



DATE: June 30, 2025

TO: Auditors of Montana School Districts

FROM: Paul Taylor, School Finance Manager

RE: School District Audits FY2025

The Office of Public Instruction (OPI) is providing this information to guide and assist in the review of FY2025 audits, the FY2025 Trustees' Financial Summary (TFS), and the 2023 Montana Legislative session. Active hyperlinks are included where websites are mentioned. More documentation and information is located on the [OPI School Finance](#) webpage under the [Auditing](#) section. To compare enrollment counts by elementary, middle school, and high school budget units (available in both Word and Excel) please be sure to use [Appendix A](#) found in the [Information to Auditors](#) portion of the webpage and note which school had the count error either on the appendix attachment or in the finding language.

I. Three goals for this correspondence:

1. Provide general information and updates regarding issues that affect Montana school district audits for the fiscal year ended June 30, 2025.
2. List special items OPI would like auditors to review for compliance with statute and administrative rule.
3. Remind auditors to use the required enrollment schedule.

II. General Information:

Request for Information from the OPI – Standard Audit Contract

Requests for information pertaining to potential financial or legal compliance issues, relating to a school district or cooperative, should be emailed to OPISchoolFinance@mt.gov. Please allow up to two weeks for a response. If requesting information regarding multiple entities, please list the districts/cooperatives by county to expedite processing.

Submission of Audit Reports to the OPI

Section [20-9-213 \(7-9\), MCA](#), requires copies of all financial audit reports be emailed to the OPI. Submit reports to the OPI at OPIAuditReports@mt.gov. Additionally, please continue to send audit reports and corrective action plans to the Department of Administration in compliance with [2-7-503\(1\), MCA](#).

School Finance Division Website

The [OPI School Finance](#) website is updated with the most recent information available. An “Information to Auditors” section can be found on the School Finance webpage under the [Auditing](#) section. The “Information to Auditors” section contains current and prior Budget Reports (which also include the excess reserve information), Trustees’ Financial Summary (TFS) Reports, Student Enrollment Reports, and Value of USDA Foods (also known as Donated Commodities Reports).

School Nutrition Information

Information about the school nutrition program is located on the [School Nutrition Programs](#) webpage. Go to the [Agreements, Claims, and Data](#) website for claims, payment, and reporting information. The Value of USDA Foods 2024 (also known as Donated Commodities) is published under the [USDA Foods & DoD Fresh Programs](#) page. The [OPI School Nutrition Programs](#) system information is available with a login and password. Please contact Christine Emerson at cemerson@mt.gov or (406) 444-2502 for login information.

Legislative Summary

Legislative changes for specific sessions can be located [HERE](#).

III. OPI changes or requests for auditor review:

Management Discussion and Analysis

The OPI requests auditors ensure the districts disclose any High-Risk status assessed by the OPI in the prior fiscal year. If the district was designated as High Risk, the district must state what ramifications resulted from the designation and what progress has been made since the last assessment. In addition, the district should state any changes since the prior audit that could affect the risk of the district such as key personnel changes, accounting software changes, or other important factors.

Corrective Action Plan (CAP) Requirements

The OPI requests auditors inform school districts that corrective action plans (CAP) submitted in response to audits must be on school letterhead and include the following items for each finding:

1. Why did the deficiency occur?
2. What is being done to correct the deficiency?
3. Who is responsible for correcting the deficiency?
4. When will the corrective measures be implemented?

If the corrective action plan is not included with the audit, it should be emailed to both LGSBHelp@mt.gov and OPIAuditReports@mt.gov within 30 days of receipt of the audit.

Without the required list of items in the corrective action plans, the OPI and Local Government Service Bureau will **not** accept the CAP and will require the district to submit additional information of evidence of implementation before approval. The 2019 Legislature updated the Montana Code Annotated for failure to file reports, audits, or resolved findings ([2-7-515](#), MCA). If a local government entity fails to submit a corrective action plan or implement corrective measures to address significant audit findings within two years or fails to file an audit, it could result in a claim against the entity for failure to meet their fiduciary requirements with the Department of Administration Local Government Services Bureau.

