



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

## *Office of Public Instruction*

*For the Two Fiscal Years Ended  
June 30, 2011*

OCTOBER 2011

LEGISLATIVE AUDIT  
DIVISION

11-19

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors  
Cindy Jorgenson  
Angie Grove

October 2011

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report for the Office of Public Instruction (office) for the two fiscal years ended June 30, 2011. This report contains one recommendation related to Driver Education Program Reviews. The office's written response to the audit is included in the audit report beginning on page B-1.

We thank the Superintendent of Public Instruction and the office staff for their cooperation and assistance throughout 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

Steve York, Assistant Superintendent, Department of Education Services

Joan Anderson, Assistant Superintendent, Department of Operations

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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### Office of Public Instruction

For the Two Fiscal Years Ended June 30, 2011

OCTOBER 2011

11-19

REPORT SUMMARY

The Office of Public Instruction (office) distributed State and Federal funds to local school districts for support of K-12 education, in excess of \$897 million in fiscal year 2010-11 and \$879 million in fiscal year 2009-10. The office accomplished this with a staff of 185 employees while complying with a vast array of State and Federal laws.

### Context

The Office has approximately 185 full-time equivalent employees who provide services to schools, teachers, and children, in over 420 school districts throughout the state. The Office assists in planning, implementing, and evaluating educational programs. The office also oversees Educator preparation and licensure, school accreditation, school finance, and school law. The office administers numerous federal grants under the United States Departments of Agriculture and Education.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

### Results

Our prior audit contained six recommendations of which four were implemented. Two recommendations were not implemented by June 30, 2011 and pertained to compliance with state law. The office is not complying with §20-7-201, MCA, regarding establishing and maintaining a media library and §20-7-502(9), MCA, related to conducting onsite driver education program reviews.

For a complete copy of the report (11-19) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>

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# 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, 2011. 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 and changes in fund balances and property held in trust for each of the two fiscal years ended June 30, 2011.
4. Determine the implementation status of prior audit recommendations.

This report contains one recommendation to the office. In accordance with §5-13-307(2), MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendation made in this report. 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 §17-8-101(6), MCA, we reviewed the reasonableness of the fees and charges for services and fund equity for the office's Internal Service Fund. The Internal Service Fund includes the office's indirect cost pool. We found the fees are commensurate with costs for fiscal years 2010-11 and 2009-10 and fund equity was reasonable at June 30, 2011, for operations in this fund.

## **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 the 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 technical education in the state.

The office, which is comprised of approximately 185 full-time equivalent employees, provides services to school age children and teachers in more than 420 school districts. The staff furnishes technical assistance in planning, implementing, and evaluating educational programs. The office also oversees educator preparation, educator licensure, school accreditation, school curriculum, school finance, and school law. The staff administers numerous federal grants and provides a variety of information services.

The office accounts for 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 the delivery of state and federal funds to schools. The staff of this program support the superintendent's statutory role with the Board of Public Education, the Board of Regents, and the Board of Land Commissioners. 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 (Improving the Academic Achievement of the Disadvantaged); Child Nutrition and Commodities; Individuals With Disabilities Education Act, Part B (IDEA B); and Title II A (Improving Teacher Quality). The program accounts for the allocation of centralized administrative costs of the office (payroll, personnel, accounting, budgeting, purchasing, word processing, and mail delivery) to both state and federal programs 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 of state support for schools, special education, traffic education, and federal grants. Actual budgeted expenditures and transfers-out to local education agencies amounted to \$897,930,140 and \$879,491,739 in fiscal years 2010-11 and 2009-10, respectively.

### **Prior Audit Recommendations**

The prior audit for the two fiscal years ended June 30, 2009, contained six recommendations to the office. The office implemented four, and did not implement two recommendations. The two recommendations that were not implemented relate to the driver education program and the media library. The driver education program is discussed on page 5 and the media library rental fees are discussed below.

