



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Office of Public Instruction

*For the Two Fiscal Years Ended
June 30, 2015*

JANUARY 2016

LEGISLATIVE AUDIT
DIVISION

15-19

FINANCIAL-COMPLIANCE AUDITS

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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.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. 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, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
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Cindy Jorgenson
Angus Maciver

January 2016

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, 2015. Included in this report are two recommendations regarding federal internal control deficiencies and related noncompliance and one recommendation pertaining to the office's internal service fund.

The office's written response to the audit recommendations is included in the audit report at page C-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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ELECTED AND ADMINISTRATIVE OFFICIALS

**Office of Public
Instruction**

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Office of Public Instruction

For the Two Fiscal Years Ended June 30, 2015

JANUARY 2016

15-19

REPORT SUMMARY

The Office of Public Instruction distributes funds awarded to local school districts in support of K-12 education. The office is responsible for monitoring more than 400 school districts to ensure compliance with state and federal regulations. In fiscal years 2015 and 2014, the office distributed more than \$979 million and \$944 million, respectively, to school districts.

Context

The Office of Public Instruction (office) offers a wide variety of programs and services to support Montana's students, families, educators, and community members. This includes career education, driver's education programs, professional development, health and safety education and programs, services for students with special needs, and Indian education. The office also oversees educator preparation and licensure, school accreditation, school finance, and school law.

The office administers approximately 40 federal programs, expending over \$166 million in fiscal year 2015 and \$162 million in fiscal year 2014. The office also distributes BASE aid funding, which was approximately \$819 million and \$787 million in fiscal years 2015 and 2014, respectively.

Results

The prior audit contained five recommendations of which three were implemented, one was partially implemented, and one was not implemented.

The current audit contains three recommendations. The first relates to the prior audit recommendation regarding control deficiencies which resulted in errors in the allocations of Title IIA and IDEA B federal funds to local education agencies. During our current audit, we determined the control deficiencies were not remedied and resulted in allocation errors once again. The control deficiencies and resulting allocation errors also extended to the Title I program. The remaining recommendations relate to noncompliance with federal regulations over cash management and noncompliance with state law in regards to the office's internal service fund.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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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, 2015. 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, 2015.
3. Determine the implementation status of the prior audit recommendations.
4. Determine whether the office complied with selected state and federal laws and regulations.

We addressed these objectives by focusing our audit effort on activity related to the BASE aid and federal funding distributed to the school districts. Throughout the audit, we also reviewed and tested select control systems and determined compliance with various state laws and regulations.

In addition, as directed by §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. In both fiscal years 2014 and 2015, we determined fees were commensurate with costs, but fund equity was not reasonable. We discuss this further on page 7.

Office Organization and Function

The Superintendent of Public Instruction is designated as an Executive Branch officer 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 400 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 state and federal funds to school districts. 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: Grants to Local Educational Agencies (Title I); Child Nutrition and Commodities; Individuals With Disabilities Education Act, Part B (IDEA B); and Improving Teacher Quality (Title IIA). 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.

Local Education Activities

The Local Education Activities program is established to distribute state and federal funds to local education agencies, which are primarily school districts. 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 \$979,928,497 and \$944,030,834 in fiscal years 2015 and 2014, respectively.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2013, contained five recommendations. Three of the recommendations have been implemented, one was partially implemented, and one was not implemented. The recommendation not implemented pertains to the control deficiencies which resulted in errors in the allocations of Title IIA and IDEA B federal funds to local education agencies (LEAs). This is discussed again on page 5 of this report. The partially implemented recommendation relates to subrecipient monitoring and is discussed in the following paragraphs.