Information on Federal ESSER Funds

[HR 748 CARES](#), [HR 133 CRRSAA](#), [HR 1319 ARPA](#)

Significant COVID grant aid has been made available to Montana schools through the Elementary and Secondary School Emergency Relief (ESSER) funding. These funds were enacted through three (3) separate federal legislative acts CARES (ESSER I), CRRSA (ESSER II), and ARP (ESSER III). The allowable uses for these funds are flexible. LEAs complete grant applications that describe how they plan to utilize the funds connected to COVID preparation, prevention, or response. The applications were reviewed and approved by the OPI before funds were distributed to LEAs. LEAs could amend their grant application with approval from the OPI.

Auditors should monitor the following activity related to ESSER fund utilization by LEAs (Public Law 116-136):

- 1) Expenditures are clearly tied to COVID-19 preparation, prevention, or response.
- 2) Expenditures are for allowable and reasonable activities and supported with appropriate documentation. See [December FY22 FAQ](#) or the [Department of Education website](#).
- 3) Expenditures for equipment over \$5,000 are appropriately tagged and inventoried.
- 4) Large purchases or capital expenditures that are above the State Capital Assets Threshold are supported by a Capital Expenditure/Scope form and were pre-approved by the OPI. Please refer to the [Davis-Bacon Act](#), [December FY22 FAQ](#), and the EDGAR handbook.
- 5) Districts (LEA) have a documented budget in E-Grants for utilizing ESSER funds for ESSER I, II, & III.
- 6) Districts (LEA) utilizing ESSER funds have made publicly available their ARP ESSER Plan and their Safe Return to In-person Instruction and Continuity of Services Plans according to the ESSER guidance in [December FY22 FAQ](#).
- 7) Districts (LEA) utilizing ESSER funds have completed data reporting processes including annual Department of Education data collection.
- 8) Miscellaneous Programs Fund 15 must be used for all receipts and expenditures of ESSER monies. It is not allowable for revenues to be transferred to other funds.
- 9) ESSER Project Reporter Codes – Specific Program Codes are required for ESSER funds. A project reporter code is mandatory for Fund 15.

ESSER funds may be utilized to address costs associated with ESSER fund management, including additional audit costs required to effectively administer the program consistent with the cost principles in the Uniform Guidance.

Federal funds generally allow supplementing but not supplanting. ESSER funds are unusual because supplementing and supplanting are allowed. The stipulation is the funds must be expended from the Miscellaneous fund 15, the same fund as where the funds were receipted.

For information regarding ESSER funds, please review the [OPI ESSER Guidance](#) or review the videos and resources on the [ESSER webpage](#). For additional information, contact April Grady at April.grady2@mt.gov.

Student Enrollment and Average Number Belonging (ANB)

[20-9-311, MCA](#), and [ARM 10.20.102 Calculation of Average Number Belonging \(ANB\)](#)

Please review compliance with all sections of this statute and rule, specifically ensuring counts are completed on the correct days as outlined in rule and the counts are accurately reported. We strongly recommend auditors use the enrollment schedule provided on the School Finance webpage under the [Auditing](#) section. If you find a discrepancy in enrollment within your audit, please note the school of the district in which the discrepancy is found.

Aggregate Hours

Verify that districts meet the minimum number of educational instruction aggregate hours for each grade, in accordance with [20-1-301, MCA](#).

The minimum aggregate hours required by grade are:

- 360 hours for a half-time kindergarten program
- 720 hours for a full-time kindergarten program, as provided in [20-7-117, MCA](#)
- 720 hours for grades 1 through 3
- 1,080 hours for grades 4 through 12.

Kindergarten Program

The trustees of an elementary district shall make available a kindergarten program that meets at a minimum the half-time aggregate hour requirements listed above. If the program is offered full-time the parent or guardian can enroll the student half-time. There is no longer KH, all kindergarten classes will be known as KF, and attendance will be based on aggregate hours. ANB will be determined based on the calculation of aggregate hours. [20-7-117, MCA](#) and [20-9-311, MCA](#).

