



Montana  
**Office of Public Instruction**  
Denise Juneau, State Superintendent

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DATE: July 2013  
TO: Auditors of Montana School Districts  
FROM: Steve Hamel  
RE: School District Audits for FY-2012 - 2013

This letter is intended to provide new information and updates regarding issues that affect Montana school district audits for the fiscal year ended June 30, 2013. The information provided was drawn from the review of FY2012 audits, the FY2012 Trustees Financial Summary (TFS) and the 2013 Montana Legislative session. Throughout this letter are hyperlinks to related web pages. Click the blue words to follow the links.

**Enclosed:** Appendix A - Enrollment/ANB Schedule  
Appendix B - Excess Reserves Changes

#### **Request for Information – Standard Audit Contract**

Requests for information pertaining to potential financial or legal compliance issues relating to a school district or cooperative can be sent to: Debbie Casey, OPI, P.O. Box 202501, Helena, MT 59620-2501 or fax requests to (406) 444-0509. Email requests may be sent to [dcasey@mt.gov](mailto:dcasey@mt.gov). Please allow two weeks for a response. If requesting information regarding multiple entities, list the districts/cooperatives by county to expedite the turnaround of information.

#### **Submission of Audit Reports to OPI**

A copy of the audit report is required to be sent to the OPI per MCA 2-7-503, regardless of the level of the audit performed. Send a **bound copy** of the audit and available response to Steve Hamel, OPI, P.O. Box 202501, Helena, MT 59620-2501.

#### **School Finance Division Website**

The OPI School Finance Division website includes pages pertaining to [auditor information](#) and [entitlement payments](#). Included on the auditor information page are TFS reports, enrollment reports, and the value of donated commodities by fiscal year.

### **2013 Legislative Session**

The OPI has provided a K-12 [Legislative](#) Summary which entails information pertinent to school districts for FY2013 and 2014.

### **Improvements for School Safety and Security**

Senate Bill 348 provided the ability for a school to transfer state or local monies from any fund, except the Retirement and Debt Service fund, into its Building Reserve fund in an amount not to exceed the school district's estimated costs of improvements to school safety and security. The law went into effect on April 30, 2013.

**Transfers are not considered expenditures to be applied against the budget authority of the fund from which the transfers are made.** However, districts must have budget authority available in their building reserve funds to legally spend the transferred funds.

In fiscal years 2013 through 2015, districts may transfer and spend monies for this purpose until June 30, 2015 at which time unencumbered or unspent funds must be transferred back to the originating funds.

[School Safety Accounting Guidance](#) Click on this link for accounting guidance and more detailed information on SB 348, School Safety Improvements.

### **Ending Fund Balance Limits:**

The law limiting the flexibility fund to 150% of the general fund budget was moved, by SB 175, from July 1, 2013 to July 1, 2020.

### **Bidding Requirements**

SB 77 increased the bidding requirement for public entities to \$80,000. **This change was effective March 28, 2013.**

### **Continuing Legislation:**

**Multi-District Agreements:** The following link provides guidance to the rules and regulations of Multi-District Agreements through June 30, 2013.

<http://www.opi.mt.gov/pdf/SchoolFinance/Acct/MultidistrictAgreementsFAQ.pdf>

### **Debt Service Fund - General Obligation Bonds, QZABs, QSCBs - Associated Expenditures**

OPI's monitoring efforts have shown that the annual agent fees associated with general obligation bonds is an area often grossly overstated resulting in overpayment of the state reimbursement for school facilities state guaranteed tax base aid (GTB Facilities). In addition to compliance efforts, the OPI requests that auditors be aware of and verify fees charged to the Debt Service Fund.

Annual **agent fees** are an allowable expenditure of the Debt Service Fund and are recognized for state paid GTB Facilities. Agent fees are specifically identified on the original bond agreement and are charged by the Registrar and Paying Agent. The annual agent fee is \$300 for regular bonds (General Obligation), QZAB and QSCB bonds.

## School District Audits for **FY2012-13 Continued**

Districts receiving direct subsidies (versus the tax credit) on the Qualified Zone Academy Bonds (QZAB) and Quality School Construction Bonds (QSCB) will also have the Paying Agent submit the paperwork to receive the subsidy from the Federal government. This *filing fee* is \$100 per interest payment processing. All of the sinking fund bonds issued have semi-annual interest payment due dates. The filing fee is an allowable expenditure of the Debt Service Fund and is recognized for state paid GTB Facilities.

