURES**

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### **OBJECTIVES OF MONITORING**

The OPI is a pass-through entity, meaning the OPI provides federal awards to subgrantees to carry out federal programs in accordance with specific federal requirements. As a pass-through entity, federal regulations require the OPI to monitor activities supported using subgrants.

The OPI monitors to ensure the subgrantee:

1. Uses federal awards for authorized purposes in compliance with laws, regulations and provisions of grant agreements;
2. Achieves performance goals; and
3. Corrects issues of noncompliance and addresses weaknesses in internal controls and system procedures to ensure future compliance.

The OPI monitoring procedures may differ among subgrantees and programs depending on the cost-effectiveness of a particular procedure and relative size and complexity of the federal award(s) managed by a subgrantee.

The OPI will apply routine monitoring procedures to all subgrantees. When the OPI has assessed that the subgrantee is at high risk for noncompliance with Federal statutes, regulations, and conditions of grant awards, the OPI may apply additional conditions on awards and may apply expanded monitoring procedures as determined necessary. Those assessments, conditions and procedures are explained below.

## **ROUTINE MONITORING PROCEDURES**

The routine monitoring procedures performed by the OPI for all sub-grantees include a review of:

1. Subrecipient Audit/Review Reports - Section 2-7-503, MCA, requires a subrecipient must send one copy of the audit/review report to the OPI (see "[AUDIT DEADLINES](#)" earlier in this section).
2. Final Program Report - When required by law or the OPI, an annual program report is required for each federal and state grant award a subgrantee receives. The OPI will make available the appropriate forms for programs requiring a final program report.
3. Final Expenditure Report - An annual final expenditure report is required for each state and federal award a subgrantee receives. E-Grants programs require an online Final Expenditure Report, and the OPI will provide a hardcopy Final Expenditure Report form for programs that are not on the E-Grants system. This report provides information to allow:
  - a) A comparison of actual expenditures to approved budgets for direct costs, indirect costs and equipment; and
  - b) A reconciliation of cash advances/reimbursements to expenditures/refunds.
4. Other Required Program Monitoring: The OPI also monitors in accordance with specific federal and state program requirements, which differ among programs.
5. Data reports required by OPI, such as student information reports and accreditation reports.

## **RISK CATEGORIES FOR SUBGRANTEES**

The OPI assesses subrecipients to identify those at greater risk of noncompliance with federal laws, regulations and grant award provisions. OPI uses the risk assessment when evaluating the entity's applications for competitive and continuing federal formula awards to determine whether specific conditions and/or additional monitoring will be applied to the entity's federal awards.

### High-Risk

A subgrantee may be designated as high-risk for noncompliance if the subgrantee:

1. Has a history of failure to comply with general or specific terms and conditions of a federal award;

2. Has failed to meet performance goals specified in the federal award;
3. Is not financially stable;
4. Has a management system which does not meet the management standards set forth by the federal government;
5. Has not conformed to terms and conditions of previous awards, including timely submission of required fiscal and program reports and audits;
5. Has numerous and/or serious and/or repeated audit findings that have not been satisfactorily addressed; or
6. Is otherwise not responsible.

### **SPECIAL CONDITIONS AND ADDITIONAL MONITORING PROCEDURES**

The OPI may apply special conditions, restrictions, or monitoring procedures to federal competitive and formula grants that are awarded to high-risk subgrantees. Such special conditions and restrictions will correspond to the risk condition that exists for a particular subgrantee and may include: (2 CFR §200.207)

1. Payment on a reimbursement, rather than an advance basis;
2. Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given funding period;
3. Additional financial and/or program reports with more detail;
4. Additional project monitoring;
5. Requiring the subgrantee to obtain additional technical or management assistance; and/or
6. Requiring additional prior approvals.

Prior to imposing special conditions or restrictions, the OPI will notify the subgrantee in writing of: (2 CFR §200.207)

1. The nature of the special conditions/restrictions;
2. The reason(s) for imposing special conditions/restrictions;
3. Corrective actions which must be taken before the special conditions or restrictions will be removed and the time allowed for completing the corrective actions; and

4. The method whereby a subgrantee may request reconsideration of the conditions/restrictions imposed.

#### **ENFORCEMENT ACTIONS FOR FEDERAL NONCOMPLIANCE**

If the OPI determines that a subgrantee has failed to comply with the terms of a federal award, including audit requirements and any special conditions or restrictions, the OPI may take one or more of the following enforcement actions as appropriate in the circumstances: (2 CFR §200.338)

1. Temporarily withhold cash payments to the sub-grantee pending correction of the deficiency;
2. Disallow all or part of the cost of the activity or action not in compliance;
4. Wholly or partly suspend or terminate the current award for the subgrantee's program;
5. Withhold further awards for the sub-grantee's program; and/or
6. Take other remedies that may be legally available.