A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Office of Public Instruction

For the Two Fiscal Years Ended June 30, 2021

MAY 2022

LEGISLATIVE AUDIT DIVISION

21-19

Financial-Compliance Audits

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

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
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May 2022

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of Public Instruction (OPI) for the two fiscal years ended June 30, 2021.

We focused our audit effort on activity related to the state aid and federal funding distributed to the school districts. Throughout the audit, we also reviewed and tested selected control systems and determined compliance with various state laws and federal regulations. The financial schedules are generated from the state's accounting system without adjustment. Notes to the financial schedules are prepared by OPI personnel.

Our audit contains 13 recommendations related to internal controls and compliance with federal requirements for OPI's major federal program and compliance with state law related to the internal service fund.

OPI's written response to the audit recommendations is included in the audit report at page C-1. We considered OPI's nonconcurrence with Recommendation #12. The correcting entry for ESSER processed by the office did not mitigate its noncompliance with cash management requirements, because the entry did not affect cash. As noted in the finding, there were not ESSER expenses to support the cash on hand for over a month. In addition, if internal controls are not working as intended, further noncompliance can occur. As such, our recommendation stands.

We thank the superintendent and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Elected, Appointed and Administrative Officials

Office of Public Instruction	Elsie Arntzen, Superintendent
	Julie Walker, Deputy Superintendent (through April 2020)
	Sharyl Allen, Deputy Superintendent (as of April 2021)
	Julia Swingley, Chief Legal Counsel (through November 2020)
	Jacob Griffith, Chief Legal Counsel (June 2021 through January 2022)
	Rob Stutz, Chief Legal Counsel (as of February 2022)

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Financial-Compliance Audit 21-19 May 2022

Montana Legislative Audit Division

Office of Public Instruction

For the Two Fiscal Years Ended June 30, 2021

The audit period was a difficult one for all state agencies, OPI included. March 2020 started the COVID-19 pandemic and OPI employees had to adjust their processes to work from home. The federal government also gave OPI the new responsibility of managing the Elementary and Secondary School Emergency Relief (ESSER) program, which provides emergency relief to schools. OPI also experienced turnover in approximately half of their positions. This audit report contains 13 findings, most of which have an internal control element. We also identified $460,154 in questioned costs related to subrecipient monitoring in the ESSER program and $40,692 related to Title I School Improvement Activities.

Background

The Superintendent of the Office of Public Instruction (OPI) is the elected official responsible for the general supervision of K-12 public schools and districts within Montana. In addition, the superintendent is the executive officer for K-12 and vocational-technical education in the state.

OPI has approximately 183 full-time equivalent employees, providing technical assistance to school-age children and teachers in more than 400 school districts.

The State Level Activities program is established to deliver state services to public school districts, manage federal grants, and administer state funds to public school districts. The Local Education Activities program oversees the financial reporting, cash management, subrecipient monitoring, and cost allocation functions for federal grants.

Total expenditures and transfers to local education agencies exceeded $1 billion in fiscal years 2021 and 2020.

AUDITOR'S OPINION (page A-1): UNMODIFIED
We found OPI's financial schedules and note disclosures present fairly OPI's activity in all material respects. This means a reader can rely on the information presented and the underlying accounting records.

For the full context of the office's financial activity, see the financial schedules and notes beginning on page A-3.

RECOMMENDATIONS:
In this report, we issued the following recommendations:
To the office: 13
To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:
Fully Implemented: 4
Partially Implemented: 1
Not Implemented: 1
No Longer Applicable: 1

SELECTED RECOMMENDATIONS:
Recommendation #1 (page 5):
Internal Control and State Compliance
OPI should complete internal risk assessments, document important processes, monitor internal controls, and educate staff on the importance of internal controls and their associated responsibilities.
Office response: Concur

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

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Recommendation #2 (page 7):
Internal Control and Federal Compliance
OPI should continue to implement controls to ensure compliance with federal subrecipient monitoring requirements.
Office response: Concur

Recommendation #3 (page 9):
Internal Control and Federal Compliance
OPI should ensure ESSER subrecipient grant expenditures are allowable under the program.
Office response: Concur

Recommendation #4 (page 10):
Internal Control and Federal Compliance
OPI should ensure ESSER annual reports are accurate and supported.
Office response: Concur

Recommendation #5 (page 11):
Internal Control and Federal Compliance
OPI should ensure Federal Funding Accountability and Transparency Act reports are accurate and supported.
Office response: Concur

Recommendation #6 (page 13):
Internal Control and Federal Compliance
OPI should improve inventory procedures.
Office response: Concur

Recommendation #7 (page 14):
Internal Control
OPI should improve internal controls over Child Nutrition payments.
Office response: Concur

Recommendation #8 (page 16):
Internal Control and Federal Compliance
OPI should improve internal controls over Title I earmarking.
Office response: Concur

Recommendation #12 (page 20):
Internal Control and Federal Compliance
OPI should increase internal controls over cash management.
Office response: Do Not Concur

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):
In this report, we identified the following:
Material Weaknesses in Internal Control: 0
Significant Deficiencies in Internal Control: 1
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Office of Public Instruction (OPI) for the two fiscal years ended June 30, 2021. The objectives of the audit were to:

1. Obtain an understanding of OPI's internal control systems to the extent necessary to support our audit of OPI's financial schedules and, if appropriate, make recommendations for improvement in the internal and management controls of OPI.
2. Determine whether OPI's financial schedules present fairly the results of its operations and changes in fund equity.
3. Determine the implementation status of the prior audit recommendations.
4. Determine whether OPI complied with selected state and federal laws and regulations.

