



DATE: November 10, 2022

TO: Auditors of Montana School Districts

FROM: Barbara Quinn, School Finance Division Administrator

RE: School District Audits FY2022 - **AMENDED**

The information provided in this letter was compiled for the review of FY 2021 audits, the FY 2021 Trustees’ Financial Summary (TFS), and the 2021 Montana Legislative session. Active hyperlinks are located in this document where websites are mentioned. More documentation and information is located in the [OPI School Finance Division](#) website under the [Auditing](#) section. Please be sure to use Appendix A found under the Information to Auditors webpage (available in both Word and Excel) to compare enrollment counts by elementary, middle school, and high school budget units.

**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, 2022.
2. List special items the agency would like auditors to review for compliance with statute and administrative rule.
3. Remind auditors to use the required schedule – Attachment A found on the OPI website under [Auditing> Information for Auditors](#).

**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](mailto: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 at [OPISchoolFinance@mt.gov](mailto:OPISchoolFinance@mt.gov). Additionally, please continue to send audit reports to the Department of Administration in compliance with [2-7-503\(1\), MCA](#).

**School Finance Division Website**

The [OPI School Finance Division](#) website is updated with the most recent information available. An “Information to Auditors” section can be found on the [Auditing](#) webpage. 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 Donated Commodities Reports.

### **School Nutrition Information**

Information about the school nutrition program can be located on the [School Nutrition Programs](#) webpage. An [Agreements, Claims, and Data](#) website contains claims, payment, and reporting information. The FY2022 Value of Donated Commodities is published under the [Information to Auditors](#) section. The [OPI School Nutrition Programs](#) system information is available with a login and password. Please contact Kristen Becker at [Kristen.Becker@mt.gov](mailto:Kristen.Becker@mt.gov) or (406) 444-0701 for login information.

### **Legislative Summary**

Legislative changes for FY2021 can be located on the School Finance > About School Finance webpage under [Session History](#).

## **OPI changes or requests for auditor review:**

### **Management Discussion and Analysis**

The OPI requests auditors ensure the districts disclose if the district was assessed as High Risk or as a Watch status by the OPI in the prior fiscal year. If the district was designated as High Risk or Watch, the district must state what ramifications resulted from that assessment 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 or accounting software changes.

### **Corrective Action Plan (CAP) Requirements**

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

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?

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. 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 to be filed with the Department of Administration Local Government Services Bureau.

### **Attendance Centers**

Auditors should inquire from each school if they manage/monitor an attendance center(s). If the school does manage/monitor an attendance center(s), the auditor should note which attendance center(s) is managed.

### **Information on Federal ESSER I, II, & III 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 separate federal legislative acts CARES (ESSER I), CRRSAA (ESSER II), and ARPA (ESSER III). The allowable uses for these funds are generous. LEAs completed grant applications that detail how they plan to utilize the funds and articulate how these expenses are connected to COVID preparation, prevention, or response. These applications were reviewed and approved by the OPI before funds were distributed to LEAs. LEAs may 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 activities are in accordance with the LEAs approved e-grants application and supported with appropriate documentation.
- 3) Expenditures for equipment over \$5,000 are appropriately tagged and inventoried.
- 4) Expenditures on technical computing equipment that are under \$5,000 are appropriately tagged and inventoried.
- 5) Capital expenditures that are above the State Capital Assets Threshold are supported by a Capital Expenditure Application and were pre-approved by the OPI.
- 6) Districts (LEA) have a documented budget in E-Grants for utilizing ESSER funds for ESSER I, II, & III.
- 7) Districts (LEA) utilizing ESSER III funds have posted to their website (or if not a website, have made publicly available) their ARP ESSER Plan and their Safe Return to In-person Instruction and Continuity of Services Plans.
- 8) Districts (LEA) utilizing ESSER I, II, or III funds have completed data reporting processes including annual Department of Education data collection.
- 9) **Miscellaneous 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. Expenditures for allowable ESSER costs should be accounted for in Fund 15.**
- 10) **ESSER Project Reporter Codes - It is highly recommended for districts to use the program code as the PRC for tracking purposes, but not mandatory.**

LEAs will be reminded that ESSER funds may be utilized to address cost associated with ESSER fund management, including audit costs.

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

For information regarding ESSER funds, please visit the [OPI ESSER](#) webpage. For any additional information, contact Wendi Fawns at [Wendi.Fawns@mt.gov](mailto:Wendi.Fawns@mt.gov) or (406) 437-8595.

### **High Risk Assessments**

All federal audits for the previous fiscal year have a high-risk assessment completed by the OPI. Upon request, the assessment will be sent to the audit firm when the audit information is provided. If you do not receive this assessment, please e-mail your request to [Kristen.Becker@mt.gov](mailto:Kristen.Becker@mt.gov).