Subrecipient Monitoring

The Office of Public Instruction is a pass-through entity for federal funds awarded to LEAs. As such, the office is required to monitor all LEAs that have received federal awards to ensure compliance with the federal requirements. During our audit period,

one of the monitoring requirements involved the office ensuring any LEA spending in excess of \$500,000 in federal funds during its fiscal year have an audit of its federal programs. These are called “A-133 audits” and are required to be completed within nine months of the LEA’s fiscal year-end (June 30). The office is required to review each of these audit reports and issue a management decision on audit findings within six months of receiving each LEA’s audit report. In addition, the office is required to ensure the LEA takes timely and appropriate corrective action on all audit findings.

During the prior audit, we determined the office did not have adequate controls in place to comply with these subrecipient monitoring requirements. During the current audit, we were informed by management the A-133 audit reports due by March 31, 2014, were not reviewed until late in fiscal year 2015. Management stated they purposely made this decision due to staffing issues, and it was more efficient for the office to review those reports with the ones due by March 31, 2015. While this means the office was not in compliance with the subrecipient monitoring requirements described above for fiscal year 2014, the audit work we completed for fiscal year 2015 showed the office is working diligently to establish sound internal controls and implement the prior audit recommendation. We do not make any further recommendations at this time and we will follow up on this compliance requirement in the office’s next audit.

Chapter II – Findings and Recommendations

Misallocation of Federal Funds

Federal funds disbursed during fiscal years 2014 and 2015 were not allocated correctly to local education agencies.

The Office of Public Instruction (office) receives Grants to Local Education Agencies (Title I), Improving Teacher Quality (Title IIA), and Individuals with Disabilities Act, Part B (IDEA B) federal funds from the Department of Education. These funds are intended to help support the educational needs of students at risk of not meeting academic standards, disabled students, and to improve teacher quality. The office is responsible for disbursing these funds to local education agencies (LEAs) based on allocation criteria outlined in federal regulations. During the prior audit, we identified allocation errors in the Title IIA and IDEA B programs and recommended the office implement control procedures to ensure allocations were accurate. During our recent audit, we again found allocation errors in the Title IIA and IDEA B programs, as well as in the Title I program. This indicates the office did not implement our prior audit recommendation, as the office failed to ensure accurate disbursements were made to the LEAs, and thus LEAs did not receive the correct amount of funds for these programs. The allocation errors identified during our audit are discussed in more detail below.

- ♦ Federal regulations allow the office to reserve up to one percent of its Title I award for state administrative costs, unless the total federal award amount to all states exceeds \$14 billion. If the total award to all states exceeds this amount, the federal government puts a limit, or cap, on how much a state may have for administrative costs. The office uses a spreadsheet to calculate the Title I disbursements to LEAs, which takes into consideration the amount allowed for the state administrative costs. Because the \$14 billion limit was exceeded in fiscal year 2015, the state was only allowed to reserve up to \$430,741.54 for administrative costs, but it erroneously reserved \$441,178.66. Because of this error, the LEAs, in total, were awarded \$17,000 less than required by the federal government.
- ♦ LEAs receiving Title I funds are required, in general, to maintain a level of expenditures from state and local funds (i.e. a level of effort) that are not less than 90 percent of the preceding year. If a LEA fails to maintain the required level of effort, the federal assistance must be reduced by the exact amount of the level of effort not achieved. During our audit, we reviewed the reductions made to LEAs that had not maintained an adequate level of effort. The office uses the same spreadsheet discussed in the paragraph above to make these reductions and determine a LEA's final allocation. We found the office made an incorrect entry into the fiscal year 2014 spreadsheet and erroneously reduced the award of one LEA by \$6,832 and did not properly reduce the award of another by the same amount.

- ♦ The allocation of IDEA B funds is based on a calculation using census poverty data. In both fiscal years 2014 and 2015, the office's procedures were not adequate to ensure the completeness of the census poverty data for the LEAs that had consolidated, and thus, the census poverty data used in the calculation was not accurate. This affected 100 percent of the LEA allocations in both fiscal years, though most misallocations were small. In total, the misallocations were approximately \$32,351 and \$16,864 for fiscal year 2014 and fiscal year 2015, respectively.
- ♦ The allocation of Title IIA funds are also based on a calculation using census poverty data. The office utilizes a spreadsheet to calculate the allocations to LEAs based on this census data. In fiscal year 2014, a manual adjustment made in the spreadsheet to the census poverty data resulted in 139 out of 410 LEAs being misallocated, for a total of \$549.