We addressed these objectives by focusing our audit effort on activity related to the state BASE aid and federal funding distributed to the school districts. As defined in §20-9-306, MCA, BASE aid includes direct state aid, per-Average Number Belonging (ANB) entitlement, natural resource development K-12 funding, guaranteed tax base, special education, quality educator, at-risk student, Indian education for all, and data-for-achievement payments. ANB is the average number of regularly enrolled, full-time pupils physically attending or receiving educational services at an off-site instructional setting, from the public schools of a district. We reviewed OPI's testing spreadsheets, tested OPI's information system and completed various analytics over the activity.

We also completed analytical reviews, and tied high-dollar transaction information to support, to determine the financial schedules are reasonable in all material respects. Throughout the audit, we also reviewed and tested select internal control systems and determined compliance with various state laws and regulations. We audited the following federal programs: Grants to Local Educational Agencies (Title I); Child Nutrition Cluster; Special Education Cluster (Individuals with Disabilities Education Act, IDEA); and Elementary and Secondary School Emergency Relief (ESSER). We also followed up on prior audit recommendations related to the 21st Century Community Learning Center program (21st CCLC), one of the programs tested for the prior Single Audit.

Internal Service Fund

As directed by §17-8-101(6), MCA, we reviewed the reasonableness of the fees and charges for services and fund equity for OPI's internal service fund. The internal service fund includes OPI's indirect cost pool. Based on our analysis, the fees charged were not reasonable in fiscal year 2020 and fund equity balance was not reasonable in fiscal year 2020 or 2021. See Recommendation #13 on page 21 for more information.

OPI Organization and Function

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

OPI has approximately 183 full-time equivalent employees, providing technical assistance to school-age children and teachers in more than 400 school districts. During the audit period, 89 positions were either vacant or experienced turnover, 19 of which were vacant for over a year during the audit period. As shown on the financial schedules, OPI has two programs, described below.

State-Level Activities

The State Level Activities program is established to deliver state services to public school districts, the management of federal grants, and the administration of state funds to public school districts. The staff of this program supports the superintendent's statutory role with the Board of Public Education, the Board of Regents, the State Library Commission, and the Board of Land Commissioners. In addition, program personnel administer several state programs, such as drivers' education, school food services, and audiology.

The program accounts for the allocation of centralized administrative costs (payroll, personnel, accounting, budgeting, purchasing, word processing, and mail delivery) to state and federal programs. Within this program, OPI personnel oversee the financial reporting, cash management, subrecipient monitoring, and cost allocation functions for federal grants.

Local Education Activities

The Local Education Activities program is established to distribute state funds to local education agencies, primarily K-12 schools or nonprofit organizations. The program also distributes federal grants to schools. Total state and federal expenditures and transfers to local education agencies exceeded $1 billion in fiscal years 2021 and 2020.

Prior Audit Recommendations

The prior audit contained seven recommendations. OPI fully implemented four recommendations. One recommendation is no longer applicable, because revenue estimates are no longer part of the financial schedules. In the prior audit, there were two recommendations related to subrecipient monitoring. OPI did not implement one subrecipient monitoring recommendation and partially implemented the other. See further details in Recommendations #2 and #11 on pages 7 and 19.

Chapter II – Findings and Recommendations

The Office of Public Instruction (OPI) administers several federal grants from the U.S. Department of Education, including the grants summarized in Figure 1 below. OPI is a pass-through entity for these federal grants, making OPI responsible for monitoring the subrecipients of the federal funding. Often subrecipients are referred to as Local Educational Agencies (LEAs) and the OPI is referred to as the State Educational Agency (SEA). OPI's responsibilities related to administering federal grants also includes submitting reports to the federal government.

Overall Internal Control Structure

Federal regulation requires OPI to establish and maintain effective internal controls over federal awards that provide reasonable assurance that OPI is managing their federal awards in compliance with federal statutes, regulations, and the terms and conditions of the award. Figure 1 summarizes the federal awards tested during this audit, their associated annual revenues and the purpose of each program.

Figure 1
Federal Awards Tested for Single Audit

Federal Award	Approximate Revenue 2020	Approximate Revenue 2021	Grant Purpose
Child Nutrition Cluster	$42.6M	$69.3M	Provide nutritious meals to eligible children
Title 1 Grants	47.5M	47.8M	Assistance with students at risk of not meeting challenging academic standards
Special Education Cluster	40.2M	40.5M	Education of Children with Disabilities
School Emergency Relief (ESSER)	0M	28.6M	Emergency relief funds to address COVID-19
21st Century Learning Centers	5.0M	5.5M	Provide students with academic enrichment opportunities during non-school hours
Total	**$135.3M**	**$191.7M**	

Source: Compiled by Legislative Audit Division from state accounting records.

OPI received a total of $184.2 million and $239.3 million in fiscal years 2020 and 2021, respectively. Federal expenditures were approximately the same as revenues in both years.

Two types of internal control standards OPI could use are the *Standards for Internal Control in the Federal Government* (Green Book) or the *Internal Control Integrated Framework* (COSO). State policy on internal controls discussed in this finding and recommendation is consistent with the Green Book and COSO. All three control standards include monitoring as a component of internal controls. Monitoring requires controls to be documented. All 11 federal findings in this report have an internal control component, many with lack of documentation being a focus.