Jumpstart Summer Programs

SB 35 enacted in the 2025 Legislative session clarifies that a child who participates in a summer jumpstart program must be counted as quarter time enrolled by the school district providing the jumpstart program to the child for the purpose of ANB calculation pursuant to 20-9-311, MCA. It also clarified that if a child that lives outside the district that is providing the summer program, no tuition is to be charged or collected. An out of district attendance agreement is not required.

Age 19/20 Eligible for ANB

Verify students indicated as 19/20 eligible for ANB meet the requirements of [20-9-311\(7\)\(c\), MCA](#).

Students Enrolled by Special Permission of the Board of Trustees

Students who were not age 5 by September 10 of the current school year must be admitted by special permission of the board of trustees. Verify that the students were board approved prior to the count date. Students enrolled in kindergarten should be participating in a kindergarten curriculum within integrated classrooms. [20-7-117, MCA](#).

MT Digital Academy, MT Youth Challenge, MT Job Corps

Verify the district has proof of participation in these programs for students included in the ANB count. The district should have a current interlocal agreement and the students must be residents of the district or enrolled under a mandatory student attendance agreement to be eligible for inclusion.

Fractional Enrollment for ANB Count

A pupil may be a “part-time enrollee”. A part-time enrollee is a qualifying pupil who is enrolled and admitted at one of the fractional levels that qualify for part-time ANB. [20-9-311\(4\)\(a\) or \(4\)\(d\)](#). The district that provides remote instruction receives the fractional enrollment before the district of residence.

The fractional levels allowed are as follows:

- 0 to 179 aggregate hours = .00 enrollment
- 180 to 359 aggregate hours = .25 enrollment
- 360 to 539 aggregate hours = .50 enrollment
- 540 to 719 aggregate hours = .75 enrollment
- 720 or more aggregate hours = 1.00 enrollment

Offsite Instructional Setting

Verification of offsite instructional settings are required to comply with the provisions set forth in the following document link [Offsite Instructional Setting](#) on the School Finance webpage.

Significant Enrollment Increases (HB 36-2023 Session)

Effective FY2023, the bill modifies section [20-9-166, MCA](#), to allow significant enrollment increase (SEI) payments. The OPI calculates the SEI payments by December 1st and notifies the qualifying district by December 15th. No later than March 1st of each year, the trustees of a SEI payment qualifying district are to hold a board meeting and adopt a budget amendment to accept all or partial amount of the allowable SEI payment.

High Risk Assessments

All federal single audits for the previous fiscal year have a high-risk assessment completed by the OPI.

- FY2025 Federal audit reports must be received no later than March 31st, 2025, per [CFR 200.512](#).
- FY2025 Yellow Book Audits and Reviews must be received no later than June 30th, 2025, [2-7-503\(3\)\(a\), MCA](#).

Districts who submit late audit reports will be identified as an audit high-risk which is a component of the all-inclusive high-risk assessment. If a district is considered high-risk in the all-inclusive assessment, it will result in a letter being sent to the school. Upon request, the assessment will be sent to the audit firm when the audit information is provided. Districts that qualify for review must comply with the review cycle.

Type E Bus Analysis

If the school district utilizes a Type E school bus, please verify the district completed a cost analysis required by [20-10-148, MCA](#). There is no standardized or required format for the cost analysis. The school district must also show evidence that the bus type has an overall safety rating of 5 stars which can be verified through [NHTSA](#). Additional questions may be directed to Donell Rosenthal at drosenthal@mt.gov or (406) 461-9316.

Pupil Transportation and Standards for School Buses

Per [ARM 10.7.104 Claim Procedure](#) review compliance with sections (1)(a) and (2)(a), specifically ensuring districts have recorded the same amounts for transportation claims that counties have received on the signed and completed copies.

Bus Depreciation Fund and Defining Passenger Vehicles

Per [20-10-129, MCA Transportation for Special Activities](#) a passenger vehicle that is owned by the district is not eligible to be included in the calculations for the bus depreciation reserve fund under [20-10-147, MCA](#).

Transportation For information regarding pupil transportation please visit the [OPI Pupil Transportation](#) webpage. For any additional information, contact Donell Rosenthal at drosenthal@mt.gov or (406) 461-9316.