Districts should include \$500 in filing fees (\$200 filing fee + \$300 agent fee) per issue for the sinking fund bonds annually in the Debt Service Fund budget. According to the sinking fund bond agreement, school districts must hire an accounting firm annually to verify that the Sinking Fund Yield is less than Permitted Sinking Fund Yield. Districts may hire their own auditor to provide this service. These annual charges are *contracted services* and should not be expended from the Debt Service fund. Depending on the project, these charges could be expended from the General, Building or Flexibility funds, or other appropriate fund. The charges for these services are not agent fees, are not allowable expenditures of the Debt Service Fund and are not recognized for state paid GTB Facilities. Contact Kathleen Wanner at [kwanner@mt.gov](mailto:kwanner@mt.gov) or (406) 444 – 9852 with any questions.

### **GASB Statement No. 54**

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, is effective for fiscal periods that begin after June 15, 2010, meaning the implementation date for Montana school districts is the fiscal year ending June 30, 2011. The Office of Public Instruction offered several training opportunities for school districts regarding GASB 54 during the last few years. The training was based on the DOA presentation provided at the following link: [GASB 54 New Fund Balance Reporting](#). Other information regarding GASB 54 can be found at the [Local Government Services Bureau](#) website.

## **Pupil Transportation Fund and Reporting**

### **Payroll Charges**

Many schools charge a portion of the superintendent's and clerk's salary and benefits to the transportation fund. Please audit whether the portion of an administrator's payroll costs charged to the transportation fund are reasonable. The portion of the person's time spent on transportation issues should approximate the portion of the person's salary charged to the transportation fund. See ARM 10.10.303 (APPENDIX E). We have indications the percentages of administrator's salaries charged to the transportation fund are as high as 20%, even when very little or no time is spent on transportation issues. Motivation is very high to move costs inappropriately to funds to escape the general fund "caps."

### **Vehicle Purchases in the Transportation Fund**

Please verify that the transportation fund purchased only yellow school buses that are used on school bus routes. Activities and athletics buses and non-bus vehicles cannot be purchased from the transportation fund. **Replacement** buses for activities and athletics can be purchased using the bus depreciation fund. The transportation fund cannot be used to purchase drivers' education cars or vehicles intended to be used for employee travel. The drivers' education fund or general fund may purchase a drivers' education car.

### **Transportation for Special Education Services**

A school district may not claim state and county transportation reimbursement for the district's or cooperative's conveyance of students to and from alternative sites, buildings or other locations where services or programs are offered during the school day, such as partial-day special education services provided by a cooperative or classes at different buildings of the school district or community. Pursuant to [20-10-145](#), MCA, school districts may claim state and county transportation reimbursement for the conveyance of a student from their residence to and from the location of the student's center based day program for the school day, such as a day treatment program or special education preschool program that is operated by a cooperative or district interlocal agreement. ARM 10.7.112

### **Transportation Changes in Bus Routes**

When the board of trustees changes the mileage per day, or if a different school bus is used on the route, or a change in bus driver, the trustees must enter an amended TR-1 bus route form. The effective date of change must be recorded, and submit it first to the county transportation committee for approval, then must be submitted electronically to the Office of Public Instruction. In addition, a hard copy of each form must be signed by the board chair and submitted to the county superintendent. A copy of the signed claim form must be maintained at the district. Please verify bus route forms and individual contract forms are signed by the board chair and maintained at the district.

### **Transportation Reimbursement Claims**

School districts must send a hard copy of each claim form signed by the board chair and submitted to the county superintendent. A copy of the signed claim form must be maintained at the district. Please verify that bus route claims and individual contract claims are signed by the board chair and maintained at the district.

### **Activities, Athletics, and Employee Travel**

Costs of providing activities and athletic trips travel costs for employees are NOT allowable expenditures to the transportation fund. Again, shrinking budgets in general funds cause motivation to move these costs to other funds. We request your increased audit scrutiny.