The audit period was a difficult one for all state agencies, OPI included. March 2020 started the COVID-19 pandemic and OPI employees had to adjust their processes to work from home. The federal government also gave OPI the new responsibility of managing the ESSER program. The program provides emergency relief to LEAs. ESSER regulations changed during the audit process and the office prioritized getting money in the hands of schools.

We tested OPI's compliance with federal regulations for federal programs important to the state of Montana. We found material noncompliance and material weaknesses in internal controls in all federal programs selected for testing this audit (Title I, Child Nutrition, IDEA, and the ESSER) for fiscal years 2020 and 2021. The volume of recommendations combined with difficulties we experienced getting timely information during the audit led us to consider OPI's overall internal control structure. As noted in Chapter I, 89 out of 183 positions experienced turnover or were vacant during the audit period. The superintendent stated some vacancies were intentional, but we believe having less employees makes it more difficult to comply with internal control requirements. During the audit, we worked with several individuals new to their positions or responsibilities.

Monitoring internal controls closely when someone starts a position or controls change, like during the pandemic, can prevent internal control deficiencies. Twelve out of the 13 findings and recommendations in this audit report have a control element to them. Also, having clearly documented internal controls can mitigate some of the effects of turnover and working virtually. When we asked about internal controls, especially as related to federal compliance, staff often did not understand what we were asking or why we were asking. Based on our discussions with OPI staff, controls were often described as occurring but not documented. OPI staff were hesitant to answer our questions due to potential consequences of audit findings or confusion about who was responsible for the question we were asking. OPI staff was often unable to provide requested documentation or respond to questions from periods when they were not part of the control structure. If staff did not know how to answer our questions, they would often just not respond to our requests for information, leading us to ask the same questions multiple times.

We believe OPI needs to provide control training to their staff to explain the importance of internal controls, including risk assessment, documentation, and monitoring. Training could also include information about the audit process and assurance to staff that findings and recommendations are part of the audit process and are meant to affect positive change.

State policy requires management to establish and maintain an effective internal control system. To ensure proper design and operation, management should conduct reviews, tests, and analyses of internal controls. As part of this process, management should:

- Identify risks of material misstatements and noncompliance with laws and regulations (including federal regulations).

- Design control activities responding to risks identified.
- Monitor important controls.
- Fix control deficiencies.

Overall, OPI has not complied with state internal control policy during the audit period, because their risk assessment process addresses "expenditures" and "revenues" generally and does not include detail of what types of expenditures and revenues are risky. In addition, OPI's management did not identify risks of noncompliance with federal programs nor did management document a monitoring plan with identification of important controls to be tested through their monitoring plan.

Recommendation #1

We recommend the Office of Public Instruction:

A. *Comply with state internal control policy by completing internal risk assessments, documenting important internal control processes, and monitoring those internal controls.*

B. *Educate staff on the importance of internal controls and associated responsibilities.*

Centralized Subrecipient Monitoring

OPI did not perform all required subrecipient monitoring for the federal programs selected for testing, so subrecipient monitoring controls should be improved.

In our prior audit report, we recommended OPI enhance internal controls related to subrecipient monitoring and comply with subrecipient monitoring requirements for a variety of federal programs. Although OPI implemented new procedures in response to our audit finding, we continued to find control and compliance issues related to subrecipient monitoring requirements, as outlined below.

Subaward Disclosures

OPI did not ensure required disclosures were made to the subrecipients. Federal regulations require several items, such as the federal award description and the award amount be disclosed to recipient. We identified missing elements related to grants for Title I, ESSER, and IDEA. Examples of missing elements are clear identification of the award as a subaward, the federal award date, and the identification of whether the award is a research and development program. Since the grant award documents are compiled automatically in OPI's grant system, we expect any missing elements to impact all grant awards. OPI should implement internal controls, like testing a selection of grant awards against the required federal elements to ensure they are communicating all required information to their subrecipients.

Risk Assessments

Federal regulations require OPI to review LEA Single Audits, audits testing compliance with federal regulations. During fiscal year 2020, personnel reviewed the audits and considered financial findings in their risk assessment process but did not consider federal findings. Federal regulations require OPI to evaluate each subrecipient's risk of noncompliance for the purpose of determining appropriate subrecipient monitoring. Improvements were made in fiscal year 2021, because risk of noncompliance was considered in the overall risk assessment process. However, federal program personnel did not always rely on these centralized monitoring activities, so the federal programs were not always considering federal Single Audit findings when determining appropriate subrecipient monitoring.

Through three different samples, we identified the following issues in the fiscal year 2021 risk assessments:

- For Title I and ESSER, OPI did not use the office-wide risk assessments to determine the appropriate monitoring.
    - Subrecipients identified as high risk overall were not necessarily considered high risk by Title I program staff.
    - A post-expenditure monitoring plan has not yet been developed for ESSER. There was a plan during the first round of payments, but OPI determined the plan was not sustainable.
- For IDEA, OPI staff reported adjusting their monitoring level for some subrecipients based on increased risk of federal noncompliance but did not document their additional monitoring.
- For ESSER, OPI did not always document the basis for the LEA's risk assessment. This occurred in 11 out of 60 cash draws tested. We started with cash draws for all attributes in our sample to be efficient. We tested risk assessments for a variety of LEAs.
- For Child Nutrition, OPI did not complete a risk assessment for non-school entities on an annual basis. Instead, they completed a risk assessment if the entity was selected for review which is done on a five-year rotating basis.

