



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Office of Public
Instruction*

*For the Two Fiscal Years Ended
June 30, 2009*

SEPTEMBER 2009

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DIVISION

09-19

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

September 2009

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report for the Office of Public Instruction for the two fiscal years ended June 30, 2009. Our report contains six recommendations related to compliance with state law, internal controls, and compliance with federal regulations for the School Nutrition Program. The office's written response to the audit recommendations is included in the back of the report.

We thank the Superintendent and her staff for their assistance and cooperation during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

Office of Public Instruction Denise Juneau, Superintendent
Dennis Parman, Deputy Superintendent
Madalyn Quinlan, Chief of Staff
Ann Gilkey, Chief Legal Counsel
Nancy Coopersmith, Assistant Superintendent
Department of Education Services
Bob Runkel, Assistant Superintendent
Department of Education Services
Joan Anderson, Assistant Superintendent
Department of Operations

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REPORT SUMMARY

Office of Public Instruction

This financial-compliance audit report contains the results of our audit of the Office of Public Instruction (OPI) for the two fiscal years ended June 30, 2009. This report contains six recommendations directed to the office addressing: controls and documentation for the School Nutrition Program, monitoring and testing internal controls, compliance with state laws, and monitoring schools who receive Special Education funding. American Recovery and Reinvestment Act money will be subject to the Special Education monitoring control, which is discussed in the sixth recommendation. The prior audit report contained two recommendations to the office.

The listing below serves as a means of summarizing the recommendations contained in the report and the office’s response thereto.

Recommendation #1.....5

We recommend the Office of Public Instruction:

- A. Require documentation from the schools of requests for the Office of Public Instruction to change or initiate a School Nutrition Program reimbursement claim.
- B. Keep accurate records of when and who at the Office of Public Instruction created or changed a School Nutrition Program reimbursement claim.

OPI Response: Concur:.....B-3

Recommendation #2.....6

We recommend the Office of Public Instruction:

- A. Strengthen internal controls over Special Milk Program eligibility and the federal report for the School Nutrition Program.
- B. Maintain documentation supporting meal and milk counts reported to the federal government for the School Nutrition Program.

OPI Response: Concur:.....B-3

Recommendation #3.....7

We recommend the Office of Public Instruction perform testing of its internal controls as required by state policy.

OPI Response: Concur:.....B-3

Recommendation #4.....8

We recommend the Office of Public Instruction conduct periodic on-site driver education program reviews in compliance with state law.

OPI Response: Concur:.....B-4

Recommendation #5.....8

We recommend the Office of Public Instruction:

- A. Charge a rental fee for library media used by schools or educational groups in compliance with state law, or
- B. If necessary, seek legislation to eliminate the library or the rental fee.

OPI Response: Concur:.....B-4

Recommendation #6.....9

We recommend the Office of Public Instruction strengthen internal controls to ensure all districts and cooperatives who receive Special Education funding are monitored.

OPI Response: Concur:.....B-4

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Office of Public Instruction (office) for the two fiscal years ended June 30, 2009. The objectives of the audit were to:

1. Determine whether the office complied with selected state and federal laws and regulations.
2. Obtain an understanding of the office's control systems to the extent necessary to support our audit of the office's financial schedules and, if appropriate, make recommendations for improvement in the internal and management controls of the office.
3. Determine whether the office's financial schedules present fairly the results of its operations for each of the two fiscal years ended June 30, 2009.
4. Determine the implementation status of prior audit recommendations.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #2 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 below outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Subject	Significant Deficiency	Material Weakness	Page
School Nutrition Program Reporting Error	Yes	No	6

This report contains six recommendations to the office. Other areas of concern deemed not to have a significant effect on the successful operations of the office are not included in this report, but have been communicated to management. In accordance with §5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

As required by §17-8-101(6), MCA, we analyzed the rates charged and fund equity in the office's Internal Service Fund. The Internal Service Fund contains the office's indirect cost pool. We found the rates and fund equity were reasonable for the operations in this fund in fiscal years 2007-08 and 2008-09.