### **Media Library Rental Fee**

Section 20-7-201, MCA, requires the office to establish and maintain a library of visual, aural, and other educational media and the Superintendent to set the rental fees for the use of the materials in the library. We recommended in the prior audit

report that the Office of Public Instruction charge a rental fee for library media used by schools or educational groups in compliance with state law or if necessary, seek legislation to eliminate the library or the rental fee. The office concurred, but took no action to implement the prior recommendation.

During discussions in the course of this audit, office personnel stated that the library and use of the library has changed over time. The majority of the educational media library required by this law is currently maintained by the Office of Public Instruction in electronic format on its website. This media is available to school districts and other educational groups through downloads from its webpage at no cost to the users. The law under discussion was enacted in 1971 and was last amended in 1987. Regardless of the technology changes and access points, state law requires a rental fee for use of the media library. During the current audit period no rental fee was established nor were there any expenditures incurred for use of the library. Even though the technology landscape has changed, the office is still in noncompliance with state law and needs to address the prior audit recommendation.



## Chapter II – Findings and Recommendations

### Driver Education Program

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**The Office has not conducted periodic onsite driver education program reviews for at least four fiscal years.**

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The office administers the traffic education programs with a budget of approximately \$140,000 and 1.75 full-time equivalents employees (FTE). In fiscal year 2010, 8,498 students participated in the driver education program, which was offered in 139 school districts. The number of student participants increased in fiscal year 2011 to 8,541 within 119 school districts. During the prior audit, it was recommended that the office comply with §20-7-502(9), MCA, which states that the office shall periodically conduct onsite driver education program reviews. After discussing with office personnel, we determined that the office is in the planning stage for onsite reviews and evaluations of traffic education programs. No onsite reviews have been conducted in at least the last four fiscal years.

Once the review program has been constructed, office personnel estimated that the cost to implement the onsite periodic reviews would entail the hiring of another FTE at approximately \$56,000 per year with benefits plus travel. We estimate the cost per review would be approximately \$1,100. If all reviews were conducted in one year this would total \$130,900. However, there is nothing in the law that states all reviews need to be conducted in one year, nor that the program could not delegate the reviews to other office personnel. The office could decide to develop a rotating schedule and the annual cost would be lower. For example, if a five-year rotating schedule was established the annual costs would be approximately \$26,400.

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#### **RECOMMENDATION #1**

*We recommend that the Office of Public Instruction conduct periodic onsite driver education program reviews to comply with state law.*

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# **Independent Auditor's Report and Office Financial Schedules**





## LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors  
Cindy Jorgenson  
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of Public Instruction (office) for each of the fiscal years ended June 30, 2011, and 2010. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express opinions 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 opinions.

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, 2011, and 2010, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

Cindy Jorgenson, CPA  
Deputy Legislative Auditor

September 8, 2011



OFFICE OF PUBLIC INSTRUCTION  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 2010	\$ (1,120,143)	\$ 211,512	\$ (19,308)	\$ 35,599	\$ (111,364)	\$ 0
PROPERTY HELD IN TRUST: July 1, 2010						\$ 52,219
ADDITIONS						
Budgeted Revenues & Transfers-In	407	642,044	280,168,601	137,555	2,911,335	
Nonbudgeted Revenues & Transfers-In	8,436	110,367	380		9,001	
Prior Year Revenues & Transfers-In Adjustments		1,800				
Direct Entries to Fund Balance	612,374,557	59,547,632	(28,582,263)			
Additions to Property Held in Trust						148,780
Total Additions	612,383,400	60,301,843	251,586,718	137,555	2,920,336	148,780
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	612,191,652	62,569,847	251,565,519	144,457	2,390,008	
Nonbudgeted Expenditures & Transfers-Out	(1,477)	32,016	(8,472)	(8,472)	56,581	
Prior Year Expenditures & Transfers-Out Adjustments	(6,570)	(193,931)	(237)			
Reductions in Property Held in Trust						163,987
Total Reductions	612,183,605	62,407,932	251,565,282	135,985	2,446,589	163,987
FUND BALANCE: June 30, 2011	\$ (920,348)	\$ (1,894,578)	\$ 2,128	\$ 37,169	\$ 362,383	\$ 0
PROPERTY HELD IN TRUST: June 30, 2011						\$ 37,012

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-9.