Management Decisions

Federal regulations require OPI to obtain and review subrecipient Single Audit reports. OPI is also required to issue management decisions on federal findings within six months of receipt of each report. During fieldwork, we reviewed OPI's management decision letters to determine compliance with these federal regulations.

From our testing:

- We could not always determine when the management decision letters were sent out because the template document automatically updated to the current date, occurring in 3 of the 44 IDEA LEAs tested and 3 of the 60 ESSER LEAs tested.
- Management decisions did not always contain a timetable for follow-up as required by federal regulations. This occurred in 7 of the 60 ESSER LEAs cash draws tested.
- No one reviewed audit reports and issued management decisions for non-school subrecipients of the 21st CCLC grants. This affects 6 out of the 29 subrecipients in fiscal years 2020 and 2021.

- No management decisions were submitted for non-school subrecipients for Child Nutrition. In fiscal years 2020 and 2021, there were 44 non-school entities that received Child Nutrition funds. Program staff noted they do review audit reports and work with LEAs to make sure they implement any audit recommendations. Federal regulations require OPI issue management decisions that include specific elements, such as if the audit finding is sustained and why, the corrective action required, and the timetable for follow-up.

Overall, OPI is not in compliance with federal regulations related to subrecipient monitoring. Monitoring is important, because without it:

- OPI may not properly notify subrecipients of applicable federal requirements,
- OPI may not be aware of all risky areas for non-school entities,
- Subrecipients may not understand their responsibilities over the federal grant and may not comply with all federal requirements, and
- Federal money could be misspent.

These compliance issues indicate OPI did not have adequate controls in place over subrecipient monitoring in either fiscal year 2020 or 2021.

Per OPI staff, they were adjusting their subrecipient monitoring process during fiscal year 2020 and didn't get the new process put in place until fiscal year 2021. We also believe the subrecipient monitoring compliance issues happened because there is confusion over the new process's implementation: what elements of subrecipient monitoring are centralized and what elements are completed by federal program staff. The impacts of COVID-19 and implementing the new ESSER federal program also contributed to confusion on how to implement the prior audit recommendation.

Recommendation #2

We recommend the Office of Public Instruction:

A. *Continue to implement internal controls to ensure compliance with federal subrecipient monitoring requirements by documenting an office-wide subrecipient monitoring plan, and*

B. *Comply with federal subrecipient monitoring requirements.*

Elementary and Secondary School Emergency Relief Fund Monitoring

The federal Education Stabilization Fund (ESF) gives educational entities money in response to the coronavirus pandemic. OPI is responsible for administering part of the ESF called the Elementary and Secondary School Relief (ESSER) Fund. Most ESSER funds are subgranted to LEAs. OPI spent $26.9 million on ESSER during the audit period. The federal government granted over $500 million more in ESSER funding to the state, so OPI will continue subgranting ESSER money to LEAs in fiscal year 2022 and beyond.

Budgets and Cash Requests

OPI should improve monitoring of schools for COVID-19 related funding.

ESSER funds must be used to prevent, prepare for, and respond to the coronavirus pandemic. As noted in Recommendation #2, OPI must have internal controls over federal awards and monitor subrecipients to ensure compliance with federal requirements. Federal regulations also require states to retain records for audit purposes.

We found OPI did not require sufficient documentation to ensure subrecipients were complying with federal program requirements. We tested a random sample of 60 ESSER payments to LEAs. We identified the following issues in the testing:

- Twelve application budgets had insufficient detail to support how funds would be spent on allowable purchases under the subaward. The budgets included salaries, benefits, transportation, and supplies. These descriptions are not specific enough for OPI to determine whether the spending is allowable under ESSER requirements.
- OPI used spreadsheets to calculate ESSER allocations by LEA based on Title I distributions and other factors determined by the OPI. We compared the allocations on the spreadsheet to the actual amount in the OPI's grant system to see if LEAs received the intended amount. We found 15 differences for a net amount of $121. No documentation exists on the reasons for the adjustments. OPI staff noted the person who adjusted the calculation no longer works for OPI.
- Sixteen cash requests, totaling $460,154, either contained insufficient detail to demonstrate the funds were spent in accordance with ESSER regulations or could not be tied back to the approved budgets. The requests included broad categories such as salaries, benefits, and supplies, or a teacher's name without detail in the budget or cash request to demonstrate how the teacher's salary or benefits related to the coronavirus pandemic. Additionally, one equipment line had a budget of "transportation" without the detail of what would be purchased, but the cash request was for a bus totaling $25,000. Equipment purchases over $5,000 are required to have prior approval. Thus, we considered the purchase unallowable. We believe additional questioned costs may exist.

The lack of effective internal controls resulted in OPI's inability to detect and prevent noncompliance for fiscal years 2020 and 2021 for subrecipient activity. LEAs may have spent ESSER funds on items not allowed by federal requirements. We question the unsupported cash requests totaling $460,154.

Per OPI staff, this issue occurred because the federal government had not finalized program requirements when they issued the first round of money. We agree federal ESSER program requirements changed, but the requirement to have controls to provide reasonable assurance LEAs comply with federal regulations is not new. OPI needs more information to meet their monitoring responsibilities, no matter how ESSER requirements change. In addition, there were two different ESSER program managers in place during the audit period and the position was a vacant position during our fieldwork. We believe this contributed to difficulties in running the ESSER program.

Without sufficient documentation from the LEAs, OPI is at risk of approving costs that are not allowable. OPI started requiring more documentation in their cash requests for the second and third allocations of ESSER funds. OPI has the opportunity to finalize their post expenditure monitoring plan in addition to reviewing cash requests. This is important as most of the spending is happening in the future.