Office Organization and Function

The Superintendent of Public Instruction is established in Article VI, Section 1, of the Montana Constitution. The Superintendent of Public Instruction is an elected official responsible for the general supervision of K-12 public schools and districts within the state of Montana. In addition, the superintendent is the executive officer for K-12 and vocational education in the state.

The office, which is comprised of approximately 180 full-time equivalent employees, provides services to school age children and to teachers in more than 430 school districts. The staff furnishes technical assistance in planning, implementing, and evaluating educational programs. The office also oversees teacher preparation, teacher certification, school accreditation, school curriculum, school finance, and school law. The staff administers numerous federal grants and provides a variety of information services.

The office records its expenditures activity in the State Level Activities and Local Education Activities programs. The following paragraphs describe the activities accounted for in each program.

State Level Activities

The State Level Activities program is established for the delivery of state services and state and federal funds to schools. The staff of this program supports the superintendent's statutory role with the Board of Public Education, the Board of Regents, and the Land Board. In addition, program personnel administer several state programs, such as drivers' education, school food services, and audiology.

Within this program, the office oversees the financial reporting, cash management, and cost allocation functions for federal grants. These grants include: Title I; Child Nutrition and Commodities; Individuals With Disabilities Education Act, Part B (IDEA B); and Title II A. The program allocates centralized administrative costs of the office (payroll, personnel, accounting, budgeting, purchasing, word processing, and mail delivery) to both state and federal activities through the use of an approved indirect cost rate.

Local Education Activities

The Local Education Activities program is established to distribute state and federal funds to local education agencies, which are primarily schools. Schools receive distributions for state support to schools, special education, traffic education, and federal grants. Total distributions to local education agencies amounted to \$857,004,638 and \$839,454,417 in fiscal years 2007-08 and 2008-09, respectively.

Prior Audit Recommendations

The prior audit report for fiscal years 2005-06 and 2006-07 contained two recommendations to the office. The office implemented one recommendation and partially implemented one recommendation. The recommendation partially implemented pertains to recording accounting entries for intangible assets. There were errors in 2007-08 for intangible assets, but the office correctly recorded this activity in 2008-09.

Chapter II – Findings and Recommendations

School Nutrition Program

The School Nutrition Program Cluster includes the National School Lunch Program, School Breakfast Program, After School Snack Program, Special Milk Program, Summer Food Service Program, Food Distribution Program, Fresh Fruit and Vegetable “Snack” Program, and Cooperative Food Purchase Program. The School Nutrition Programs Unit administers school-based child nutrition programs throughout Montana on behalf of the U.S. Department of Agriculture (USDA). OPI distributes approximately \$24 million annually in federal funds to schools for this program. OPI has a computer system established to extract data for federal reporting purposes, and schools use the computer system to submit their reimbursement claim forms for meals, milk, and snacks served.

Monitoring of Changes

OPI School Nutrition Program staff has capabilities to initiate and modify reimbursement claim forms.

Schools participating in the School Nutrition Program submit reimbursement claim forms each month for the number of meals served. Once the reimbursement claims have been submitted, School Nutrition Program staff have access to change claims. Staff can also initiate a claim on behalf of a school. While there is no state or federal law disallowing this access, there is risk for inadvertent changes to claims or the potential for creation of fictitious claims. School Nutrition Program staff indicated the access was built into the system, and staff needs access to change claims. OPI School Nutrition Program staff could not provide us with support from the school district requesting OPI to make reimbursement claim changes, or accurate information showing which OPI staff member created a claim or made a change to an existing claim.

RECOMMENDATION #1

We recommend the Office of Public Instruction:

- A. *Require documentation from the schools of requests for the Office of Public Instruction to change or initiate a School Nutrition Program reimbursement claim.*
 - B. *Keep accurate records of when and who at the Office of Public Instruction created or changed a School Nutrition Program reimbursement claim.*
-

School Nutrition Program Errors

Internal controls did not detect errors in reporting and eligibility requirements for the School Nutrition Program.

