



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Office of Public
Instruction*

*For the Two Fiscal Years Ended
June 30, 2013*

JANUARY 2014

LEGISLATIVE AUDIT
DIVISION

13-19

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether 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) licenses.

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, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

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January 2014

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of Public Instruction (office) for the two fiscal years ended June 30, 2013. Included in this report are five recommendations related to internal controls over federal programs and noncompliance with federal regulations and state accounting policy.

This report includes the office's financial schedules. The financial schedule presentation is intended to provide the legislative body with information necessary for decision-making purposes; it is not intended to conform to the financial reporting requirements established in generally accepted accounting principles (GAAP). The financial schedule presentation has not changed, but audit reporting standards have changed. Auditing standards require us to clearly communicate that the financial schedule presentation is not intended to, and does not, conform to GAAP reporting requirements. The Independent Auditor's Report on page A-1 contains language to this effect in the section titled "Adverse Opinions on U.S. Generally Accepted Accounting Principles." This section does not imply the amounts presented on the office's financial schedules are not fairly stated. Page A-1 also communicates the extent to which the user can rely on the information contained in the financial schedules in the section titled "Unmodified Opinions on Regulatory Basis of Accounting."

The office's written response to the audit recommendations is included in the audit report at page B-1. We thank the Superintendent and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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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

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Office of Public Instruction

For the Two Fiscal Years Ended June 30, 2013

JANUARY 2014

13-19

REPORT SUMMARY

The Office of Public Instruction distributed state and federal funds to local school districts for support of K-12 education in excess of \$898 million in fiscal year 2012-13 and \$880 million in fiscal year 2011-12. The office accomplished this with a staff of 190 employees while complying with numerous state and federal laws.

Context

The Office of Public Instruction (office) has approximately 190 full-time equivalent employees who provide services to schools, teachers, and children, in over 410 school districts throughout the state. The office assists in planning, implementing, and evaluating educational programs. In addition, the office oversees educator preparation and licensure, school accreditation, school finance, and school law.

The office also administers over 30 federal programs, expending \$173.6 million and \$162.2 million in fiscal years 2011-12 and 2012-13, respectively.

Results

The prior audit contained one recommendation related to conducting on-site driver's education program reviews. The recommendation was implemented.

The current audit contains five recommendations. Three recommendations relate to internal control deficiencies which contributed to noncompliance with federal programs. The remaining recommendations pertain to noncompliance with federal regulations and with state accounting policy, which resulted in misstatements in the office's accounting records.

Recommendation Concurrence	
Concur	5
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

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, 2013. The objectives of the audit were to:

1. 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.
2. Determine whether the office's financial schedules present fairly the results of its operations and changes in fund equity and property held in trust for each of the two fiscal years ended June 30, 2013.
3. Determine the implementation status of the prior audit recommendation.
4. Determine whether the office complied with selected state and federal laws and regulations.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #1 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 outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Subject	Type of Deficiency	Page
Incomplete Child Nutrition Reconciliations	Significant Deficiency	7

Our consideration of internal control was not for the purpose of expressing an opinion on the effectiveness of internal controls. Therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 2012-13 and 2011-12 and fund equity was reasonable at June 30 for each fiscal year regarding 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 190 full-time equivalent employees, provides services to school age children and teachers in more than 410 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, subrecipient monitoring, and cost allocation functions for federal grants. These grants include: Title I (Grants to Local Educational Agencies); Child Nutrition and Commodities; Individuals With Disabilities Education Act, Part B (IDEA B); and Title IIA (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. This includes

distributions of state support for schools, special education, traffic education, and federal grants. Total expenditures and transfers-out to local education agencies amounted to \$898,164,527 and \$880,932,323 in fiscal years 2012-13 and 2011-12, respectively.

Prior Audit Recommendations

The prior audit for the two fiscal years ended June 30, 2011, contained one recommendation to the office pertaining to on-site reviews of the Driver Education program. The office implemented the recommendation.

Chapter II – Finding and Recommendations

Internal Controls Over Federal Programs

The office does not have adequate internal controls to ensure compliance with federal requirements.