OFFICE OF PUBLIC INSTRUCTION  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 2009	\$ (2,228,629)	\$ (2,092,464)	\$ 0	\$ (4,330)	\$ (80,345)	\$ 0
PROPERTY HELD IN TRUST: July 1, 2009						\$ 45,754
ADDITIONS						
Budgeted Revenues & Transfers-In	15,376	765,644	237,673,743	160,829	2,576,876	
Nonbudgeted Revenues & Transfers-In	10,426	5,750	916		8,150	
Prior Year Revenues & Transfers-In Adjustments		(56,337)	(385,687)			
Direct Entries to Fund Balance	562,322,732	137,269,084	(30,953,960)			
Additions to Property Held in Trust						141,468
Total Additions	562,348,534	137,984,141	206,335,012	160,829	2,585,026	141,468
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	561,651,353	135,777,202	206,685,676	141,067	2,547,446	
Nonbudgeted Expenditures & Transfers-Out		5,817		(20,167)	68,599	
Prior Year Expenditures & Transfers-Out Adjustments	(411,305)	(102,854)	(331,356)			
Reductions in Property Held in Trust						135,003
Total Reductions	561,240,048	135,680,165	206,354,320	120,900	2,616,045	135,003
FUND BALANCE: June 30, 2010	\$ (1,120,143)	\$ 211,512	\$ (19,308)	\$ 35,599	\$ (111,364)	\$ 0
PROPERTY HELD IN TRUST: June 30, 2010						\$ 52,219

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-9.

OFFICE OF PUBLIC INSTRUCTION  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
Licenses and Permits		\$ 169,630				\$ 169,630
Taxes				\$ 137,555	\$ 9,001	9,001
Charges for Services		90,240			1,138,707	1,366,502
Sale of Documents, Merchandise and Property						407
Grants, Contracts, and Donations	\$ 407	409,341	\$ 380			409,721
Transfers-in		85,000	3,330,646			3,415,646
Federal Indirect Cost Recoveries					1,772,628	1,772,628
Miscellaneous	8,436					8,436
Federal			276,837,955			276,837,955
Total Revenues & Transfers-In	8,843	754,211	280,168,981	137,555	2,920,336	283,989,926
Less: Nonbudgeted Revenues & Transfers-In	8,436	110,367	380		9,001	128,184
Prior Year Revenues & Transfers-In Adjustments		1,800				1,800
Actual Budgeted Revenues & Transfers-In	407	642,044	280,168,601	137,555	2,911,335	283,859,942
Estimated Revenues & Transfers-In	407	642,210	280,383,509	140,000	2,911,800	284,077,926
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (166)	\$ (214,908)	\$ (2,445)	\$ (465)	\$ (217,984)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$	(70)				\$ (70)
Charges for Services		(69)		\$ (2,445)	\$ (343)	(2,857)
Grants, Contracts, and Donations		(26)				(26)
Transfers-in		(1)	\$ (60,835)			(60,836)
Federal Indirect Cost Recoveries					(122)	(122)
Federal			(154,073)			(154,073)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (166)	\$ (214,908)	\$ (2,445)	\$ (465)	\$ (217,984)

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-9.