Federal regulations require nonfederal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program requirements. Noted below are two instances of noncompliance with federal requirements where internal controls failed to detect the issues.

- ◆ According to federal regulations, eligibility for free milk under the School Nutrition Program is limited to children of households meeting the income eligibility criteria for free meals. The reimbursement rate for free milk is higher than the reimbursement rate for paid milk. In fiscal year 2007-08, we tested seven entities participating in the Special Milk Program. We noted one of the entities received the higher milk reimbursement rate in error.
- ◆ OPI is required to send a report to the USDA showing the number of meals served under the National School Lunch Program and School Breakfast Program, and half-pints of milk served under the Special Milk Program. Schools provide the numbers to OPI via the computer system on a monthly basis. The USDA report is automatically generated by the system. During the audit, we found that reported numbers on the system did not match what was shown on the USDA reports in four out of twelve months tested. OPI personnel could not determine the reasons for the differences and the controls established for reporting did not allow them to detect the differences. OPI contacted the computer vendor, and the vendor asserted three of the four months in question were reported properly on the USDA report. Reliance on the vendor does not mitigate the office's need to verify the validity of the federal reports. Based on OPI records, we could not determine what the meal and milk counts should be.

RECOMMENDATION #2

We recommend the Office of Public Instruction:

- A. *Strengthen internal controls over Special Milk Program eligibility and the federal report for the School Nutrition Program.*
- B. *Maintain documentation supporting meal and milk counts reported to the federal government for the School Nutrition Program.*

Monitoring and Testing of Internal Controls

The office has not tested its internal control procedures in accordance with state policy.

State policy outlines management's responsibility for establishing and maintaining agency internal controls to safeguard and account for the resources entrusted to them to carry out government programs. State policy requires agencies to develop internal control procedures, monitor and test its internal controls, and evaluate and report the results of its testing. The office has developed internal control procedures. However, the office did not test these established procedures. State policy covering internal control was effective in December of 2007. OPI has drafted an internal control checklist to aid in evaluating and testing of controls, and plans to complete testing in state fiscal year 2009-10. Monitoring and testing of internal controls ensures the control systems are adequate to help office personnel to detect and prevent errors from occurring.

RECOMMENDATION #3

We recommend the Office of Public Instruction perform testing of its internal controls as required by state policy.

Compliance With State Laws

We tested the office's compliance with selected state laws and regulations applicable to office operations. The following section describes areas where the office's compliance with state laws can be improved.

Driver Education

The office has not conducted on-site driver education program reviews.

The office administers traffic education programs. Section 20-7-502(9), MCA, requires the office to periodically conduct on-site driver education program reviews. OPI personnel stated no on-site review was done over driver education programs during state fiscal years 2007-08 or 2008-09, and could not produce documentation of when the last on-site review was conducted. During 2007-08, there were approximately 161 school districts eligible to offer a driver education program, and 132 offered programs. There were 8,293 students that completed the programs in fiscal year 2007-08.

RECOMMENDATION #4

We recommend the Office of Public Instruction conduct periodic on-site driver education program reviews in compliance with state law.

Media Library

The office does not charge a rental fee for the use of library resources.

Section 20-7-201, MCA, requires the office to establish and maintain a library of visual, aural, and other educational media. The media serves as teaching aids and resources for schools and other educational groups within the state and shall be made available to them on a rental fee basis. The law allows the rental fee revenue to be used by the office for operation, maintenance, enlargement, and other library costs. The office entered into an agreement with Western Montana College, and the College assumed operation and distribution responsibilities for the media library. Rental fees were not assessed on media rented during our audit period. Office personnel indicated very little remains at the library; and with changes in technology, most educational resources are available to schools and educational groups on the internet at no charge. There were no expenses incurred for the library during our audit period.

RECOMMENDATION #5

We recommend the Office of Public Instruction:

- A. *Charge a rental fee for library media used by schools or educational groups in compliance with state law, or*
 - B. *If necessary, seek legislation to eliminate the library or the rental fee.*
-

Special Education Monitoring Federal Requirement

One district was omitted from the Special Education monitoring list maintained by OPI.