Though the allocation errors explained above resulted in the LEAs receiving the wrong amount of funding in fiscal years 2014 and 2015, the results of these errors did not affect the office's financial schedules because in total, the over and under allocations netted to zero. While the dollar amounts of the misallocations were relatively small, the large number of misallocations does indicate a weakness in internal controls over compliance with federal program requirements. This weakness increases the risk the LEAs will continue to not receive all of the funding they are entitled to. Office management stated these allocation errors were due, in general, to human error and have since taken steps to remedy the control weaknesses for the 2015-16 school year allocations.

RECOMMENDATION #1

We recommend the Office of Public Instruction implement internal controls over federal allocation requirements and comply with federal regulations governing distributions to local education agencies.

Cash Management

The office did not comply with the Treasury-State Agreement in fiscal years 2014 and 2015.

The office expends over \$160 million in federal funds every year. For selected large federal programs, state recipients are required to enter into an agreement with the federal government, known as the Treasury-State Agreement (TSA). The TSA prescribes the specific method of drawing down funds for reimbursement in order

to minimize the time between payment of expenditures and receiving federal funds. This ensures the draws are revenue-neutral for both state and federal governments. The office has three federal programs that are part of Montana's TSA: Title I, National School Lunch Program (NSLP), and IDEA B. In fiscal years 2014 and 2015, the office did not maintain adequate controls to comply with the TSA for these programs.

We completed an analysis over the posting of expenditures and revenues in the State Accounting, Budgeting, and Human Resources System (SABHRS) for fiscal years 2014 and 2015 for Title I, IDEA B, and the NSLP. Even though for all of these programs the office is required to request reimbursement so program revenues are deposited the same day as expenditures clear the state treasury, for testing purposes, we did not consider timing differences of less than five days to be an error. Our analysis found instances in each of the programs where the office did not comply with the TSA clearance patterns. The differences between the draw patterns and required clearance pattern ranged from six days to approximately two months. This was either due to not requesting enough revenue to reimburse the full amount of funds already expended, or requesting revenue in advance of when funds were expended from the state treasury.

During our audit, the office's procedures were to complete draws once a month for each program. By only drawing once a month, the office does not include miscellaneous activity that may occur outside of its normal business operations until the next month's draw, causing the office to be noncompliant with the TSA. Office personnel stated the procedures for tracking revenues and expenditures were updated in November 2014, and allow the office a more efficient way to monitor its activity, but this still does not address the issue of the office not drawing funds in accordance with the TSA.

RECOMMENDATION #2

We recommend the Office of Public Instruction comply with the Treasury-State Agreement or request a change to the agreement to more accurately reflect the office's actual clearance pattern.

Internal Service Fund

The office's fund equity is not reasonable in its internal service fund.

The office maintains an indirect cost pool in its internal service fund to account for the accumulated costs that jointly benefit two or more of the office's programs. Indirect

cost pool expenditures typically include: administrative salaries associated with overall financial and organizational administration; operation and maintenance costs for facilities and equipment; and payroll and procurement services. The office negotiates an indirect cost rate to determine the proportion of indirect costs each of the office's programs should bear. Section 17-8-101(6), MCA, requires the fees and charges for services deposited in the internal service fund type (the office's indirect cost pool) must be based upon commensurate costs.

To determine whether fees and charges are reasonable and based on cost, we reviewed the relationship between revenues collected and expenses incurred and found it reasonable. To determine the reasonableness of fund equity in the fund, we reviewed working capital at the end of the year, as well as fund equity trends. Working capital is defined in state policy as the amount of cash that would remain if all of the current assets were converted, and all current liabilities were paid, at their book value. We used a 60-day working capital reserve as a measure of the reasonableness of fund equity based on state policy and federal guidelines. In fiscal years 2014 and 2015, the office exceeded the acceptable 60-day working capital reserve by 61 days and 71 days, respectively.