The Office of Management and Budget Circular A-133 requires the Office of Public Instruction (office) to maintain internal control over federal programs in order to manage its federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements. The purpose of internal controls is to provide management with reasonable assurance it will achieve its objectives related to financial accountability and compliance with laws and regulations. Internal controls help an organization operate as management intends. To ensure proper operation, state accounting policy directs management to conduct reviews, tests, and analyses of internal controls. During our audit, office management was not able to provide evidence of reviews, tests, and analyses of internal controls.

In the following sections, we discuss identified internal control deficiencies, and the resulting federal noncompliance, which may have been avoided if reviews, tests, and analyses of internal controls had been completed.

Subrecipient Monitoring

The federal awards the office receives are passed through to local education agencies (LEAs). Federal regulations require entities, including LEAs, expending more than \$500,000 in federal funds during a year to receive an audit within nine months of their year-end. As a condition of receiving federal funds, it is the office's responsibility to monitor the LEAs to ensure they are receiving the required audits within the nine month period. In addition, the office is required to ensure the LEAs take timely and appropriate corrective action on all audit findings. During our audit, we determined the office's internal controls were not adequate to ensure LEAs received timely audits and took appropriate corrective action on all audit findings.

In order for the office to ensure LEAs take timely and appropriate corrective action to address audit findings, it needs to obtain the audit reports timely. During our audit, we sampled 43 LEAs and found 11 had not submitted audit reports to the office within the nine-month period required by federal regulations.

While office management acknowledged an adequate tracking system for identifying overdue audit reports was not in place during the audit period, they stated it was not the office's responsibility to ensure the audits were being completed timely because this function resides with the Local Government Services Division (LGS) within the Department of Administration. LGS does provide the office with a list of audit reports received, though it does not list outstanding reports. The federal requirements discussed above are specific to entities that pass federal funds through to subrecipients, and do not allow for the transfer of the responsibility for compliance to another entity. It is the office's responsibility to ensure the audits are completed timely.

Once an audit report is received by the office, it is routed to the appropriate staff for follow-up with the LEA on any audit findings. While we determined the office has procedures in place to follow-up with LEAs, we did not observe evidence of corrective action plans addressing all audit findings. As mentioned, federal regulations mandate the pass-through entity ensure appropriate corrective action on all audit findings is taken. Office management stated they do require LEAs to correct audit findings, but could improve its documentation to demonstrate compliance with this requirement.

RECOMMENDATION #1

We recommend the office:

- A. *Implement internal controls to ensure the local education agencies receive the required audits within nine months.*
 - B. *Enhance internal controls to ensure documentation demonstrates appropriate corrective action is taken on all audit findings.*
-

Funding Allocation Errors

The office calculates the allocations of federal funds to LEAs based on federal criteria. Individuals with Disabilities Act, Part B (IDEA B) and Improving Teacher Quality (Title IIA) funds are allocated to LEAs based on the population data relative to each LEA's jurisdiction. If an LEA consolidates with another, those LEA's allocations are also consolidated. During the audit, we identified inadequate internal controls in place over the allocation process resulting in inaccurate allocations to the LEAs as discussed below.

- ◆ For the IDEA B program, the office uses a database application to calculate the allocation of the funds to the LEAs. In fiscal year 2013, two LEAs were consolidated, but the LEAs' allocations were not. As a result, the newly consolidated LEA did not receive \$10,794 and all of the remaining

LEAs received a proportionate share of this amount. Because the LEAs were not allocated the correct amount, the office is not in compliance with federal regulations and we question \$10,794 in federal expenditures, the over-allocation to the remaining LEAs.

- ◆ For the Title IIA program, the office uses formula-driven spreadsheets to determine the allocations to LEAs. In both fiscal year 2012 and 2013, manual adjustments were made to the spreadsheets to reflect LEA consolidations. Errors were made in the adjustments and remained undetected, resulting in erroneous allocations to LEAs. Though the dollar effect was not large enough to result in questioned costs per federal regulations, the potential for larger errors to occur exists.

In both instances above, office personnel stated the errors were caused by inadequate internal controls over the allocation process. The office should evaluate its current procedures and establish internal controls to reduce the risk of future allocation errors.

RECOMMENDATION #2

We recommend the office implement internal controls to ensure the allocation of federal funds to local education agencies are made in accordance with the applicable federal regulations.

Documentation Retention Deficiencies

Federal regulations require that all financial and programmatic records pertaining to a federal grant must be retained for three years in order to support federal expenditures and program activity. During our audit, we identified the following instances where the office did not retain documentation to support evidence of internal controls.