The Special Education federal requirements require monitoring of the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards

appropriately. The Special Education Division compiles a monitoring list of all districts and cooperatives who receive Special Education funding. The list shows the entities and when the monitoring will take place. The Special Education Division received funding from the American Recovery and Reinvestment Act. These funds will be subject to this monitoring control.

One district was omitted from the monitoring list. According to Special Education personnel, the district formerly belonged to a cooperative. The district dropped out as a cooperative member and was not added back as an independent district on the monitoring list. Special Education personnel were not sure when the district was last monitored, but have added them to the list to be monitored in fiscal year 2010-11. Personnel indicated they will commence a cross-check of the monitoring list against all districts in the state.

RECOMMENDATION #6

We recommend the Office of Public Instruction strengthen internal controls to ensure all districts and cooperatives who receive Special Education funding are monitored.

Independent Auditor's Report and Office Financial Schedules

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Office of Public Instruction for each of the fiscal years ended June 30, 2009, and 2008. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Office of Public Instruction for each of the fiscal years ended June 30, 2009, and 2008, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 18, 2009

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 2008	\$ (122,132)	\$ 11,573,312	\$ 0	\$ 63,988	\$ 291,681	\$ 0
PROPERTY HELD IN TRUST: July 1, 2008						\$ 41,308
ADDITIONS						
Budgeted Revenues & Transfers-In	342	771,784	144,933,630	147,278	2,035,044	
Nonbudgeted Revenues & Transfers-In	10,020	17,400			13,540	
Prior Year Revenues & Transfers-In Adjustments		(54,142)				
Direct Entries to Fund Balance	653,024,678	66,230,439	13,368			
Additions to Property Held in Trust						156,558
Total Additions	<u>653,035,040</u>	<u>66,965,481</u>	<u>144,946,998</u>	<u>147,278</u>	<u>2,048,584</u>	<u>156,558</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	655,166,253	65,242,509	144,946,998	189,256	2,326,174	
Nonbudgeted Expenditures & Transfers-Out		10,890		24,042	107,913	
Prior Year Expenditures & Transfers-Out Adjustments	(24,716)	(4,734)		2,298	(13,477)	
Reductions in Property Held in Trust						152,112
Total Reductions	<u>655,141,537</u>	<u>65,248,665</u>	<u>144,946,998</u>	<u>215,596</u>	<u>2,420,610</u>	<u>152,112</u>
FUND BALANCE: June 30, 2009	\$ (2,228,629)	\$ 13,290,128	\$ 0	\$ (4,330)	\$ (80,345)	\$ 0
PROPERTY HELD IN TRUST: June 30, 2009						\$ 45,754

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 2007	\$ 16,555,034	\$ (18,854,680)	\$ (4,414)	\$ 40,868	\$ 797,653	\$ 0
PROPERTY HELD IN TRUST: July 1, 2007						\$ 35,390
ADDITIONS						
Budgeted Revenues & Transfers-In	15,571	16,167,515	140,236,595	166,477	1,680,485	
Nonbudgeted Revenues & Transfers-In	12,263	6,653	9,431		5,848	
Prior Year Revenues & Transfers-In Adjustments	180	(19,393)				
Direct Entries to Fund Balance	668,714,756	70,446,076	34,236			
Additions to Property Held in Trust						530,080
Total Additions	<u>668,742,770</u>	<u>86,600,851</u>	<u>140,280,262</u>	<u>166,477</u>	<u>1,686,333</u>	<u>530,080</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	685,536,824	56,163,885	140,276,348	131,121	2,101,342	
Nonbudgeted Expenditures & Transfers-Out		12,021		12,236	87,455	
Prior Year Expenditures & Transfers-Out Adjustments	(116,888)	(3,047)	(500)		3,508	
Reductions in Property Held in Trust						524,162
Total Reductions	<u>685,419,936</u>	<u>56,172,859</u>	<u>140,275,848</u>	<u>143,357</u>	<u>2,192,305</u>	<u>524,162</u>
FUND BALANCE: June 30, 2008	\$ (122,132)	\$ 11,573,312	\$ 0	\$ 63,988	\$ 291,681	\$ 0
PROPERTY HELD IN TRUST: June 30, 2008						\$ 41,308