Recommendation #3

We recommend the Office of Public Instruction:

A. *Strengthen internal controls to ensure ESSER subrecipient grant expenditures are allowable under the program.*

B. *Review and evaluate ESSER subrecipients budgets and cash requests and, where appropriate, obtain additional support or recoup improperly spent funds.*

Federal Reporting

Federal grants often come with reporting requirements. We tested reports for Title I and ESSER. We tested:

- The ESSER Montana State Plan
- The first annual ESSER Report
- The Federal Funding Accountability and Transparency ACT (FFATA) reports for ESSER and Title I
- Title I State Per Pupil Expenditure Data Report

We found internal control deficiencies or errors with the ESSER annual report and FFATA reports as explained below.

ESSER Annual Report

OPI needs to establish controls to ensure compliance with federal reporting requirements of ESSER related expenses.

The federal Department of Education required annual reporting of the use of ESSER expenses starting in fiscal year 2021. OPI gathered most of the information in the report by surveying LEAs. They used their grant tracking system for information on total expenditures. OPI submitted the ESSER report twice, and we found the following errors in the required elements in the updated ESSER report:

- OPI reported overall dollar amounts of ESSER I and ESSER II funds granted to the OPI and reserves (up to 10 percent of total allocation), but they did not include how the "reserve" was awarded or expended as required.
- Amounts subgranted to LEAs were inaccurate. At least $1.5 million in subgrants were unreported.

- ESSER I expenditures are not consistent in the report. The total expenditures disbursed to LEAs is $2.7 million through September 3, 2020, but the detail of how the expenditures were spent as reported by LEAs total $5.8 million. The dollar amounts should match.
- Full-time equivalent (FTE) Positions were inaccurately reported (there were 48 LEAs with no reported FTE).

Because of the number of errors found, we determined that OPI's internal controls were ineffective in detecting and preventing noncompliance for fiscal year 2021, when the report was submitted.

According to OPI personnel, OPI had difficulties reporting ESSER information accurately because the required data elements were unclear or changed several times right up to the reporting deadline.

Due to the fluid requirements, it was difficult for OPI to obtain information from the school districts. OPI surveyed school districts to obtain some information, but some schools reported inaccurate information. We agree that the changes in requirements made reporting difficult, but OPI should consider using their grants or accounting systems when possible going forward.

Recommendation #4

We recommend the Office of Public Instruction:

A. *Enhance internal controls to ensure ESSER annual reports are accurate and supported.*

B. *Correct and resubmit the ESSER annual report.*

C. *Ensure ESSER annual reports include all required data elements and those elements are fully supported as required by federal regulations.*

FFATA Reporting

OPI needs to implement subgrant reporting controls and prevent errors in reports submitted to the federal government.

Federal regulations require OPI to establish internal controls over federal awards, including reporting. Federal regulations also require OPI to report subawards made to LEAs. The reporting is required no later than the end of the following month. As of June 30, 2021, OPI is required to report subawards greater than or equal to $30,000.

OPI had no internal controls to ensure compliance with the FFATA reporting requirements for ESSER I and Title I subawards. The general office expectation requires a secondary review of all reports, but this requirement was not part of the FFATA desk manual, so it did not occur.

We tested five ESSER subawards and five Title I subawards for the June 30, 2021, FFATA reporting, and all ESSER subawards were inaccurate because OPI reported the amount expended, not the amount awarded. We did not find errors for Title I FFATA reporting.

We found the following compliance issues with the FFATA reporting for ESSER:

- OPI reported expenditures spent at the LEA level instead of on the amount of the subaward during fiscal year 2020 and 2021, causing the report to be inaccurate for most subawards.
- Some subawards were not reported as required, because their expenses had not reached the reporting threshold but their subaward amount was large enough to be reported.

We communicated this issue during the design of our audit, and OPI revised the FFATA reports, but the revisions did not occur during our audit period.

OPI staff misinterpreting of FFATA reporting requirements resulted in OPI's inability to detect and prevent noncompliance for ESSER I. We did not find errors for Title I FFATA reporting, but errors can occur without a secondary review. Further ESSER FFATA errors can happen in the future without documented internal controls.

Recommendation #5

We recommend the Office of Public Instruction:

A. *Establish internal controls to ensure Federal Funding Accountability and Transparency Act (FFATA) reports are submitted, supported, and timely.*

B. *Review and if necessary resubmit the ESSER I FFATA reports and ensure all subawards over $30,000 are reported using the subaward amount.*

C. *Comply with reporting requirements for the FFATA.*

Child Nutrition Cluster Findings and Recommendations

The Child Nutrition Cluster assists LEAs in administering meals to eligible children in schools, residential care, and summer programs. OPI uses the Montana Agreement and Payment System (MAPS) to calculate Child Nutrition payments to subrecipients. We completed two samples over claims and found no exceptions. However, we determined OPI could improve internal controls over the system's calculations of payments to subrecipients. We also tested OPI's inventory of donated food and found OPI should improve their documentation over the inventory process.

Donated Food Inventory

OPI needs to improve their internal controls related to their donated food inventory process.

The federal Food and Nutrition Services (FNS) requires child nutrition state agencies, like OPI, to conduct a physical review of donated food inventories annually and reconcile physical and book inventories of donated foods. OPI must report donated food losses to FNS and ensure that restitution is made for such losses.