### **Mandatory 10 Hours of Bus Driver Training**

Each district is required to create and implement a driver training program that meets the needs of the district and bus drivers. A program must be provided that includes 10 hours of in-service training that shall include, but not limited to: Pre and post trip inspections, passenger boarding and de-boarding procedures, driving skills, defense driving, railroad safety, passenger management, safety and emergency procedures, and special needs sensitivity and awareness. Each training opportunity for every driver must be documented and maintained by the district. A training schedule must be set per fiscal year or school year, but not both

### **Valid Bus Driver Credentials**

As per MCA, 20-10-103 in order for school districts to receive state and county transportation reimbursement, they are required to have on file a valid CDL, signed First Aid card by an authorized instructor, and a valid Medical Certificate for every bus driver assigned to their district. In addition, a signed copy of their state certification (TR-35) must be signed and sent to the county superintendent. A copy of the signed certificate must be maintained at the district. If these documents are not on file, the district risks forfeiting their state and county transportation reimbursement.

### **Impact Aid Program Audit Findings**

The United States Department of Education has issued a memo to provide [additional guidance](#) on the exemption from OMB Circulars A-87 and the A-102 Common Rule for the Impact Aid Program.

Review of the FY12 TFS brought to our attention that districts may not be properly recording payment vouchers to the correct LE (may credit the elementary payment to the high school or vice-versa). Please match Impact Aid revenue to payment vouchers for each LE.

### **Student Count for ANB – Reporting Procedures**

In the FY2012-13 school year enrollment data was imported into MAEFAIRS from the Achievement in Montana (AIM) system. MAEFAIRS imported the minimum enrollment information necessary to determine a school district's Average Number Belonging (ANB). AIM was used to collect student enrollment, attendance on official count dates, aggregate hours, and student demographic information. For more information regarding enrollment and ANB see the letter regarding [Student Count for ANB Reporting to the Office of Public Instruction](#). Contact Nica Merala at <mailto:nmerala@mt.gov> or (406) 444 – 4401 with any questions.

### **Achievement in Montana (AIM)**

Please take into account the following information when checking enrollment:

1. Review student enrollments where enrollment end date falls close to count date. Once a district receives notice that a student has transferred, the enrollment end date should be set to the date the student was last present in the district. If the district has not received notice that a student has transferred, they should continue the enrollment per district policy (usually carry for 10 days) and then end date the enrollment record.
2. The district must have an agreement with the MT Youth ChalleNGe Academy and/or Job Corps program for students that are being counted for ANB. The credits these students are taking must meet the district's requirements for graduation at a school in the district and they must be reported by the Job Corps or MT Youth ChalleNGe Academy to the student's resident district. The district should have this documentation. For more information, see § 20-9-707 and § 20-9-311(12), MCA.
3. Verify district records for students identified as less than full time (aggregate hours not equal to F). The district should have documentation or schedules indicating how many classes a student is taking and that these hours calculate to the appropriate aggregate hours.

If you have any questions regarding AIM please call the AIM Help Desk at 1-877-424-6681 or e-mail them at [opiainhelp@mt.gov](mailto:opiainhelp@mt.gov). The AIM webpage is <http://opi.mt.gov/AIM/Index.html>.

### **State Tuition for State Placement Payment –Compliance with MCA**

Review of the FY2012 TFS brought to our attention that districts receiving the State Tuition for State Placement monies (revenue code 3117) may not be in compliance with [MCA 20-5-324](#) (6)(a) through (6)(d). Please continue checking to assure your districts are receipting these funds correctly.

In accordance with 10.20.106, ARM, students in day treatment programs or at county or regional detention facilities may **not** be counted for ANB. Districts with students in day treatment programs may use the district tuition fund for education services and claim an ANB reimbursement under 20-5-324, MCA, using the FP-15. Districts are not reimbursed for the expense of students in county or regional detention facilities, but must use the district tuition fund or impact aid fund for detention center educational services charged pursuant to 41-5-1807, MCA.