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF PUBLIC INSTRUCTION
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		\$ 168,993				\$ 168,993
Taxes					8,225	8,225
Charges for Services		95,791		\$ 147,278	1,012,671	1,255,740
Sale of Documents, Merchandise and Property	\$ 342					342
Grants, Contracts, and Donations		468,258				468,258
Transfers-in		2,000	\$ 3,483,464			3,485,464
Federal Indirect Cost Recoveries					1,022,374	1,022,374
Miscellaneous	10,020				5,314	15,334
Federal			141,450,166			141,450,166
Total Revenues & Transfers-In	10,362	735,042	144,933,630	147,278	2,048,585	147,874,896
Less: Nonbudgeted Revenues & Transfers-In	10,020	17,400			13,540	40,959
Prior Year Revenues & Transfers-In Adjustments		(54,142)				(54,142)
Actual Budgeted Revenues & Transfers-In	342	771,784	144,933,630	147,278	2,035,044	147,888,078
Estimated Revenues & Transfers-In	35,000	26,776,910	154,206,131	160,000	2,274,751	183,452,792
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (34,658)	\$ (26,005,126)	\$ (9,272,501)	\$ (12,722)	\$ (239,707)	\$ (35,564,714)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		\$ (207)				\$ (207)
Charges for Services		(4,918)		\$ (12,722)	\$ (329)	(17,969)
Investment Earnings		(250,001)				(250,001)
Sale of Documents, Merchandise and Property	\$ (34,658)					(34,658)
Transfers-in		(25,750,000)	\$ (447,104)			(26,197,104)
Federal Indirect Cost Recoveries					(239,378)	(239,378)
Federal			(8,825,397)			(8,825,397)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (34,658)	\$ (26,005,126)	\$ (9,272,501)	\$ (12,722)	\$ (239,707)	\$ (35,564,714)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		\$ 169,533				\$ 169,533
Taxes					\$ 5,848	5,848
Charges for Services		108,391		\$ 166,477	821,632	1,096,500
Sale of Documents, Merchandise and Property	\$ 15,751					15,751
Grants, Contracts, and Donations		494,007	\$ 9,431			503,438
Transfers-in		15,382,591	3,348,922			18,731,513
Capital Asset Sale Proceeds		253				253
Federal Indirect Cost Recoveries					858,853	858,853
Miscellaneous	12,263					12,263
Federal			136,887,673			136,887,673
Total Revenues & Transfers-In	<u>28,014</u>	<u>16,154,775</u>	<u>140,246,026</u>	<u>166,477</u>	<u>1,686,333</u>	<u>158,281,625</u>
Less: Nonbudgeted Revenues & Transfers-In	12,263	6,653	9,431		5,848	34,195
Prior Year Revenues & Transfers-In Adjustments	180	(19,393)				(19,213)
Actual Budgeted Revenues & Transfers-In	<u>15,571</u>	<u>16,167,515</u>	<u>140,236,595</u>	<u>166,477</u>	<u>1,680,485</u>	<u>158,266,643</u>
Estimated Revenues & Transfers-In	15,600	16,180,788	148,321,540	166,500	2,252,751	166,937,179
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (29)</u>	<u>\$ (13,273)</u>	<u>\$ (8,084,945)</u>	<u>\$ (23)</u>	<u>\$ (572,266)</u>	<u>\$ (8,670,536)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		\$ (1,267)				\$ (1,267)
Charges for Services		(4,597)		\$ (23)	\$ (169,368)	(173,988)
Sale of Documents, Merchandise and Property	\$ (29)					(29)
Grants, Contracts, and Donations		(5,000)				(5,000)
Transfers-in		(2,409)	\$ (859,142)			(861,551)
Federal Indirect Cost Recoveries					(402,898)	(402,898)
Federal			(7,225,803)			(7,225,803)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (29)</u>	<u>\$ (13,273)</u>	<u>\$ (8,084,945)</u>	<u>\$ (23)</u>	<u>\$ (572,266)</u>	<u>\$ (8,670,536)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human sources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	LOCAL EDUCATION ACTIVITIES	STATE LEVEL ACTIVITIES	Total
Personal Services			
Salaries		\$ 8,785,230	\$ 8,785,230
Employee Benefits		2,696,346	2,696,346
Personal Services-Other		44,141	44,141
Total		<u>11,525,717</u>	<u>11,525,717</u>
Operating Expenses			
Other Services	\$ 545,509	9,205,141	9,750,650
Supplies & Materials		768,494	768,494
Communications		329,649	329,649
Travel		1,373,889	1,373,889
Rent		554,430	554,430
Utilities		2,265	2,265
Repair & Maintenance		127,135	127,135
Other Expenses		2,562,210	2,562,210
Total	<u>545,509</u>	<u>14,923,213</u>	<u>15,468,722</u>
Equipment & Intangible Assets			
Equipment		35,845	35,845
Intangible Assets		602,023	602,023
Total		<u>637,868</u>	<u>637,868</u>
Local Assistance			
From State Sources	707,693,972	487,500	708,181,472