OPI personnel stated they did not complete a physical inventory in fiscal year 2020 because of the COVID-19 pandemic, but noted the Montana Department of Public Health and Human Services warehouse personnel did complete an inventory. OPI received an e-mail from the federal government saying another state agency can complete inventory during the pandemic but encouraged OPI to participate via video. OPI did not participate via video, and no documentation of the inventory count reconciliation to the OPI records was maintained. Without a reconciliation, no assurance is provided over the completeness and accuracy of OPI records.

In fiscal year 2021, OPI completed a physical inventory and a reconciliation between the physical count and OPI's food tracking system. However, OPI's reconciliation documentation was inaccurate. We noted two discrepancies OPI did not identify, and OPI documented a difference that did not exist when we compared OPI's records to the count. We noted a 540-item difference in the peanut butter count vs. OPI's tracking system and another small difference. There were no differences when we compared OPI's tracking system to the warehouse's documentation, indicating OPI's physical count was likely incorrect and the food was not missing. If they completed a reconciliation to OPI records, we would expect them to notice the differences and follow up to determine if the count was inaccurate.

The differences we noted above indicate controls are not adequate over the inventory process in fiscal years 2020 and 2021. As part of our consideration of the cause of the control issues, we noted the staff member in charge of ordering inventory is also responsible for entering the inventory in MAPS and taking the physical inventory count at fiscal year-end. We generally expect controls to involve more than one person because someone doing the entire process puts them in a position where errors or irregularities may not be detected. Updated control procedures need to address this segregation of duties issue.

The differences we identified indicate either missing food, inaccurate inventory, or inaccurate OPI records in fiscal year 2021. We could not determine if there were similar differences in fiscal year 2020 because OPI records were not available compared to warehouse records. As explained above, the most likely issue is inaccurate inventory counts.

Recommendation #6

We recommend the Office of Public Instruction:

A. *Establish internal control procedures, including segregating duties, to ensure an annual physical inventory is completed, and the inventory is reconciled to OPI and warehouse records.*

B. *Comply with federal regulations to complete and document a physical inventory and reconciliation to records for donated foods for the Child Nutrition Cluster.*

Child Nutrition Payment Controls

Controls over testing the system used to calculate payments for the Child Nutrition program are not adequate.

As noted above, OPI uses MAPS to calculate Child Nutrition payments to subrecipients. The MAPS system was created and is maintained by a vendor.

Both federal regulations and state policy require effective internal controls over information systems, whether a state agency or a contractor completes the work. Effective internal controls are explained in Finding and Recommendation #1 on page 5.

We asked OPI about internal controls to test the system's calculation of the Child Nutrition payments. The payments are essential to financial reporting and compliance with federal regulations in the Child Nutrition program. OPI staff reported completing testing regularly, but testing is not always documented. Without documentation, we can't confirm internal controls are in place and working as intended.

The contractor received a System and Organization Controls (SOC) 2 report, but OPI did not obtain and review the report until our inquiry. A SOC 2 report gives user entities like OPI information about the security, availability, processing integrity, confidentially, or privacy of MAPS. Since OPI does not have controls in place and does not review the report, their controls are not adequate because the report could reveal issues in the MAPS system that need to be addressed.

OPI needs to have assurances over the system itself via a SOC 1 Type 2 report or by testing the system itself. This includes documenting the testing. SOC 1 Type 2 reports explain the design and operating effectiveness of the contractor's internal controls. Requiring a SOC 1 Type 2 report from a contractor is an efficient way to obtain assurance over a system. SOC 2 reports don't test financial internal controls. The assurances gained from the report also require OPI to participate in the contractor process by having user entity controls over the system.

We completed two samples of Child Nutrition payments that included auditor recalculation of the payments, and we found no errors in our samples. However, without assurance over the system via an outside audit of the system or internal testing of the system, MAPS can have issues OPI is not aware of, leading to incorrect payments and unallowable federal costs. OPI is responsible for calculating the applicable meals times rates formula and sending the correct payments to subrecipients. Child Nutrition expenses are material to OPI's financial schedules, so this issue is a significant deficiency in internal controls related to financial reporting and is, therefore, in the 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*.

OPI was not aware they should be requesting and reviewing SOC reports, and they believe the system does not need to be tested unless there are changes to the system. We believe regular system testing is important because the contractor could make changes to the system OPI is not aware of. In addition, OPI staff indicated testing the updated rates was a regular part of the OPI's process. Still, they did not consider it necessary to document their testing unless there was a major change to the system.

Recommendation #7

We recommend the Office of Public Instruction document internal control procedures over the Montana Agreement and Payment System's calculation of Child Nutrition payments to schools to ensure payments recorded in the state's accounting records and sent to subrecipients are correctly calculated.

Title I Findings and Recommendations

Title I's objectives are to improve the teaching and learning of:

- Children who are at risk of not meeting challenging state academic standards, and
- Who reside in areas with high concentrations of children from low-income families.

OPI should improve how they document their Title I spending and in how they monitor LEA's compliance with graduation rate policies and procedures.

Title I Earmarking

OPI should strengthen internal controls related to a federal Title I requirement to reserve money for school improvement and comply with this earmarking requirement.

The federal government grants approximately $50 million to OPI each year. See Figure 1 (see page 3) for actual dollar amounts spent by OPI in fiscal years 2020 and 2021. Federal regulations require OPI to subgrant most of the funding to LEAs. The federal government does require or allow other uses as summarized in Table 1 (see page 15).