[ARM 10.7.111 Bus Driver Certification Requirements for Reimbursement](#)

Review compliance with all sections of this rule, specifically ensuring all bus driver certification requirements are met. Areas of high focus are first aid and CPR certification and new bus driver information.

[ARM 10.7.112 Requirements for Bus Transportation for Eligibility for State Reimbursement](#)

Review compliance with section (10) of this rule, specifically ensuring transportation claims submitted are not for transportation to alternative sites.

[ARM 10.64.201 School Bus Driver Qualifications](#)

Review compliance with all sections of this rule, specifically ensuring all bus driver requirements are documented and met, including a criminal history background check. Verify annual driving record has been performed for bus drivers to ensure the driver has a safe driving record. If the school has a yellow school bus as defined in [20-10-101\(4\)](#), MCA, the bus driver must have a Commercial Driver's License (CDL) with passenger and school bus endorsements.

Standards for School Buses – Mandatory Bus Driver Training

[20-10-111, MCA](#), and [10.7.111, ARM](#) requires the Board of Public Education to establish school bus policies which are addressed with the Montana School Standards. Please note, the [2022 Montana School Bus Standards](#) are located on the OPI Pupil Transportation webpage.

Please ensure compliance with Driver In-service Training Program, 2(1)(i), page 61 of the [2022 Montana School Bus Standards](#), specifically ensuring bus drivers are provided with 15 hours of applicable in-service training hours annually, and detailed documentation.

Non-voted Levies

Districts are required, by March 31st, to notice any anticipated increase in non-voted levies per [20-9-116, MCA](#). Please verify this notice was done for any permissive levies.

Districts should not use the Tuition permissive levy as a means to increase overall special education expenditures. It is intended to help districts pay for the costs of high needs special education students without sending them outside their resident district for services. Permissible uses of the levy are outlined in [20-5-324, MCA](#).

Debt Service Fund

If a school district has a Debt Service Fund please verify the district is in compliance with the operating reserve allowances provided in [20-9-438\(3\), MCA](#). The operating reserve may only be used for principal and interest payments due from July 1 through November 30. Refer to [20-9-133\(3\), MCA](#), regarding negative balances in the Debt Service Fund. An audit finding does not result if there is money available.

IV. Special Accounting Practices

[ARM 10.10.303 Cost Allocation between Districts](#)

Review compliance with all sections of this rule, ensuring administrative costs are assigned using the allocations allowed in rule which are defensible regarding each fund. Please pay special attention to the Transportation Fund, which has a 50% county match.

[ARM 10.10.304 Student Extracurricular Activity Funds](#)

Review compliance with all sections of this rule, specifically ensuring funds in extracurricular activities are not subsidizing other non-allowable activities.

[ARM 10.10.306 Bank Accounts or Other Depositories](#)

Review compliance with all sections of this rule, specifically ensuring districts do not have offsite bank accounts except as allowed in rule.

[ARM 10.10.615 Internal Controls and Accounting Records](#)

Review compliance with all sections of this rule, specifically ensuring accounts are reconciled monthly, investment accounts are accounted for properly, and no single person controls an accounting transaction beginning to end.

For information regarding general accounting practices, please visit the [School Accounting Manual](#) on the School Finance webpage under the Accounting section. For additional information, contact [Laci Novark](#) at (406)444-4401 or [Alivia Skeslien-Jenkins](#) at (406)444-1964.

Miscellaneous Fund Buildup

Miscellaneous Fund (15), authorized by [20-9-507, MCA](#), to account for local, state, or federal grants, reimbursements, and donations. Please see [Miscellaneous Fund Worksheet](#) for assistance reconciling to the County Treasurer. Within the Miscellaneous Fund (15) separate accounting is required for each local, state, or federal grant project and indirect cost recoveries. A unique Project Reporter Code (PRC) is required in the Miscellaneous Fund 15.