Child Nutrition

Child Nutrition grant funds are used to provide meals to eligible children in public and nonprofit private schools, residential child care institutions, and summer recreation programs. The office uses a web-based application to manage the Child Nutrition program. Monthly, LEAs submit claims via the web-based application and are subsequently reimbursed through the state's accounting system. To ensure the claims are being reimbursed correctly, a reconciliation is completed between the office's web-based application and the state's accounting system. However, during the audit, only 4 of 24 reconciliations were available for review.

Office personnel stated the fiscal year 2012 documentation was not retained because once the two systems were determined to be in balance, they did not feel there was any reason to keep the documentation. For fiscal year 2013, personnel stated they were running behind and had not completed all of the reconciliations, which left eight reconciliations not completed for the fiscal year. Because reconciliations were not performed, we completed additional analyses over the Child Nutrition program's financial information. Based on the results of our analyses, we found no indication of a material misstatement in the Child Nutrition program's accounting records. However, not completing reconciliations timely does not allow the office to confirm its accounting records are free from material misstatement and adequately support its federal expenditures. Because of the potential for a material misstatement in the accounting records not being identified in a timely manner, we deemed this issue to be a significant control deficiency.

IDEA B

IDEA B regulations require the office to submit an unduplicated count of children with disabilities to the federal government each year. LEAs submit these counts to the office and the office completes procedures to ensure the submitted data is reasonable and unduplicated prior to providing the information to the federal government. We were able to verify reports were submitted for fiscal years 2012 and 2013. However, for the 2012 submission, no evidence existed to show the office completed procedures to ensure the information was reasonable and unduplicated. Office personnel stated the supporting documentation is usually retained but was unable to locate it in their files. The fiscal year 2013 review procedures were completed by a different staff member and we were able to review the supporting documentation of the information submitted to the federal government.

In both instances, because documentation did not exist, we were unable to verify that controls were in place over these processes.

RECOMMENDATION #3

We recommend the office retain documentation and complete timely reconciliations to demonstrate compliance with federal regulations regarding internal controls over federal programs.

Noncompliance with State Accounting Policy

The office did not comply with state accounting policy resulting in an error in the accounting records.

Misclassification of Fund Equity

State accounting policy directs how financial transactions are to be recorded on the state's accounting system. Chapter 400, Laws of 2013, required \$22,950,178 be transferred from the general fund to the guarantee account prior to June 30, 2013, for the purpose of funding the costs of restructuring the basic entitlement in fiscal years 2014 and 2015. When the office completed the transfer of funds, it recorded the resulting fund equity amount in the restricted account, rather than the committed account specified in state accounting policy. This resulted in a \$22,950,178 classification error in the accounting records at fiscal year-end 2013, which necessitated an adjustment by the Department of Administration in order for the state's Basic Financial Statements to be presented correctly. Office management stated that this was an oversight on their part and corrected the misstatement in fiscal year 2014. This error did not impact the financial schedules contained in this report.

RECOMMENDATION #4

We recommend the office classify fund equity in accordance with state accounting policy.

Federal Funding Accountability and Transparency Act

The office did not comply with reporting requirements of the Federal Funding Accountability and Transparency Act.

The Federal Funding Accountability and Transparency Act requires the office report each subaward to the federal government once the subaward reaches \$25,000. Each federal grant to an individual LEA is considered a separate subaward. Reports are due to the federal government by the end of the month following the month the subaward reaches \$25,000. During fiscal year 2013, the office was not in compliance with reporting requirements as outlined below:

- ◆ For Title I, Title II, and IDEA B programs, the office determines the full amount of the subaward for each LEA and then the LEAs submit an

application outlining how the funds will be spent in order for the office to ensure the funds are budgeted for allowable costs. The funds are considered obligated or awarded when the office approves the LEA's application. Because the funds are awarded up front, the office is required to report the subaward if it meets the \$25,000 threshold. Across the three programs, some reports were submitted anywhere from two weeks to approximately one month late.

- ◆ The Child Nutrition program is an entitlement program, meaning LEAs are not awarded a specific grant amount, but instead are reimbursed monthly for the number of eligible meals served multiplied by the federally approved rate. The funds are considered awarded only when an LEA is reimbursed for its expenditures. The number of meals served varies greatly from one LEA to another, resulting in LEAs reaching the \$25,000 threshold at different intervals during the year. Because of the various intervals, the office is required to report the Child Nutrition subawards throughout the year, but they were only reported one time for the 2013 grant funds.