Office personnel stated the office has had increased federal funds which impacts the indirect costs. However, because the office knows what the majority of its federal awards are at the beginning of the fiscal year, it should have taken the increases in funding into consideration throughout the year and reduced the rate it was charging the other programs in order to reduce excess fund equity.

RECOMMENDATION #3

We recommend the Office of Public Instruction comply with state law by charging a rate that achieves a reasonable fund equity.

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, 2015, and 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2015, and June 30, 2014, or changes in financial position or cash flows for the years then ended.

Unmodified 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, 2015, and 2014, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2015, on our consideration of the Office of Public Instruction's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 9, 2015

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special	Federal Special	Enterprise Fund	Internal Service	Agency Fund
	\$ (1,101,826)	\$ 12,204,017	\$ 0	\$ 71,121	\$ 362,211	\$ 0
FUND EQUITY: July 1, 2014						
PROPERTY HELD IN TRUST: July 1, 2014						
ADDITIONS						
Budgeted Revenues & Transfers-In	721	408,380	166,682,347	182,781	2,811,330	
Nonbudgeted Revenues & Transfers-In	87,933	11,849,959		481	39,131	
Prior Year Revenues & Transfers-In Adjustments		(3,167)	3,502		(3,579)	
Direct Entries to Fund Equity	751,224,159	62,383,683		(19,141)	(1,296,925)	
Total Additions	751,312,813	74,638,855	166,685,849	164,121	1,549,957	0
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	751,468,465	81,746,437	166,686,146	188,347	2,748,560	
Nonbudgeted Expenditures & Transfers-Out	(16,129)	11,884,033	(297)	(1,715)	29,989	
Prior Year Expenditures & Transfers-Out Adjustments	(96,495)					
Reductions in Property Held in Trust						67,444
Total Reductions	751,355,841	93,630,470	166,685,849	186,632	2,778,549	67,444
FUND EQUITY: June 30, 2015	\$ (1,144,854)	\$ (6,787,598)	\$ 0	\$ 48,610	\$ (866,381)	\$ 0
PROPERTY HELD IN TRUST: June 30, 2015						0

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, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
	\$ (1,264,607)	\$ 20,571,303	\$ 0	\$ 49,827	\$ 475,262	\$ 0
						\$ 53,685
FUND EQUITY: July 1, 2013						
PROPERTY HELD IN TRUST: July 1, 2013						
ADDITIONS						
Budgeted Revenues & Transfers-In	10,999	430,374	162,756,651	156,661	2,629,013	
Nonbudgeted Revenues & Transfers-In	65,117	11,980,768			6,072	
Prior Year Revenues & Transfers-In Adjustments		1,170	1,001			
Direct Entries to Fund Equity	714,936,770	76,652,965				
Additions to Property Held in Trust						176,307
Total Additions	715,012,886	89,065,277	162,757,652	156,661	2,635,085	176,307
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	714,860,734	85,539,065	162,760,920	130,945	2,653,485	
Nonbudgeted Expenditures & Transfers-Out	(8,629)	11,893,472	(265)	4,422	94,651	
Prior Year Expenditures & Transfers-Out Adjustments	(2,000)	26	(3,003)			
Reductions in Property Held in Trust						162,548
Total Reductions	714,850,105	97,432,563	162,757,652	135,367	2,748,136	162,548
FUND EQUITY: June 30, 2014	\$ (1,101,826)	\$ 12,204,017	\$ 0	\$ 71,121	\$ 362,211	\$ 0
PROPERTY HELD IN TRUST: June 30, 2014						\$ 67,444