Table 1
Approximate Breakdown of Title I Funding

Total grant to OPI	$50 million
General state administration cap	$450,000
Required 7 percent School Improvement Reserves	$3,500,000
Breakdown of School Improvement Reserves	
Allowed administration of 5 percent of School Improvement Reserves	$175,000
Required to use 95 percent to benefit 35 schools identified as implementing comprehensive or targeted support via Direct Grants or OPI programs benefiting the identified schools.	$3,325,000

Source: Compiled by Legislative Audit Division.

As the table shows, the federal government requires OPI to earmark, or allocate, 7 percent of Title I funding to help schools identified as implementing comprehensive or targeted support and improvement activities (school improvement activities). The amount earmarked in fiscal years 2020 and 2021 was approximately $3.5 million each year, and 35 schools were identified for these activities. The federal government allows OPI to spend up to 5 percent of the $3.5 million on administration activities, but the other 95 percent of funds needs to either be sent directly to schools identified for improvement or spent on school improvement activities. Schools identified for improvement can give the office permission to spend the money on serving them, otherwise, the office would have to send 95 percent of the earmarked funds directly to the schools identified for improvement. As with all federal programs, OPI is required to have effective internal controls to detect and prevent noncompliance with this federal requirement.

OPI does not monitor the amounts they spend on administration as compared to school improvement activities, so cannot demonstrate compliance with federal earmarking regulations. OPI budgets 40 percent of the $3.5 million to OPI activities, and 60 percent as grants to schools. OPI spent $729,496 in fiscal year 2020 and $925,453 in fiscal year 2021. We reviewed OPI salary charges to the Title I grant but OPI did not track whose time was administrative costs and whose time benefited identified schools. Therefore, we could not confirm administration costs did not exceed the approximately $175,000 cap, because the 40 percent budgeted to OPI activities included both admin and school improvement activities in one accounting code.

In addition, we tested 17 non-personnel services Title I expenditure transactions and determined eight, totaling $40,692, were unsupported. Unsupported costs included costs charged to supporting all schools in Montana instead of those schools identified for improvement, costs with unclear documentation, or costs for overall Title I administration charged to school improvement activities. We question $40,692 charged to the Title I program. Since we only reviewed a portion of the costs, more questioned costs may exist. Additional questioned costs may also exist in salary charges.

Without proper controls, OPI is at risk of spending money allocated for school improvement on administration.

Recommendation #8

We recommend the Office of Public Instruction:

A. *Develop internal controls to ensure earmarked funds are spent on allowable activities and improve documentation to support cost allowability.*

B. *Comply with Title I earmarking requirements.*

Title I Graduation Rate Policies and Procedures

OPI should ensure schools maintain appropriate documentation related to accurate graduation rates and have controls in place to ensure schools maintain required documentation.

Student graduation from high school is a meaningful way the federal government monitors a school's success, supporting Title I's purpose of providing all children with a quality education. Federal regulations require each state and Local Education Agency (LEA) to report a graduation rate. The rate is made up of the number of students who graduate from high school in four years with a regular high school diploma plus students with the "most significant cognitive disabilities" who graduate with an alternate diploma. The total graduated students is then divided by the number of students who form the "adjusted cohort" for the graduating class. A cohort starts with the number of students who enter grades 9-12. Students are removed from the cohort if they transfer out, emigrate to another country, transfer to a prison or juvenile facility or die during grades 9-12. Montana's reported 2020 graduation rate is 85.89 percent.

OPI must have internal controls to ensure the LEAs comply with federal regulations related to the Title I program. As the state agency, OPI is required to provide guidance to LEAs regarding the documentation required to remove a student from the cohort and ensure LEAs maintain the appropriate documentation. OPI requires each LEA to certify the number of graduates and dropouts by the LEA. However, their certification policy does not include the federal requirement that LEAs maintain documentation to confirm the appropriate removal of a student from the cohort. In addition, OPI does not have a procedure to monitor LEAs compliance with retaining this documentation.

As we worked with OPI staff to understand their policies and procedures related to this Title I requirement, there was confusion about who was responsible for this federal regulation. OPI staff noted districts remove students from the cohort, not OPI. Federal guidance allows the state's data system to be official documentation when a student transfers schools within the state. We agree, but OPI must communicate to schools when they can use the state's system as documentation and when they cannot. For example, the guidance cited by OPI would not apply if the student transferred out of state, moved to home school or a juvenile corrections facility, or died. OPI also does not monitor LEAs' compliance with retaining appropriate documentation for removing students from the cohort.

As noted above, student graduation from high school is a meaningful way the federal government monitors a school's success. Without the required policies and procedures, OPI is not compliant with federal regulations related to the Title I program. If LEAs do not know the requirements for removing a student from a cohort, they may provide OPI with an inaccurate graduation rate, which makes the state's overall graduation rate inaccurate. Parents, students, and legislators may also be interested in the state's graduation rate.

Recommendation #9

We recommend the Office of Public Instruction:

A. *Develop internal controls that address LEAs responsibilities for documenting the removal of a student from the adjusted cohort, and*

B. *Monitor the LEA's adherence to the federal requirements.*

IDEA Cluster, 21st CCLC Grant, and Cash Management Findings and Recommendations

We found areas where the Office of Public Instruction (OPI) can improve controls in the Special Education Cluster. We also determined a prior audit recommendation related to the 21st CCLC grants was partially implemented. Finally, we found cash draws related to ESSER and Title I were not always supported. These three findings are further explained in Findings and Recommendations 10, 11, and 12.