Office personnel stated they were not aware of the requirements associated with reimbursement-type subawards such as the Child Nutrition grants. Noncompliance, in regards to the Title I, Title II, and IDEA B awards, occurred because the office's practice was to not report any subawards until all funds had been awarded, instead of reporting the subawards as each was awarded, as required by federal regulations.

RECOMMENDATION #5

We recommend the office report its subawards for the Child Nutrition, Title I, Title II, and IDEA B programs in accordance with federal regulations.

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
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of Public Instruction for each of the fiscal years ended June 30, 2013, and 2012, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the office's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the office as of June 30, 2013, and June 30, 2012, or changes in financial position or cash flows for the years then ended.

Opinions on Regulatory Basis of Accounting

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Office of Public Instruction for each of the fiscal years ended June 30, 2013, and 2012, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 4, 2013

OFFICE OF PUBLIC INSTRUCTION
 SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND EQUITY: July 1, 2012	\$ (1,201,828)	\$ (1,697,115)	\$ 0	\$	\$	\$
PROPERTY HELD IN TRUST: July 1, 2012						
ADDITIONS						
Budgeted Revenues & Transfers-In	1,078	23,329,050	162,264,113	147,939	2,106,329	
Nonbudgeted Revenues & Transfers-In	180,079	466,748			6,690	
Prior Year Revenues & Transfers-In Adjustments		1,760				
Direct Entries to Fund Equity	690,236,158	75,046,470				
Additions to Property Held in Trust						144,677
Total Additions	<u>690,417,315</u>	<u>98,844,028</u>	<u>162,264,113</u>	<u>147,939</u>	<u>2,113,019</u>	<u>144,677</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	690,503,786	76,129,576	162,263,748	162,559	2,444,644	
Nonbudgeted Expenditures & Transfers-Out	(7,818)	445,697	365	(4,977)	68,171	
Prior Year Expenditures & Transfers-Out Adjustments	(15,874)	336				
Reductions in Property Held in Trust						145,713
Total Reductions	<u>690,480,094</u>	<u>76,575,609</u>	<u>162,264,113</u>	<u>157,582</u>	<u>2,512,815</u>	<u>145,713</u>
FUND EQUITY: June 30, 2013	\$ (1,264,607)	\$ 20,571,304	\$ 0	\$ 49,826	\$ 475,261	\$ 0
PROPERTY HELD IN TRUST: June 30, 2013						<u>53,685</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 CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND EQUITY: July 1, 2011	\$ (920,348)	\$ (1,894,578)	\$ 2,128	\$ 37,169	\$ 362,383	\$ 0
PROPERTY HELD IN TRUST: July 1, 2011						\$ 37,012
ADDITIONS						
Budgeted Revenues & Transfers-In	11,110	352,193	174,068,286	136,628	2,963,528	
Nonbudgeted Revenues & Transfers-In	175,002	7,211,690	374		8,179	
Prior Year Revenues & Transfers-In Adjustments		1,476				
Direct Entries to Fund Equity	622,350,224	107,226,406	(435,039)			
Additions to Property Held in Trust						161,249
Total Additions	<u>622,536,336</u>	<u>114,791,765</u>	<u>173,633,621</u>	<u>136,628</u>	<u>2,971,707</u>	<u>161,249</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	622,881,946	114,153,577	173,636,476	120,249	2,421,825	
Nonbudgeted Expenditures & Transfers-Out	(2,688)	395,700		(5,921)	36,081	
Prior Year Expenditures & Transfers-Out Adjustments	(61,441)	45,025	(727)		1,127	
Reductions in Property Held in Trust						143,540
Total Reductions	<u>622,817,817</u>	<u>114,594,302</u>	<u>173,635,749</u>	<u>114,328</u>	<u>2,459,033</u>	<u>143,540</u>
FUND EQUITY: June 30, 2012	\$ (1,201,828)	\$ (1,697,115)	\$ 0	\$ 59,469	\$ 875,057	\$ 0
PROPERTY HELD IN TRUST: June 30, 2012						\$ 54,721