OFFICE OF PUBLIC INSTRUCTION  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
Licenses and Permits		\$ 169,546				\$ 169,546
Taxes					\$ 8,150	8,150
Charges for Services		90,232		\$ 160,829	1,208,401	1,459,462
Sale of Documents, Merchandise and Property						15,376
Grants, Contracts, and Donations	\$ 15,376	455,279	\$ 916			456,195
Transfers-in			3,558,697			3,558,697
Federal Indirect Cost Recoveries					1,368,475	1,368,475
Miscellaneous	10,426					10,426
Federal			233,729,359			233,729,359
Total Revenues & Transfers-In	25,802	715,057	237,288,972	160,829	2,585,026	240,775,686
Less: Nonbudgeted Revenues & Transfers-In	10,426	5,750	916		8,150	25,242
Prior Year Revenues & Transfers-In Adjustments		(56,337)	(385,687)			(442,024)
Actual Budgeted Revenues & Transfers-In	15,376	765,644	237,673,743	160,829	2,576,876	241,192,468
Estimated Revenues & Transfers-In	35,000	5,077,874	204,912,562	160,850	2,577,200	212,763,486
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (19,624)	\$ (4,312,230)	\$ 32,761,181	\$ (21)	\$ (324)	\$ 28,428,982
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		\$ (1,288)				\$ (1,288)
Charges for Services		(10,477)		\$ (21)	(49)	(10,547)
Sale of Documents, Merchandise and Property						(19,624)
Grants, Contracts, and Donations	\$ (19,624)	(7,465)				(7,465)
Transfers-in		(4,293,000)	\$ (160,366)			(4,453,366)
Federal Indirect Cost Recoveries					(275)	(275)
Federal			32,921,547			32,921,547
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (19,624)	\$ (4,312,230)	\$ 32,761,181	\$ (21)	\$ (324)	\$ 28,428,982

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-9.

OFFICE OF PUBLIC INSTRUCTION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Local Education Activities	State Level Activities	Total
Personal Services			
Salaries		\$ 10,085,911	\$ 10,085,911
Employee Benefits		3,267,898	3,267,898
Personal Services-Other		(25,172)	(25,172)
Total		<u>13,328,637</u>	<u>13,328,637</u>
Operating Expenses			
Other Services	\$ 1,193,045	10,114,050	11,307,095
Supplies & Materials	31,553	1,151,773	1,183,326
Communications	215	369,961	370,176
Travel	8,690	1,368,567	1,377,257
Rent		650,819	650,819
Utilities		1,060	1,060
Repair & Maintenance		32,244	32,244
Other Expenses	7,185	3,751,633	3,758,818
Total	<u>1,240,688</u>	<u>17,440,107</u>	<u>18,680,795</u>
Equipment & Intangible Assets			
Equipment		51,801	51,801
Intangible Assets		103,659	103,659
Total		<u>155,460</u>	<u>155,460</u>
Local Assistance			
From State Sources	730,604,512		730,604,512
Total	<u>730,604,512</u>		<u>730,604,512</u>
Grants			
From State Sources	770,855		770,855
From Federal Sources	164,645,907		164,645,907
Total	<u>165,416,762</u>		<u>165,416,762</u>
Transfers-out			
Fund transfers	474,247		474,247
Total	<u>474,247</u>		<u>474,247</u>
Other Post Employment Benefits			
Other Post Employment Benefits		78,980	78,980
Total		<u>78,980</u>	<u>78,980</u>
Total Expenditures & Transfers-Out	\$ <u>897,736,209</u>	\$ <u>31,003,184</u>	\$ <u>928,739,393</u>
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 603,420,998	\$ 8,762,607	\$ 612,183,605
State Special Revenue Fund	61,684,814	723,118	62,407,932
Federal Special Revenue Fund	232,630,397	18,934,885	251,565,282
Enterprise Fund		135,985	135,985
Internal Service Fund		2,446,589	2,446,589
Total Expenditures & Transfers-Out	897,736,209	31,003,184	928,739,393
Less: Nonbudgeted Expenditures & Transfers-Out		78,647	78,647
Prior Year Expenditures & Transfers-Out Adjustments	(193,931)	(6,807)	(200,738)
Actual Budgeted Expenditures & Transfers-Out	897,930,140	30,931,344	928,861,484
Budget Authority	1,003,976,970	46,807,845	1,050,784,815
Unspent Budget Authority	\$ <u>106,046,830</u>	\$ <u>15,876,501</u>	\$ <u>121,923,331</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 81,548,312	\$ 469,883	\$ 82,018,195
State Special Revenue Fund	271,033	51,270	322,303
Federal Special Revenue Fund	24,227,485	15,229,791	39,457,276
Enterprise Fund		5,179	5,179
Internal Service Fund		120,378	120,378
Unspent Budget Authority	\$ <u>106,046,830</u>	\$ <u>15,876,501</u>	\$ <u>121,923,331</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-9.