Total	<u>707,693,972</u>	<u>487,500</u>	<u>708,181,472</u>
Grants			
From State Sources	2,120,789		2,120,789
From Federal Sources	129,639,656		129,639,656
Total	<u>131,760,445</u>		<u>131,760,445</u>
Transfers-out			
Fund transfers	313,546		313,546
Total	<u>313,546</u>		<u>313,546</u>
Other Post Employment Benefits			
Other Post Employment Benefits		85,636	85,636
Total		<u>85,636</u>	<u>85,636</u>
Total Expenditures & Transfers-Out	<u>\$ 840,313,472</u>	<u>\$ 27,659,934</u>	<u>\$ 867,973,406</u>
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 645,475,448	\$ 9,666,089	\$ 655,141,537
State Special Revenue Fund	64,884,822	363,843	65,248,665
Federal Special Revenue Fund	129,953,202	14,993,796	144,946,998
Enterprise Fund		215,596	215,596
Internal Service Fund		2,420,610	2,420,610
Total Expenditures & Transfers-Out	<u>840,313,472</u>	<u>27,659,934</u>	<u>867,973,406</u>
Less: Nonbudgeted Expenditures & Transfers-Out		142,843	142,843
Prior Year Expenditures & Transfers-Out Adjustments	(4,734)	(35,894)	(40,628)
Actual Budgeted Expenditures & Transfers-Out	840,318,206	27,552,985	867,871,191
Budget Authority	896,310,566	28,980,849	925,291,415
Unspent Budget Authority	<u>\$ 55,992,360</u>	<u>\$ 1,427,864</u>	<u>\$ 57,420,224</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 13,809,920	\$ 805,655	\$ 14,615,575
State Special Revenue Fund	15,053,554	20,781	15,074,335
Federal Special Revenue Fund	27,128,886	397,042	27,525,928
Enterprise Fund		7,584	7,584
Internal Service Fund		196,802	196,802
Unspent Budget Authority	<u>\$ 55,992,360</u>	<u>\$ 1,427,864</u>	<u>\$ 57,420,224</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF PUBLIC INSTRUCTION
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	LOCAL EDUCATION ACTIVITIES	STATE LEVEL ACTIVITIES	TOTAL
Personal Services			
Salaries		\$ 8,070,877	\$ 8,070,877
Employee Benefits		2,521,354	2,521,354
Personal Services-Other		21,689	21,689
Total		<u>10,613,920</u>	<u>10,613,920</u>
Operating Expenses			
Other Services		9,813,595	9,813,595
Supplies & Materials		1,118,987	1,118,987
Communications		418,595	418,595
Travel		959,667	959,667
Rent		564,886	564,886
Utilities		280	280
Repair & Maintenance		112,431	112,431
Other Expenses		2,385,634	2,385,634
Total		<u>15,374,075</u>	<u>15,374,075</u>
Equipment & Intangible Assets			
Equipment		183,644	183,644
Intangible Assets		6,608	6,608
Total		<u>190,252</u>	<u>190,252</u>
Local Assistance			
From State Sources	\$ 729,379,195	503,530	729,882,725
Total	<u>729,379,195</u>	<u>503,530</u>	<u>729,882,725</u>
Grants			
From State Sources	2,024,626		2,024,626
From Federal Sources	125,600,817		125,600,817
Total	<u>127,625,443</u>		<u>127,625,443</u>
Benefits & Claims			
OPEB Expenses		75,826	75,826
Total		<u>75,826</u>	<u>75,826</u>
Transfers-out			
Fund transfers	442,064		442,064
Total	<u>442,064</u>		<u>442,064</u>
Total Expenditures & Transfers-Out	<u>\$ 857,446,702</u>	<u>\$ 26,757,603</u>	<u>\$ 884,204,305</u>
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 676,021,599	\$ 9,398,337	\$ 685,419,936
State Special Revenue Fund	55,825,586	347,273	56,172,859
Federal Special Revenue Fund	125,599,517	14,676,331	140,275,848
Enterprise Fund		143,357	143,357
Internal Service Fund		2,192,305	2,192,305
Total Expenditures & Transfers-Out	<u>857,446,702</u>	<u>26,757,603</u>	<u>884,204,305</u>
Less: Nonbudgeted Expenditures & Transfers-Out		111,712	111,712
Prior Year Expenditures & Transfers-Out Adjustments	77,308	(194,236)	(116,928)
Actual Budgeted Expenditures & Transfers-Out	857,369,394	26,840,127	884,209,521
Budget Authority	893,479,481	39,464,944	932,944,425
Unspent Budget Authority	<u>\$ 36,110,087</u>	<u>\$ 12,624,817</u>	<u>\$ 48,734,904</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 5,703,663	\$ 2,236,068	\$ 7,939,731
State Special Revenue Fund	16,720,698	32,039	16,752,737
Federal Special Revenue Fund	13,685,726	10,223,129	23,908,855
Enterprise Fund		32,489	32,489
Internal Service Fund		101,092	101,092
Unspent Budget Authority	<u>\$ 36,110,087</u>	<u>\$ 12,624,817</u>	<u>\$ 48,734,904</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Office of Public Instruction
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2009