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, 2013

	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		\$ 165,245				\$ 165,245
Taxes		83,387		\$ 147,939	6,690	6,690
Charges for Services	\$ 1,078				842,679	1,074,005
Sale of Documents, Merchandise and Property		411,971				411,971
Grants, Contracts, and Donations		23,136,955	\$ 3,296,848			26,433,803
Transfers-in					1,263,650	1,263,650
Federal Indirect Cost Recoveries						180,079
Miscellaneous	180,079					180,079
Federal			158,967,265			158,967,265
Total Revenues & Transfers-In	181,157	23,797,558	162,264,113	147,939	2,113,019	188,503,786
Less: Nonbudgeted Revenues & Transfers-In	180,079	466,748			6,690	653,517
Prior Year Revenues & Transfers-In Adjustments		1,760				1,760
Actual Budgeted Revenues & Transfers-In	1,078	23,329,050	162,264,113	147,939	2,106,329	187,848,509
Estimated Revenues & Transfers-In	20,000	23,828,430	161,235,252	160,500	2,632,017	187,876,199
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (18,922)	\$ (499,380)	\$ 1,028,861	\$ (12,561)	\$ (525,688)	\$ (27,690)

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Licenses and Permits	\$ (5,715)					\$ (5,715)
Charges for Services	(118,665)			\$ (12,561)	(394,369)	(525,595)
Sale of Documents, Merchandise and Property						(18,922)
Grants, Contracts, and Donations	(18,922)					(375,000)
Transfers-in		(375,000)				(44,400)
Federal Indirect Cost Recoveries					(131,319)	(131,319)
Federal			1,073,261			1,073,261
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (18,922)	\$ (499,380)	\$ 1,028,861	\$ (12,561)	\$ (525,688)	\$ (27,690)

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, 2012

	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		171,228				\$ 171,228
Taxes					8,179	8,179
Charges for Services		94,240		130,640	1,134,019	1,358,899
Capital Contributions				5,988		5,988
Sale of Documents, Merchandise and Property						11,110
Grants, Contracts, and Donations	\$ 11,110		374			261,050
Transfers-in		260,676	3,314,098			10,359,313
Federal Indirect Cost Recoveries		7,039,215			1,829,509	1,829,509
Miscellaneous	175,002					175,002
Federal			170,754,188			170,754,188
Total Revenues & Transfers-In	186,112	7,565,359	174,068,660	136,628	2,971,707	184,928,466
Less: Nonbudgeted Revenues & Transfers-In	175,002	7,211,690	374		8,179	7,395,245
Prior Year Revenues & Transfers-In Adjustments		1,476				1,476
Actual Budgeted Revenues & Transfers-In	11,110	352,193	174,068,286	136,628	2,963,528	177,531,745
Estimated Revenues & Transfers-In	19,045	378,807	175,329,595	166,488	2,964,289	178,858,224
Budgeted Revenues & Transfers-in Over (Under) Estimated	<u>(7,935)</u>	<u>(26,614)</u>	<u>(1,261,309)</u>	<u>(29,860)</u>	<u>(761)</u>	<u>(1,326,479)</u>
	\$	\$	\$	\$	\$	\$
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		(3)				(3)
Charges for Services		(17,812)			(15)	(47,687)
Sale of Documents, Merchandise and Property	\$ (7,935)			(29,860)		(7,935)
Grants, Contracts, and Donations		(8,799)				(8,799)
Transfers-In			(169,773)			(169,773)
Federal Indirect Cost Recoveries			(1,091,536)		(746)	(746)
Federal			(1,261,309)			(1,091,536)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(7,935)</u>	<u>(26,614)</u>	<u>(1,261,309)</u>	<u>(29,860)</u>	<u>(761)</u>	<u>(1,326,479)</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, 2013