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, 2015

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						
Taxes	\$	170,772				\$ 170,772
Charges for Services					7,096	7,096
Sale of Documents, Merchandise and Property		120,751		182,781	1,168,088	1,471,620
Grants, Contracts, and Donations	\$ 721					721
Transfers-in		334,775		481	32,035	367,291
Federal Indirect Cost Recoveries		11,628,874	4,545,534			16,174,408
Miscellaneous	87,933				1,639,663	1,639,663
Federal			162,140,315			87,933
Total Revenues & Transfers-In	88,654	12,255,172	166,685,849	183,262	2,846,882	182,059,819
Less: Nonbudgeted Revenues & Transfers-In	87,933	11,849,959		481	39,131	11,977,504
Prior Year Revenues & Transfers-In Adjustments		(3,167)	3,502		(3,579)	(3,244)
Actual Budgeted Revenues & Transfers-In	721	408,380	166,682,347	182,781	2,811,330	170,085,559
Estimated Revenues & Transfers-In	1,045	415,502	166,614,967	185,988	2,455,675	169,673,177
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (324)	\$ (7,122)	\$ 67,380	\$ (3,207)	\$ 355,655	\$ 412,382

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

Licenses and Permits	\$	(531)			\$	(531)
Charges for Services		(6,591)		2,781	296,940	293,130
Capital Contributions				(5,988)		(5,988)
Sale of Documents, Merchandise and Property	\$ (324)					(324)
Transfers-In			14,219			14,219
Federal Indirect Cost Recoveries					58,715	58,715
Federal			53,161			53,161
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (324)	\$ (7,122)	\$ 67,380	\$ (3,207)	\$ 355,655	\$ 412,382

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, 2014

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		\$ 164,697				\$ 164,697
Taxes						6,072
Charges for Services		111,945			6,072	1,437,168
Sale of Documents, Merchandise and Property	\$ 10,999			\$ 156,661	1,168,562	10,999
Grants, Contracts, and Donations		474,929	330			475,259
Transfers-in		11,655,741	3,991,614			15,647,355
Federal Indirect Cost Recoveries					1,460,451	1,460,451
Miscellaneous	65,117					65,117
Federal		5,000	158,765,708			158,770,708
Total Revenues & Transfers-In	76,116	12,412,312	162,757,652	156,661	2,635,085	178,037,826
Less: Nonbudgeted Revenues & Transfers-In	65,117	11,980,768			6,072	12,051,957
Prior Year Revenues & Transfers-In Adjustments		1,170	1,001			2,171
Actual Budgeted Revenues & Transfers-In	10,999	430,374	162,756,651	156,661	2,629,013	165,983,698
Estimated Revenues & Transfers-In	19,045	457,459	162,744,487	132,121	2,629,013	165,982,125
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$(8,046)</u>	<u>\$(27,085)</u>	<u>12,164</u>	<u>\$ 24,540</u>	<u>\$(0)</u>	<u>\$ 1,573</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$	(6,228)				\$ (6,228)
Charges for Services		(20,857)				3,683
Sale of Documents, Merchandise and Property	\$ (8,046)			\$ 24,540	(0)	(8,046)
Transfers-in			4,237			4,237
Federal Indirect Cost Recoveries					0	0
Federal			7,927			7,927
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$(8,046)</u>	<u>\$(27,085)</u>	<u>12,164</u>	<u>\$ 24,540</u>	<u>\$(0)</u>	<u>\$ 1,573</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, 2015