OFFICE OF PUBLIC INSTRUCTION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Local Education Activities	State Level Activities	Total
<b>PROGRAM (ORG) EXPENDITURES &amp; TRANSFERS-OUT</b>			
Personal Services			
Salaries		\$ 9,282,253	\$ 9,282,253
Employee Benefits		2,996,739	2,996,739
Personal Services-Other		(25,566)	(25,566)
Total		<u>12,253,426</u>	<u>12,253,426</u>
Operating Expenses			
Other Services	\$ 1,081,177	7,280,645	8,361,822
Supplies & Materials	109	1,280,263	1,280,372
Communications	345	374,629	374,974
Travel	1,824	1,196,770	1,198,594
Rent		608,556	608,556
Repair & Maintenance		42,962	42,962
Other Expenses	380	3,382,427	3,382,807
Total	<u>1,083,835</u>	<u>14,166,252</u>	<u>15,250,087</u>
Equipment & Intangible Assets			
Equipment		11,839	11,839
Total		<u>11,839</u>	<u>11,839</u>
Local Assistance			
From State Sources	<u>710,848,992</u>		<u>710,848,992</u>
Total	<u>710,848,992</u>		<u>710,848,992</u>
Grants			
From State Sources	838,699		838,699
From Federal Sources	<u>166,319,669</u>		<u>166,319,669</u>
Total	<u>167,158,368</u>		<u>167,158,368</u>
Transfers-out			
Fund transfers	<u>416,218</u>		<u>416,218</u>
Total	<u>416,218</u>		<u>416,218</u>
Other Post Employment Benefits			
Other Post Employment Benefits		72,548	72,548
Total		<u>72,548</u>	<u>72,548</u>
Total Expenditures & Transfers-Out	<u>\$ 879,507,413</u>	<u>\$ 26,504,065</u>	<u>\$ 906,011,478</u>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>			
General Fund	\$ 552,385,592	\$ 8,854,456	\$ 561,240,048
State Special Revenue Fund	135,054,985	625,180	135,680,165
Federal Special Revenue Fund	192,066,836	14,287,484	206,354,320
Enterprise Fund		120,900	120,900
Internal Service Fund		2,616,045	2,616,045
Total Expenditures & Transfers-Out	<u>879,507,413</u>	<u>26,504,065</u>	<u>906,011,478</u>
Less: Nonbudgeted Expenditures & Transfers-Out		54,249	54,249
Prior Year Expenditures & Transfers-Out Adjustments	<u>15,674</u>	<u>(861,189)</u>	<u>(845,515)</u>
Actual Budgeted Expenditures & Transfers-Out	<u>879,491,739</u>	<u>27,311,005</u>	<u>906,802,744</u>
Budget Authority	<u>1,027,245,968</u>	<u>31,297,570</u>	<u>1,058,543,538</u>
Unspent Budget Authority	<u>\$ 147,754,229</u>	<u>\$ 3,986,565</u>	<u>\$ 151,740,794</u>
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>			
General Fund	\$ 81,910,656	\$ 158,010	\$ 82,068,666
State Special Revenue Fund	9,955,528	125,068	10,080,596
Federal Special Revenue Fund	55,888,045	3,444,198	59,332,243
Enterprise Fund		18,568	18,568
Internal Service Fund		240,721	240,721
Unspent Budget Authority	<u>\$ 147,754,229</u>	<u>\$ 3,986,565</u>	<u>\$ 151,740,794</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-9.



# Office of Public Instruction

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2011

## 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 the accrual basis of 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.