	<u>Local Education Activities</u>	<u>State Level Activities</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT			
Personal Services			
Salaries		\$ 10,138,153	\$ 10,138,153
Employee Benefits		3,274,435	3,274,435
Personal Services-Other		<u>(13,174)</u>	<u>(13,174)</u>
Total		<u>13,399,414</u>	<u>13,399,414</u>
Operating Expenses			
Other Services	\$ 919,713	10,628,592	11,548,305
Supplies & Materials	627	866,713	867,340
Communications	218	291,456	291,674
Travel	369	1,231,855	1,232,224
Rent		638,825	638,825
Utilities		900	900
Repair & Maintenance		63,230	63,230
Other Expenses	5,042	2,893,776	2,898,818
Total	<u>925,969</u>	<u>16,615,347</u>	<u>17,541,316</u>
Equipment & Intangible Assets			
Equipment		24,220	24,220
Intangible Assets		<u>2,217,396</u>	<u>2,217,396</u>
Total		<u>2,241,616</u>	<u>2,241,616</u>
Local Assistance			
From State Sources	<u>754,534,428</u>		<u>754,534,428</u>
Total	<u>754,534,428</u>		<u>754,534,428</u>
Grants			
From State Sources	774,873		774,873
From Federal Sources	140,550,829		140,550,829
Grant To Governmental Entities	768,356		768,356
Total	<u>142,094,058</u>		<u>142,094,058</u>
Transfers-out			
Fund transfers	610,072	18,790	628,862
Intra-Entity Expense		<u>1,468,000</u>	<u>1,468,000</u>
Total	<u>610,072</u>	<u>1,486,790</u>	<u>2,096,862</u>
Other Post Employment Benefits			
Other Post Employment Benefits		<u>82,520</u>	<u>82,520</u>
Total		<u>82,520</u>	<u>82,520</u>
Total Expenditures & Transfers-Out	<u>\$ 898,164,527</u>	<u>\$ 33,825,687</u>	<u>\$ 931,990,214</u>
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 680,420,829	\$ 10,059,265	\$ 690,480,094
State Special Revenue Fund	75,814,440	761,169	76,575,609
Federal Special Revenue Fund	141,929,258	20,334,856	162,264,114
Enterprise Fund		157,582	157,582
Internal Service Fund		<u>2,512,815</u>	<u>2,512,815</u>
Total Expenditures & Transfers-Out	<u>898,164,527</u>	<u>33,825,687</u>	<u>931,990,214</u>
Less: Nonbudgeted Expenditures & Transfers-Out		501,438	501,438
Prior Year Expenditures & Transfers-Out Adjustments		<u>(15,539)</u>	<u>(15,539)</u>
Actual Budgeted Expenditures & Transfers-Out	898,164,527	33,339,788	931,504,315
Budget Authority	<u>932,827,014</u>	<u>35,949,730</u>	<u>968,776,744</u>
Unspent Budget Authority	<u>\$ 34,662,487</u>	<u>\$ 2,609,942</u>	<u>\$ 37,272,429</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 870,795	\$ 170,435	\$ 1,041,230
State Special Revenue Fund	31,639,868	53,556	31,693,424
Federal Special Revenue Fund	2,151,824	2,289,348	4,441,172
Enterprise Fund		8,866	8,866
Internal Service Fund		<u>87,737</u>	<u>87,737</u>
Unspent Budget Authority	<u>\$ 34,662,487</u>	<u>\$ 2,609,942</u>	<u>\$ 37,272,429</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, 2012