A-7

	Local Education Activities	State Level Activities	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT			
Personal Services			
Salaries		\$ 10,542,933	\$ 10,542,933
Employee Benefits		3,615,197	3,615,197
Personal Services-Other		(23,023)	(23,023)
Total		<u>14,135,107</u>	<u>14,135,107</u>
Operating Expenses			
Other Services	\$ 814,869	9,453,847	10,268,716
Supplies & Materials	5,097	939,898	944,995
Communications	370	334,664	335,034
Travel	490	1,315,242	1,315,732
Rent		626,930	626,930
Utilities		4,301	4,301
Repair & Maintenance		21,454	21,454
Other Expenses	330	3,766,836	3,767,166
Total	<u>821,156</u>	<u>16,463,172</u>	<u>17,284,328</u>
Equipment & Intangible Assets			
Equipment		30,832	30,832
Intangible Assets		1,707,330	1,707,330
Total		<u>1,738,161</u>	<u>1,738,161</u>
Local Assistance			
From State Sources	819,398,054		819,398,054
Total	<u>819,398,054</u>		<u>819,398,054</u>
Grants			
From State Sources	806,995		806,995
From Federal Sources	146,112,214		146,112,214
Grant To Governmental Entities	642,814		642,814
Total	<u>147,562,023</u>		<u>147,562,023</u>
Transfers-out			
Fund transfers	12,147,264	285,646	12,432,910
Intra-Entity Expense		1,918,000	1,918,000
Total	<u>12,147,264</u>	<u>2,203,646</u>	<u>14,350,910</u>
Post Employment Benefits			
Other Post Employment Benefits		77,630	77,630
Employer Pension Expense		91,128	91,128
Total		<u>168,758</u>	<u>168,758</u>
Total Expenditures & Transfers-Out	<u>\$ 979,928,497</u>	<u>\$ 34,708,844</u>	<u>\$ 1,014,637,341</u>
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 739,773,711	\$ 11,582,130	\$ 751,355,841
State Special Revenue Fund	92,816,814	813,656	93,630,470
Federal Special Revenue Fund	147,337,972	19,347,877	166,685,849
Enterprise Fund		186,632	186,632
Internal Service Fund		2,778,549	2,778,549
Total Expenditures & Transfers-Out	<u>979,928,497</u>	<u>34,708,844</u>	<u>1,014,637,341</u>
Less: Nonbudgeted Expenditures & Transfers-Out	11,475,089	421,089	11,896,178
Prior Year Expenditures & Transfers-Out Adjustments		(96,792)	(96,792)
Actual Budgeted Expenditures & Transfers-Out	<u>968,453,408</u>	<u>34,384,547</u>	<u>1,002,837,955</u>
Budget Authority	1,009,097,594	38,758,511	1,047,856,105
Unspent Budget Authority	<u>\$ 40,644,186</u>	<u>\$ 4,373,964</u>	<u>\$ 45,018,150</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 1,787,063	\$ 39,511	\$ 1,826,574
State Special Revenue Fund	8,339,272	60,430	8,399,702
Federal Special Revenue Fund	30,517,851	4,243,211	34,761,062
Enterprise Fund		14,967	14,967
Internal Service Fund		15,845	15,845
Unspent Budget Authority	<u>\$ 40,644,186</u>	<u>\$ 4,373,964</u>	<u>\$ 45,018,150</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, 2014