1. Summary of Significant Accounting Policies

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue). In applying the modified accrual basis, the office records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

The office uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment except for a state special revenue account that was not properly transferred by the Department of Administration, from another state agency to the Office of Public Instruction.

The office uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Office State Special Revenue Funds include traffic safety education and distributions of state support to schools made from the Guarantee Account.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Office Federal Special Revenue Funds account for the Title I, Title II, Child Nutrition and Commodities, Individuals with Disabilities Education Act, and various other federal grants.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The office's Internal Service Fund contains its indirect cost pool, which is used to fund internal and statewide central service type costs such as payroll service fees, accounting services, and audit fees.
- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the office finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The office Enterprise Fund is MT D.R.I.V.E. (Montana Driver In-Vehicle Education).

Fiduciary Fund Category

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal clearing account activity but these must have a zero balance at fiscal year-end. The office records custodial cash accounts for a student vocational education organization (Future Farmers of America) in the Agency Fund.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2008 and June 30, 2009.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, Special Revenue, and Federal Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (ARRA) was enacted by the United States Congress to preserve and create jobs and promote economic recovery.

The Office of Public Instruction expects to receive federal funding from ARRA totaling approximately \$148,030,000. Of this amount, \$147,766,642 was appropriated in House Bill 645 of the 2009 Legislative Session, \$0 was awarded through other competitive or noncompetitive grants or in nonmonetary assistance. Of these amounts, \$224,981 was received by June 30, 2009, and \$55,000 was spent by June 30, 2009. The office has not yet applied for or received additional ARRA assistance.