### **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. Additional questions may be directed to Donell Rosenthal at [drosenthal@mt.gov](mailto:drosenthal@mt.gov) or (406) 461-9316.

### **Pupil Transportation and Standards for School Buses**

#### [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.

#### [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.

#### **Standards for School Buses – Mandatory Bus Driver Training**

[20-10-111, MCA](#), requires the Board of Public Education establish school bus policies which are addressed with the Montana School Standards. Please note, the bus standards in effect for FY2021 are the [2018 Montana School Bus Standards](#) located on the OPI Pupil Transportation webpage.

Please ensure compliance with Driver In-service Training Program, 2(1)(i), page 55 of the 2018 Montana School Bus Standards, specifically ensuring bus drivers are provided with 15 hours of applicable in-service training hours annually.

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

#### **Non-voted Levies**

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

#### **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.

#### **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 that 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, 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, Accounting Tab. **Error! Hyperlink reference not valid.** For additional information, contact Andrea Mohammadi at (406) 444-1960 or Becky Belling at (406) 444-2561.

## **Leases**

GASB 87 is in effect for June 30, 2022, audits and schools are required to have their leases comply with GASB 87. Please see [GASB 87 Leases](#) for more information.

## **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) a 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 and Residual Equity Transfers**

Operating Transfers to Other Funds (910). Used to account for the operating transfer from the General Fund (01) to Compensated Absence Fund (21); or the General Fund (01) to the Litigation Reserve Fund (27). In the General Fund (01), use (910) Operating Transfers to Other Funds to record a transfer to the Self-Insurance - Health Fund (78) to fund costs of the self-insurance 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 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 tab "Closing Funds". The applicable MCAs and ARMs are included in the matrix.

## **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 at the [Auditing](#) tab.

### **Aggregate Hours**

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

### **Age 19/20 Eligible for ANB**

Verify that 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 the 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.

### **MT Digital Academy, MT Youth Challenge, MT Job Corps**

Verify that 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.

### **Non-Materialized Anticipated ANB Increases**

The 2021 Legislature through [HB 630](#) amended statute to suspend the funding of enrollment increases through the Anticipated Enrollment Increase ([20-9-314, MCA](#)) and Unanticipated Enrollment Increase ([20-9-166, MCA](#)) processes. However, the legislature provided for additional payments to schools for enrollment increases during FY2022 & FY2023.

For information regarding this section, please visit the [Base Aid Payment Guidance](#). For any additional information, contact Nicole Thuotte at [nthuotte@mt.gov](mailto:nthuotte@mt.gov) or (406) 444-4524 or Barbara Quinn at [Barbara.Quinn@mt.gov](mailto:Barbara.Quinn@mt.gov) or (406) 444-3249.

### **Tuition and State Placement**

[§20-5-320, MCA](#). Attendance with discretionary approval

Review compliance with sections (2) – (5) 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 completed attendance agreement may not be included in the district's ANB count.

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

Section 5 was amended in 2013 to allow a district to permissively levy for special education costs for in-district students. Please pay special attention to section (5)(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) that any estimated levy was recalculated at the end of the year; and,
- 3) that any estimated levy adjustments were made to the following year's levy.

### [ARM 10.20.106 Students Placed in 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 Nicole Thuotte at (406) 444-4524 or [nthuotte@mt.gov](mailto:nthuotte@mt.gov).

### **Advance Opportunities Programs**

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 60% 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.

### **Transformational Learning Programs**

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 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.

### **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 fund 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**

A district must receive an extra quality educator payment for certain educators if the district meets the goals for competitive base pay of teachers. The base pay must be equal to 10 times as much as the quality educator payment, with base pay defined as the lowest salary for beginning teachers in the district's collective bargaining agreement or incorporated in district policy, not including bonuses, stipends, or extended duty contracts. For first class districts this base pay must also be not less than 70% of the average teacher pay in the district. Teachers must hold a class 2, 4, 6, or 7 license and be within the first 3 years of their teaching career. Please verify that the base pay is in accordance with [20-9-324, MCA](#), and that teachers claimed for this incentive are within the first three years of their teaching career.

## **Informational Items for Reference:**

### **Administrative Rule of Montana (ARM) and MCA Compliance Items**

The following sections 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 reviewed by the auditor, as deemed appropriate. The [Administrative Rules of Montana](#) and [Montana Code Annotated](#) 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](#).

Thank you for your time and attention in these areas of concern. If you have any questions or concerns, please contact Kristen Becker, Auditor, at [Kristen.Becker@mt.gov](mailto:Kristen.Becker@mt.gov) or (406) 444-0701 or Barbara Quinn, School Finance Administrator, at [Barbara.Quinn@mt.gov](mailto:Barbara.Quinn@mt.gov) or (406) 444-3249.