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Local Education Activities	State Level Activities	Total
Personal Services			
Salaries		\$ 10,057,565	\$ 10,057,565
Employee Benefits		3,443,597	3,443,597
Personal Services-Other		1,599	1,599
Total		<u>13,502,761</u>	<u>13,502,761</u>
Operating Expenses			
Other Services	\$ 1,005,142	10,916,190	11,921,332
Supplies & Materials	307	921,876	922,183
Communications	1,219	356,802	358,021
Travel	2,014	1,132,381	1,134,395
Rent		632,037	632,037
Utilities		941	941
Repair & Maintenance		47,018	47,018
Other Expenses	1,480	3,502,228	3,503,708
Goods Purchased For Resale		141	141
Total	<u>1,010,162</u>	<u>17,509,614</u>	<u>18,519,776</u>
Equipment & Intangible Assets			
Equipment		125,348	125,348
Intangible Assets		779,962	779,962
Total		<u>905,310</u>	<u>905,310</u>
Local Assistance			
From State Sources	786,977,855		786,977,855
Total	<u>786,977,855</u>		<u>786,977,855</u>
Grants			
From State Sources	639,191		639,191
From Federal Sources	142,675,364		142,675,364
Grant To Governmental Entities	588,061		588,061
Total	<u>143,902,615</u>		<u>143,902,615</u>
Transfers-out			
Fund transfers	12,140,202		12,140,202
Intra-Entity Expense		1,883,000	1,883,000
Total	<u>12,140,202</u>	<u>1,883,000</u>	<u>14,023,202</u>
Other Post Employment Benefits			
Other Post Employment Benefits		92,304	92,304
Total		<u>92,304</u>	<u>92,304</u>
Total Expenditures & Transfers-Out	\$ <u>944,030,834</u>	\$ <u>33,892,989</u>	\$ <u>977,923,823</u>
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 703,531,199	\$ 11,318,906	\$ 714,850,105
State Special Revenue Fund	96,677,746	754,817	97,432,563
Federal Special Revenue Fund	143,821,889	18,935,763	162,757,652
Enterprise Fund		135,367	135,367
Internal Service Fund		2,748,136	2,748,136
Total Expenditures & Transfers-Out	<u>944,030,834</u>	<u>33,892,989</u>	<u>977,923,823</u>
Less: Nonbudgeted Expenditures & Transfers-Out	11,475,089	508,561	11,983,650
Prior Year Expenditures & Transfers-Out Adjustments		(4,977)	(4,977)
Actual Budgeted Expenditures & Transfers-Out	<u>932,555,745</u>	<u>33,389,405</u>	<u>965,945,150</u>
Budget Authority	978,104,824	35,151,731	1,013,256,555
Unspent Budget Authority	\$ <u>45,549,079</u>	\$ <u>1,762,326</u>	\$ <u>47,311,408</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 25,777,358	\$ 169,439	\$ 25,946,799
State Special Revenue Fund	5,950,939	101,815	6,052,754
Federal Special Revenue Fund	13,820,782	1,364,535	15,185,316
Enterprise Fund		9,278	9,278
Internal Service Fund		117,259	117,259
Unspent Budget Authority	\$ <u>45,549,078</u>	\$ <u>1,762,326</u>	\$ <u>47,311,407</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, 2015

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, State School Oil & Gas Impact, Montana Support for Schools, 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, 2014 and June 30, 2015.
- ♦ **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, 2015, outstanding liabilities in the School Facility

& Technology State Special Revenue Fund exceeded current available assets resulting in negative ending fund equity.

- ♦ **Internal Service Fund** – the negative fund equity in the Internal Service Fund does not indicate overspent appropriation authority. The office has a legislative and federal approved indirect cost rate which is used to collect a percentage of revenues from various programs. In the fiscal year ended June 30, 2015, activity related to net pension liabilities required by GASB 68 resulted in liabilities exceeding current available assets resulting in negative ending fund equity.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, Special Revenue, Enterprise, and Internal Service Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds.

The Schedule of Changes in Fund Equity & Property Held in Trust State Special Revenue Fund for fiscal year 2015 reflects a \$14,269,282 reduction in activity from fiscal year 2014. 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, and reduced revenues in the School Facility & Technology Account.

4. Unspent Budget Authority

The Schedule of Total Expenditures & Transfers-Out for fiscal year 2014 presents unspent budget authority in the Local Education Activities of \$25,777,358 in the General Fund, \$5,950,939 in the State Special Revenue Fund, and \$13,820,782 in the Federal Special Revenue Fund. Unspent budget authority in the General Fund was primarily due to the consolidation of the K-12 biennial appropriation and unspent SB-175 funds. State Special Revenue Fund unspent authority is related to lower than estimated oil & gas revenues in the Guarantee Account and reduced reimbursement claims from participants of the School Oil & Gas Impact program. In the Federal Special Revenue Fund federal budgeted authority exceeded estimated expenditures in the Striving Readers Program and in various general federal programs.