**Rural Education Achievement Program (REAP)**

Review of the 2012 Trustees Financial Summaries brought to our attention that some districts receiving REAP monies carried a positive balance at the end of the fiscal year. This indicates that these districts requested monies in advance but did not spend or encumber them. Appendix D, #3 on page 29 of the guidance link below states that an LEA should only request monies as needed for specific obligations that it has already incurred or that it will need within the next 3 days. [REAP Guidance from the Department of Education](#)

**Long Term Leases**

School districts are limited to 3-year leases for real and personal property and for busses. [MCA 20-6-609](#) and [MCA 20-10-110](#) deal specifically with these leases. Busses purchased through an Intercap Loan are the only exception. Buildings or land are also limited to 3-year leases, [MCA 20-6-625](#), unless approved by voters. For guidance on Intercap Loans through the board of investments please follow this link: [\(MCA 20-9-471 Issuance of obligations – authorization - conditions\)](#).

If you have any questions please contact me at (406)-444-0783 or [shamel@mt.gov](mailto:shamel@mt.gov) or contact Janelle Mickelson at (406)-444-3249 or <mailto:jmickelson@mt.gov>

**Excess Reserve Changes**

Please see the individual Montana school district budget report, page 3, for Excess Reserves information. The budget reports are posted on the OPI website -- [BUDGETS](#)

School District Audits for **FY2012-13 Continued**

**Appendix A**

**Supplemental Schedule**

School District Number 2  
 County  
 Montana  
 SCHEDULE OF ENROLLMENT  
 For the Year Ended June 30, 2011

**Fall Enrollment**

**Fall Per Enrollment**

**Audit Per**

**Elementary District**

**Reports**

**District Records**

**Difference**

(b) Kindergarten Full				111		111		0
(c) Kindergarten Part				309		309		0
(d) Grades 1-6				2,280		2,281		+1
(e) Grades 7-8				786		784		-2
(f) Total Elementary (add lines a thru e)				3,500		3,499		-1

**Part-time students:**

**Per Enrollment Reports**

**Audit Per District Records**

**Difference**

Grade	<180 hrs/yr	180-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	<180 hrs/yr	180-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	Difference
K- Full	0	0	0	0	0	0	0	0	0
K-Part	0	0	N/A	N/A	0	0	N/A	N/A	0
1-6	0	0	0	1	0	0	1	1	0
7-8	1	2	0	0	1	2	0	0	0

**Fall Enrollment**

**Fall Per Enrollment**

**Audit Per**

**High School District**

**Reports**

**District Records**

**Difference**

(g) Grades 9-12				1,193		1,194		+1
(h) 19 Year-olds included on line (f)				4		4		0
(i) Job Corps students included on line (f)				0		0		0

**Part-time students:**

**Per Enrollment Reports**

**Audit Per District Records**

**Difference**

Grade	<180 hrs/yr	180-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	<180 hrs/yr	180-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	Difference
9-12	3	7	6	12	3	7	6	12	0

**Spring Enrollment**

**Spring Per Enrollment**

**Audit Per**

**Elementary District**

**Reports**

**District Records**

**Difference**

(k) Kindergarten Full				114		114		0
(l) Kindergarten Part				305		305		0
(m) Grades 1-6				2,293		2,293		0
(n) Grades 7-8				788		788		0
(o) Total Elementary (add lines i thru l)				3,521		3,521		0

**Part-time students:**

**Per Enrollment Reports**

**Audit Per District Records**

**Difference**

Grade	<180 hrs/yr	180-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	<180 hrs/yr	180-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	Difference
K- Full	0	0	0	0	0	0	0	0	0
K- Part	0	0	N/A	N/A	0	0	N/A	N/A	0
1-6	0	0	1	1	0	0	1	1	0
7-8	3	1	1	0	3	1	1	0	0

**Spring Per Enrollment**

**Audit Per**

**High School District**

**Reports**

**District Records**

**Difference**

(p) Grades 9-12				1,865		1,865		0
(q) 19 Year-olds included on line n				4		5		+1
(r) Early Graduates (not included in n)				45		45		0
(s) Job Corps students included on line n				0		0		0

**Part-time students:**

**Per Enrollment Reports**

**Audit Per District Records**

**Difference**

Grade	<180 hrs/yr	180-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	<180 hrs/yr	180-359 hrs/yr	360-539 hrs/yr	540-719 hrs/yr	Difference
9-12	5	5	7	6	5	5	7	6	0

**Appendix B**

School District Audits for **FY2012-13 Continued**