5. State Special Revenue Fund Estimated Revenues

Included in the Estimated Revenues & Transfers-In line item on the 2009 Schedule of Total Revenues & Transfers-In is an estimate for grants to schools for facility improvement and technology. The authority for these grant expenditures was transferred to the Department of Commerce in fiscal year 2009.

OFFICE OF PUBLIC
INSTRUCTION

OFFICE RESPONSE

**OFFICE OF PUBLIC INSTRUCTION
STATE OF MONTANA**

B-3

**Denise Juneau
Superintendent**



**www.opi.mt.gov
(406) 444-5643**

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SEP 14 2009

LEGISLATIVE AUDIT DIV.

September 11, 2009

TO THE LEGISLATIVE AUDIT COMMITTEE OF THE MONTANA STATE
LEGISLATURE

Following is our response to recommendations contained in the Office of Public Instruction's (OPI) 2008-2009 audit report.

Recommendation #1

We recommend the Office of Public Instruction:

- A. Require documentation from the schools of requests for the Office of Public Instruction to change or initiate a School Nutrition Program reimbursement claim.
- B. Keep accurate records of when and who at the Office of Public Instruction created or changed a School Nutrition Program reimbursement claim.

OPI response: We concur. The OPI is contracting to have an audit trail feature added to the software it uses for managing School Nutrition program claims and reimbursements. Staff will retain written documentation of the districts' requests for changes.

Recommendation #2

We recommend the Office of Public Instruction:

- A. Strengthen internal controls over Special Milk Program eligibility and the federal report for School Nutrition Program.
- B. Maintain documentation supporting meal and milk counts reported to the federal government for the School Nutrition Program.

OPI response: We concur. The OPI is working with the software contractor to correct a programming error in the Special Milk Program eligibility. Staff will maintain documentation showing the counts reported to the federal government match the system counts.

Recommendation #3

We recommend the Office of Public Instruction perform testing of its internal controls as required by state policy.

OPI response: We concur. OPI will begin testing controls during FY 2009-10.

Recommendation #4

We recommend the Office of Public Instruction conduct periodic on-site driver education program reviews in compliance with state law.

Page 2 of 2
Legislative Audit Committee
Response to the 2008-2009 Audit

OPI response: We concur. The Traffic Education on-site visits of the past focused basically on program compliance issues which can be done more efficiently through computerized office processes and follow-up. We have focused on improving these office desk-audits, and these were performed during the audit period for 100% of the schools. With compliance reviews taken care of through desk-audits, we have determined the on-site reviews should instead be directed toward improving the quality of the traffic education programs. OPI is currently assisting with a project funded by the National Highway Traffic Safety Administration (NHTSA) and Center's for Disease Control and Prevention (CDC) to conduct a statewide evaluation of driver education programs. The project is expected to result in a system of onsite evaluations that addresses educational program quality and meets the requirements of state law.

Recommendation #5

We recommend the Office of Public Instruction:

- A. Charge a rental fee for library media used by the schools or educational groups in compliance with state law, or
- B. If necessary, seek legislation to eliminate the library or the rental fee.

OPI response: We concur. The OPI will seek legislation to eliminate the obsolete reference from state law.

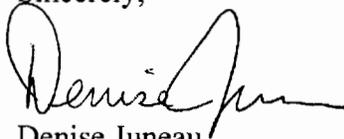
Recommendation #6

We recommend the Office of Public Instruction strengthen internal controls to ensure all districts and cooperatives who receive Special Education funding are monitored.

OPI response: We concur. The monitoring process now includes an annual cross-check of the monitoring list against the list of all districts in Montana.

I wish to thank the staff of the Legislative Audit Division for their efficient, professional work with our staff during the audit process. We appreciate their recommendations and will proceed in making the changes to which we have committed in this letter.

Sincerely,



Denise Juneau
State Superintendent