The Schedule of Total Expenditures & Transfers-Out for fiscal year 2015 presents unspent budget authority in the Local Education Activities of \$8,339,272 in the State Special Revenue Fund and \$30,517,851 in the Federal Special Revenue Fund. State Special Revenue Fund unspent authority is related to lower than estimated oil & gas revenues in the Guarantee Account and reduced reimbursement claims from participants of the School Oil & Gas Impact program. In fiscal year 2015 the agency budgeted for additional Federal Special Revenue Fund activity due to the addition of the Preschool Development grant and an extension of the Striving Readers program.

Unspent budget authority for federal programs in the first year of the program is not unusual as federal grants typically span over a twenty-seven month grant period.

5. Transfers

The Schedule of Total Revenues & Transfers-In for fiscal years 2014 and 2015 reflect Transfers-In of \$11,655,741 and \$11,628,874, respectively. SB 175 created the Montana Support for Schools Special Revenue Account for the purpose of funding the costs of restructuring the basic K-12 entitlement in fiscal years 2014 and 2015.

The impact of these transfers 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 fiscal years 2014 and 2015.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2015, and 2014, and the related notes to the financial schedules, and have issued our report thereon dated December 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Office of Public Instruction's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Office of Public Instruction's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office of Public Instruction's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of 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 a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office of Public Instruction's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 9, 2015

OFFICE OF PUBLIC
INSTRUCTION

OFFICE RESPONSE

OFFICE OF PUBLIC INSTRUCTION

STATE OF MONTANA

C-1

Denise Juneau
Superintendent



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

January 6, 2016

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

RECEIVED
JAN 06 2016
LEGISLATIVE AUDIT DIV.

Re: Financial-Compliance Audit

Dear Ms. Hunthausen:

Following is our response to the recommendations contained in the Office of Public Instruction's (OPI) 2014-2015 audit report.

Recommendation #1

We recommend the Office of Public Instruction implement internal controls over federal allocation requirements and comply with federal regulations governing distribution to local education agencies.

OPI Response: We Concur.

In response to the findings in the 2012-13 audit, OPI implemented additional reviews to mitigate the risk of misallocations to LEA's. The errors identified in the current audit finding occurred due to manual adjustments in the process that were not reviewed for accuracy. OPI will implement additional review enhancements which will focus on manual adjustments. We are confident these enhancements will mitigate the risk of future misallocations to LEA's.

Recommendation #2

We recommend the Office of Public Instruction comply with the Treasury-State Agreement or request a change to the agreement to more accurately reflect the office's actual clearance pattern.

OPI Response: We Concur.

OPI understands the importance of proper cash management and has had no prior audit recommendations pertaining to cash management practices. Prior to this audit recommendation, and as indicated in the report, OPI recognized an issue in the cash management process which caused OPI to change the timing of cash draws from federal

agencies. All federal flowthrough funds distributed by OPI are now on a full reimbursement basis. Due to the timing of TSA agreements, OPI did not have adequate time to update the current TSA agreement to reflect this new cash management process. OPI will work with the state Department of Administration to ensure the new cash management process is reflected in future TSA agreements.

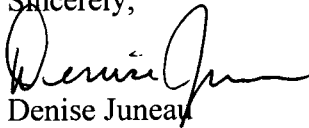
Recommendation #3

We recommend the Office of Public Instruction comply with state law by charging a rate that achieves a reasonable fund equity.

OPI Response: We Concur.

OPI recognized its Internal Service Fund's working capital exceeded the 60 day requirement during the period of audit. OPI is anticipating retirements which will significantly reduce the cash balance of the fund. In addition, OPI is in the process of negotiating a new three-year federally approved indirect cost rate. Contingent on the new negotiated rate and the impact of anticipated retirement payouts, OPI will adjust the rate to bring the working capital into compliance with regulations.

Sincerely,

A handwritten signature in black ink, appearing to read "Denise Juneau", written over the printed name.

Denise Juneau
Superintendent of Public Instruction