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Local Education Activities	State Level Activities	Total
Personal Services			
Salaries		\$ 10,015,517	\$ 10,015,517
Employee Benefits		3,249,532	3,249,532
Personal Services-Other		(37,865)	(37,865)
Total		<u>13,227,184</u>	<u>13,227,184</u>
Operating Expenses			
Other Services	\$ 1,296,280	9,985,703	11,281,983
Supplies & Materials	746	933,771	934,517
Communications	67	285,061	285,128
Travel	6,299	1,433,528	1,439,827
Rent		575,294	575,294
Utilities		873	873
Repair & Maintenance		69,761	69,761
Other Expenses	3,213	3,734,759	3,737,972
Total	<u>1,306,605</u>	<u>17,018,750</u>	<u>18,325,355</u>
Equipment & Intangible Assets			
Equipment		138,188	138,188
Intangible Assets		1,058,256	1,058,256
Total		<u>1,196,444</u>	<u>1,196,444</u>
Local Assistance			
From State Sources	<u>725,162,436</u>		<u>725,162,436</u>
Total	<u>725,162,436</u>		<u>725,162,436</u>
Grants			
From State Sources	771,504		771,504
From Federal Sources	<u>153,183,937</u>		<u>153,183,937</u>
Total	<u>153,955,441</u>		<u>153,955,441</u>
Transfers-out			
Fund transfers	507,841		507,841
Intra-Entity Expense		<u>1,168,000</u>	<u>1,168,000</u>
Total	<u>507,841</u>	<u>1,168,000</u>	<u>1,675,841</u>
Other Post Employment Benefits			
Other Post Employment Benefits		<u>78,528</u>	<u>78,528</u>
Total		<u>78,528</u>	<u>78,528</u>
Total Expenditures & Transfers-Out	<u>\$ 880,932,323</u>	<u>\$ 32,688,906</u>	<u>\$ 913,621,229</u>
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 612,957,325	\$ 9,860,492	\$ 622,817,817
State Special Revenue Fund	113,830,817	763,485	114,594,302
Federal Special Revenue Fund	154,144,181	19,491,568	173,635,749
Enterprise Fund		114,328	114,328
Internal Service Fund		<u>2,459,033</u>	<u>2,459,033</u>
Total Expenditures & Transfers-Out	<u>880,932,323</u>	<u>32,688,906</u>	<u>913,621,229</u>
Less: Nonbudgeted Expenditures & Transfers-Out		423,171	423,171
Prior Year Expenditures & Transfers-Out Adjustments	(5,099)	(10,918)	(16,017)
Actual Budgeted Expenditures & Transfers-Out	<u>880,937,422</u>	<u>32,276,653</u>	<u>913,214,075</u>
Budget Authority	<u>949,621,416</u>	<u>39,020,848</u>	<u>988,642,264</u>
Unspent Budget Authority	<u>\$ 68,683,994</u>	<u>\$ 6,744,195</u>	<u>\$ 75,428,189</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 44,287,632	\$ 73,475	\$ 44,361,107
State Special Revenue Fund	8,077,432	718	8,078,150
Federal Special Revenue Fund	16,318,930	6,504,888	22,823,818
Enterprise Fund		20,719	20,719
Internal Service Fund		<u>144,395</u>	<u>144,395</u>
Unspent Budget Authority	<u>\$ 68,683,994</u>	<u>\$ 6,744,195</u>	<u>\$ 75,428,189</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, 2013

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 was adopted by 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 School Food, School Facility & Technology, Traffic Safety Education, and the Guarantee Account.

- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The office's Federal Special Revenue Funds include the National School Lunch Program, Title I, IDEA, Title II, 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 is used to fund internal and statewide central service type costs through an approved indirect cost rate.
- ◆ **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 used to account for the Advanced Drivers Education program.

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's agency fund is used to account for Future Farmers of America activity.

2. Negative Fund Equity

- ◆ **General Fund** - the negative fund equity 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 exceeded the assets it has placed in the fund, resulting in negative ending fund equity for each of the fiscal years ended June 30, 2012, and June 30, 2013.
- ◆ **State Special Revenue Fund** – the negative fund equity in the State Special Revenue Fund does not indicate overspent appropriation authority. The office has the authority to pay or offset statutorily appropriated K-12 obligations from the State Special Revenue Fund within appropriation limits. In the fiscal year ended June 30, 2012, offsets exceeded current available assets in the fund resulting in negative ending fund equity.

3. Direct Entries to Fund Equity

Direct entries to fund equity 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.

The Schedule of Changes in Fund Equity & Property Held in Trust for fiscal year 2013 reflects a \$32,179,936 reduction in activity from fiscal year 2012. The difference in activity is related to the reduced receipt of oil & gas production revenue in the Guarantee Account, as described in Note 4 - Unspent Budget Authority.

Reduced oil & gas production revenues also impacts the State Special Revenue Fund Direct Entry to Fund Equity amount on the Schedule of Changes in Fund Equity & Property Held in Trust for the fiscal year ended June 30, 2013.

4. Unspent Budget Authority

The Schedule of Total Expenditures and Transfers-Out for fiscal year 2012 presents unspent budget authority of \$44,361,107 in the General Fund and \$22,823,818 in the Federal Special Revenue Fund. In fiscal year 2013 unspent budget authority in the State Special Revenue Fund totaled \$31,693,424.

The fiscal year 2012 unspent budget authority in the General Fund is directly related to activity in the Guarantee Account. The Guarantee Account receives legislatively appropriated revenues which are used to offset K-12 expenditures in the General Fund. In fiscal year 2012 the Guarantee Account received higher than estimated oil & gas production revenues and various revenues from HB 604 resulting in unspent budget authority in the General Fund.