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. The office's 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. The office's Federal Special Revenue Funds account for the Title I, Title II, Child Nutrition and Commodities, Individuals with Disabilities Education Act, American Recovery and Reinvestment Act (ARRA) 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 department 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's 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 (to the State) 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, 2010 and June 30, 2011.

### **3. Direct Entries to Fund Balance**

Direct entries to fund balances in the General, State 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. Unspent Budget Authority**

The Schedule of Total Expenditures and Transfers-Out for fiscal year 2010 reports unspent budget authority of \$81,910,656 in the General Fund and \$55,888,045 in the Federal Special Revenue Fund. In fiscal year 2011 unspent budget authority was \$81,548,312 in the General and \$24,227,485 in the Federal Special Revenue funds.

The unspent budget authority in the General Fund is created due to \$81,552,855 of one-time revenues distributed into the Guarantee Account using the coal bonus payments made by Arch Coal Co. in fiscal year 2010 (Otter Creek). The Guarantee Account is a state special revenue account. The revenues distributed into this account support K-12 BASE aid payments to school districts. The unspent General Fund authority carried in to fiscal year 2011 because it is a biennial appropriation.

The unspent authority in the Federal Special Revenue Fund in both fiscal years 2010 and 2011 is due to the American Recovery and Reinvestment Act (ARRA) funds not being fully spent at the end of each fiscal year in the Local Education Activities Program. The ARRA funds are available for expenditure through September 30, 2011. School Districts were given 27 months to spend their ARRA grant funds.

### **5. American Recovery and Reinvestment Act**

House Bill 645 in 2009 contained \$178,859,041 in funding for K-12 education in the 2010-11 biennium. The Montana Legislature appropriated \$62,103,803 of State Fiscal Stabilization Funds under ARRA to fund a portion of the increase in K-12 Base Aid in fiscal year 2010 and fiscal year 2011. The Legislature appropriated \$116,485,238 to the Office of Public Instruction to spend federal grants awarded by the U.S. Department of Education and the U.S. Department of Agriculture. These grants include: Title I part A Funding for Schools; Title I School Improvement; Title II D - Education Technology; Education for Homeless Children and Youth; School Nutrition Grants; and IDEA - Special Education.



OFFICE OF PUBLIC  
INSTRUCTION

OFFICE RESPONSE





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

[opi.mt.gov](http://opi.mt.gov)

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**LEGISLATIVE AUDIT DIV.**

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October 5, 2011

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) 2010-2011 audit report.

**Recommendation #1**

We recommend that the Office of Public Instruction conduct periodic onsite driver education program reviews to comply with state law.

OPI Response: We concur. The Traffic Education Unit with the OPI is in the planning stage for effective review and evaluation of traffic education programs and is continuing its participation with a Large Scale Evaluation of Driver Education to develop effective evaluation tools for school programs and traffic education teachers. The Large Scale Evaluation of Driver Education is a multi-site, multi-year and multi-level investigation being conducted by the Traffic Injury Research Foundation and Northport Associates on behalf of the AAA Foundation for Traffic Safety (AAAFTS). The objectives are to:

- Generate new knowledge about the safety and operational effects of driver education;
- Provide new information about how to improve driver education;
- Implement new guidelines for evaluating driver education; and
- Showcase more effective and constructive methods of evaluating driver education.

The project has been made possible through major partnerships including funding partners: the AAAFTS; the Centers for Disease Control and Prevention; Manitoba Public Insurance, and the National Highway Traffic Safety Administration. The sites currently included in the investigation are Manitoba, Oregon and Montana. This investigation is currently scheduled to end June 30, 2012.

The OPI will conduct a minimum of 5 onsite reviews annually in one of 5 regional sectors of the state. The review sites will be selected to represent a cross section of all program sizes in the region selected in any given year.

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 we welcome the opportunity to make changes to improve our performance as an agency.

Sincerely,

Denise Juneau  
Superintendent of Public Instruction