Operating Transfers

Operating Transfers to Other Funds (910) are used to account for the operating transfers to/from the General Fund (01). Examples of these would be General Fund (01) to Compensated Absence Fund (21); the General Fund (01) to the Litigation Reserve Fund (27); the General Fund (01) to the Self-Insurance - Health Fund (78). For the Self-Insurance - Health Fund (78) this would be the fund costs of the Self Insurance Health Fund which exceed the actuarially determined premium.

Do **not** use (910) Operating Transfers to Other Funds to record transfers between funds which are quasi-external transactions, reimbursements to correct coding errors, residual equity transfers, or interfund loans. See [20-9-208, MCA](#), and the OPI [Transfer Matrix](#).

Other transfer objects are (911) for school safety and security, (912) transfer to permissive building fund and (914) transformational learning. A unique PRC is required for the expenditure and revenue transfer.

Residual Equity Transfers

Residual Equity Transfers Out (971). This account is used to record nonrecurring or nonroutine transfers of equity between funds (e.g., residual balances of discontinued funds which are transferred to the General Fund (01). Used with 999 Undistributed and 9999 Undistributed. See revenue account 9710 Residual Equity Transfers In for recording residual equity transfers in. Total residual equity transfers out for all funds must equal total residual equity transfers in for all funds. See [20-9-208, MCA](#), and the OPI [Transfer Matrix](#).

Fund Closing

In the [Transfer Matrix](#), guidance can be found in the worksheet in the tab “Closing Funds”. The applicable MCAs and ARMs are included in the matrix.

Tuition and State Placement

[20-5-320, MCA](#). Out-of-district attendance by parent or guardian request with no extenuating circumstances. For fiscal year 2025, review compliance with sections (2) – (4) of this statute, specifically ensuring attendance agreements are completed with signatures, on file, and shared with the appropriate district. Non-resident students who do not have a complete attendance agreement may not be included in the district’s ANB count.

[20-5-324, MCA](#). Tuition report and payment provisions

Districts may permissively levy for tuition costs for students leaving the district to attend an out of district school and special education costs for in-district and out of district students. Please pay special attention to section (4)(a)(iii), which limits the amount a district may levy for educating a child with disabilities. To assist districts with the calculation of the levy amount there is a calculator available on the [OPI Tuition and Attendance](#) website. Districts may levy actual costs in the year after attendance or estimated costs in the year of attendance. If there is a levy in the year of attendance, districts need to re-calculate the levy at the end of the year using actual costs and adjust the next year’s levy accordingly. Please verify that districts using this calculation have:

- 1) calculated on a per-student basis (rather than total special education cost); and,
- 2) any estimated levy was recalculated at the end of the year; and,
- 3) any estimated levy adjustments were made to the following year’s levy.

[ARM 10.20.106 Students Placed in Day School Education Programs](#)

Review compliance with section (5), ensuring students in day treatment programs or county detention programs are not included in the district’s ANB calculation.

If you have any questions, please visit the OPI website or contact Andrea.Mohammadi@mt.gov or (406) 444-1960.

Advance Opportunities

In accordance with [20-7-1506, MCA](#), a district may apply for Advanced Opportunities Aid through the Board of Public Education. Districts that receive this aid must spend or encumber at least 75% of the award to address out-of-pocket costs that would normally be incurred by the student or the student’s family. Additionally, the district may supplement their award with up to 25% of matched expenditures from the Adult Education Fund (17). Please see the [Advanced Opportunities](#) webpage for additional information (Revenue Code 3770, Program Code 377).

Transformational Learning

In accordance with [20-7-1602, MCA](#), a district may apply to the Board of Public Education for transitional funding and flexibilities for the creation of a transformational learning program. Districts approved for this program may permissively levy up to 100% of the funds distributed in the Flexibility Fund (29), if the obligations set forth in [20-9-116, MCA](#), are met. Funds transferred must be used only for the district's transformational learning program, are not considered expenditures to be applied against budget authority and must be spent or encumbered within two (2) full school fiscal years after the funds are transferred. Any funds not expended or encumbered must be returned to the originating fund. Districts may not increase another non-voted levy to restore transferred funds. Please see the [Transformational Learning](#) webpage for additional information (Revenue Code 3760, Program Code 376).