In fiscal year 2013 production revenues from oil & gas were less than estimated resulting in unspent budget authority in the State Special Revenue Fund (Guarantee Account) as presented on the Schedule of Total Expenditures and Transfers-Out.

Budget authority for Federal Special Revenue Fund activity is based on anticipated expenditures within a biennium. The unspent budget authority in the Federal Special Revenue Fund in fiscal year 2012 of \$22,823,818 is created due to less program expenditures than estimated. Unspent budget authority for federal programs in the first year of a biennium is not unusual as federal grants typically span over a twenty-seven month grant period.

5. Transfers

The Schedule of Total Revenues and Transfers-In for the fiscal year ended June 30, 2013 reflects \$23,136,955 of Transfers-In. SB 175 created the Montana Support for Schools Special Revenue Account which included a transfer-in of \$22,950,178 from the General Fund for purposes of funding the costs of restructuring the basic entitlement in fiscal years 2014 and 2015.

The impact of this increase in funding is also presented in the State Special Revenue Fund Budgeted Revenues & Transfers-In activity on the Schedule of Changes in Fund Equity & Property Held in Trust for the fiscal year ended June 30, 2013.

OFFICE OF PUBLIC
INSTRUCTION

OFFICE RESPONSE



Montana
Office of Public Instruction
Denise Juneau, State Superintendent

Office of Public Instruction
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Helena, MT 59620-2501
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January 17, 2014

Ms. Tori Hunthausen, CPA
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

RECEIVED
JAN 16 2014
LEGISLATIVE AUDIT DIV.

RE: Financial-Compliance Audit

Dear Ms. Hunthausen:

Following is our response to recommendations contained in the Office of Public Instruction's (OPI) 2012-2013 audit report.

Recommendation #1

We recommend the office:

- A. Implement internal controls to ensure the local education agencies receive the required audits within nine months.
- B. Enhance internal controls to ensure documentation demonstrates appropriate corrective action is taken on all audit findings.

OPI Response: We concur.

- A. As stated in the audit report, the OPI and Local Government Services work in a coordinated effort to ensure Local Education Agencies (LEAs) receive an OMB A-133 audit within nine months. Current regulations grant Local Government Services the authority to impose a fine to LEAs who submit late audit reports, which is utilized on a continual basis. The OPI monitors and communicates with LEAs who are struggling to meet audit report compliance requirements. Continued instances of noncompliance are evaluated and may result in additional requirements imposed by the OPI, such as placing an LEA on high risk status. The OPI will continue to evaluate the process and work with LEAs to ensure compliance at all levels.
- B. The OPI has taken this as an opportunity to reevaluate current documentation practices. The OPI agrees additional documentation is needed and will work to strengthen the current process.

Recommendation #2

We recommend the office implement internal controls to ensure allocation of federal funds to local education agencies are made in accordance with the applicable federal regulations.

OPI Response: We Concur. The OPI will implement internal controls to ensure school district consolidations are properly accounted for during the calculation of LEA allocations.

Recommendation #3

We recommend the office retain documentation and complete timely reconciliations to demonstrate compliance with federal regulations regarding internal controls.

OPI Response: We Concur.

- A. Child Nutrition: The OPI will continue to retain documentation related to monthly reconciliations of the School Nutrition Program and the states accounting system. To ensure compliance with federal regulations the OPI has implemented a secondary management review of monthly reconciliations.
- B. IDEA B: The OPI fully recognizes the importance of retaining supporting documentation. The OPI has an effective systematic process for calculating child counts which currently includes documenting the calculation process in its entirety.

Recommendation #4

We recommend the office classify fund equity in accordance with state accounting policy.

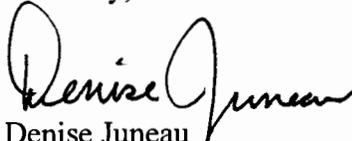
OPI Response: We Concur. The OPI will ensure future classifications meet state accounting policy.

Recommendation #5

We recommend the office report its subawards for the Child Nutrition, Title I, Title II, and IDEA B programs in accordance with federal regulations.

OPI Response: We concur. The OPI strives to meet all federal reporting compliance requirements. The OPI is in the process of developing a new system to include monthly assessment and reporting of Child Nutrition subaward activity. Subaward activity related to Title I, Title II, and IDEA B will be reported when final subaward allocations are determined.

Sincerely,



Denise Juneau
Superintendent of Public Instruction