(Look at 2023 Legislative summary - <https://opi.mt.gov/Leadership/Finance-Grants/School-Finance/Session-History>)

Indian Education for All

In accordance with [20-9-329, MCA](#), a district must report Indian Education for All expenditures in the General Fund (01) using program code 365. Only expenditures using this coding will count towards the requirements within [20-9-329, MCA](#). Expenditures must be equal to or exceed the amount of revenue received for revenue code 3113 to maintain full funding. Please see the [Indian Education for All Guidance](#) for additional information.

School and Student Safety and Security

A district that has certified to the OPI a current school safety plan or emergency operations plan in accordance with [20-1-401, MCA](#), may transfer state or local revenue from any budgeted or non-budgeted fund, except Debt Service (50) or Retirement (14). The transfer must not exceed the estimated expenditure, are not considered expenditures to be applied against budget authority and must be spent or encumbered within 2 full school fiscal years after the funds are transferred. Any funds not expended must be returned to the originating fund. Districts may not increase another non-voted levy to restore transferred funds. Please see the [School Safety and Transfers](#) guidance for additional information.

Teacher Pay Incentive (As revised with HB252 Stars Act of the 2025 legislative session)

A district may receive two times the number of full-time equivalent quality educators and qualified staff payment as provided in [20-9-327, MCA](#) if the district meets the goals for competitive base pay of teachers:

- **Base Pay:** Teacher base pay in an educational entity must be at least 11 times the quality educator and qualified staff payment amount provided in [20-9-306, MCA](#). **For applications submitted in FY2025 for FY2026 funding the base pay entered onto the application should be the committed amount for FY2026.**
- **Average Teacher Pay:** For fiscal year 2026 and beyond, teacher base pay must meet the following percentages of the teacher average pay in the prior fiscal year:
 - 62% in fiscal year 2026
 - 64% in fiscal year 2027
 - 66% in fiscal year 2028
 - 68% in fiscal year 2029
 - 70% in fiscal year 2030 and succeeding fiscal years.

Average Teacher Pay calculated for applications submitted in FY2025 for FY2026 funding should be calculated using FY2025 teacher pay amounts.

Teacher base pay is defined as the lowest salary for a full-time equivalent beginning teacher for the current year as incorporated in the educational entity's collective bargaining agreement if the teachers' employment is covered by a collective bargaining agreement pursuant to Title 39, Chapter 31, or incorporated in the entity's policy if the teacher's employment is not covered by a collective bargaining agreement, not including bonuses, stipends, or extended duty contracts, [20-9-324](#), MCA. Teachers must hold a class 1, 2, 4, 5, 6, or 7 license issued by the Office of Public Instruction under rules adopted by the Board of Public Education and is employed by an educational entity in an instructional position requiring a teaching license, [20-9-324](#), MCA.

- **Attestation:** The commitment to meet the revised legislative goals for fiscal year 2026 established in the HB 252 (STARS Act). The educational entity must be able to state and commit that FY2026 base salary pay is equal to at least 11 times the quality educator and qualified staff payment (formerly the QEC payment) and the base payment is not less than the minimum teacher average pay for the applicable year as defined in [20-9-324](#), MCA.

Please verify that the base pay and average teacher pay is in accordance with [20-9-324](#), MCA and that when there is a district and union attestation a copy of the attestation has been filed at the district.

V. Informational Items for Reference:

Administrative Rule of Montana (ARM) and Montana Code Annotated (MCA) Compliance Items

All information provided in this letter are areas the OPI would like auditors to focus on when reviewing compliance with specific rules or statutes. This list is not exclusive, as other items may be deemed appropriate by the auditor. The [Administrative Rules of Montana](#), [Montana Code Annotated](#) and [Local Government Services Compliance Supplement](#) are key resources for auditors.

Fraud Reporting Requirements

For your reference, and due to the large amount of ESSER dollars distributed, please see the Department of Education (DOE) Office of Inspector General (OIG) Fraud Reporting Requirements guide on the Auditing webpage under [Information to Auditors](#) and the [OPI ESSER Guidance](#) webpage.

Thank you for your time and attention to these areas of concern. For questions, contact [Amanda Zigan](#) at (406) 444-3583.