IDEA Allocations, Maintenance of Effort, and Period of Performance

OPI should strengthen internal controls related to IDEA allocations, state maintenance of effort, and period of performance.

Federal regulations require OPI to establish and maintain effective internal controls over all federal awards, including the Special Education Cluster (IDEA). The cluster includes "Grants to States" and "Special Education Preschool Grants." Most of the money spent on the program is subgranted to LEAs. Therefore, OPI is responsible for calculating and distributing the correct funding to each school.

- OPI uses an allocation spreadsheet for both the general Grants to States, IDEA Part B grant, and the preschool grant every fiscal year. We reviewed the four spreadsheets for fiscal years 2020 and 2021. OPI did not always follow their own distribution policies during the audit period:
  - » Review of differences between years greater than 10 percent by LEA and following up on unexpected differences did not occur in fiscal years 2020 and 2021.
  - » Approval by a secondary reviewer of the allocations was not documented in fiscal year 2021.

  We found no allocation errors, but errors can occur when internal controls aren't followed.

The federal government requires maintenance of effort, meaning state financial support for special education must be equal to or greater than the amount spent the previous year. We found the state met this requirement but determined OPI did not have a control in place to ensure the requirement was met. OPI has a spreadsheet it uses to ensure the amount appropriated is sufficient, but they do not compare actual money spent by the state on special education to money spent the previous year.

Finally, OPI uses a reconciliation process comparing the state's accounting system to the OPI's grant system to track the period of performance, or the time period allowed to spend the grant. OPI is required by federal regulations to only incur obligations within each IDEA grant's period of performance. We completed a sample of monthly reconciliations and found two instances out of five tested where numbers on the reconciliations were not supported. We completed additional testing and did not identify instances of spending outside the allowed time period, however noncompliance with this federal requirement could occur if controls are not in place and working as intended.

OPI staff stated the control issues were a result of staffing changes, lack of documentation, allocations being finalized amid COVID, and not having staff cross-trained to fill in for a staff member on leave. Having a plan on who can cover important controls prior to turnover or emergencies can help prevent this situation from occurring.

Recommendation #10

We recommend the Office of Public Instruction:

A. *Follow OPI policy related to allocation of grant funds,*

B. *Improve controls over period of performance by including cross training for monthly reconciliations, and*

C. *Improve controls related to state maintenance of effort by reviewing actual state expenditures to ensure compliance with federal regulations.*

21st Century Community Learning Centers Payment Controls

OPI should ensure they only pay allowable costs for the 21st Century Community Learning Centers program.

OPI administers the 21st Century Community Learning Centers (21st CCLC) federal program. The 21st CCLC program provides 5-year subawards to subrecipients around the state to operate centers to provide students with academic enrichment opportunities during non-school hours or periods when school is not in session. This complements the students' regular academic program, through tutoring and mentoring, homework help, hands-on science and technology education programs, music, arts, sports, and cultural activities. Subawards during the audit period were approximately $5 million each year.

Subrecipient requests reimbursement for this program by submitting a cash request via OPI's E-Grants system. The subrecipient enters the amounts requested and provides details of what the requests are for in a description for each budget category. These descriptions varied in detail between the different cash requests. OPI requires high-risk subrecipients to also upload supporting documentation but does not require any documentation from other subrecipients beyond the cash request. This can happen as often as monthly, although many subrecipients only do it a few times a year, depending on cash needs. This request is reviewed and approved by the 21st CCLC program staff. Having 21st CCLC review the cash requests and requiring further documentation for high- risk subrecipients are positive steps taken in response to our prior audit recommendation. The recommendation was to implement internal controls for the 21st CCLC grant reimbursement process to ensure the expenditures are supported and allowable.

However, we reviewed four cash draws for the program, one from fiscal year 2020 and three from fiscal year 2021. Three had some line items with insufficient detail for the OPI to determine if expenditures were allowable per the OPI's handbook. The cash request reviewed in fiscal year 2020 contained graduation party decorations OPI recovered as unallowable in fiscal year 2021. OPI approved other costs on the request without detail to support allowability of costs. An example of insufficient support on the cash request was a reimbursement request related to a field trip to a restaurant without documentation on how the food and the field trip were related to academic support.

The cash requests we question in fiscal year 2021 contain vague requests like "Summer Program Supplies," "Salaries," and "Benefits." The risk with supplies is that they might contained unallowable items like decorations. The risk with salaries and benefits is that a staff member unrelated to the after-school program may be included in the total. We consider the prior audit recommendation partially implemented as OPI required more documentation in fiscal year 2021 than 2020. Still, we believe OPI should require more information from their subrecipients to ensure compliance with federal regulations.

As OPI addressed our prior audit recommendation, they have tried to balance meeting federal regulations while not putting too much burden on subrecipients. However, the time to complete more robust documentation on cash requests is minimal. Without more robust documentation, there is the potential for OPI to reimburse subrecipients for unallowable expenses.

Recommendation #11

We recommend the Office of Public Instruction enhance internal controls for the grant reimbursement process for the 21st Century Community Learning Centers program to ensure expenditures are allowable.

Cash Management for Child Nutrition and ESSER

Internal controls are not adequate for drawing federal cash for two federal programs.

ESSER and the Child Nutrition Cluster federal grants are drawn on a reimbursement basis. Child Nutrition's National School Lunch Program is part of the state's Treasury State Agreement (TSA). Per the TSA, the state is required to request the actual program costs of the previous week. ESSER requirements are general and require limiting draws to as close as administratively feasible to a state's actual cash outlay. Hence, the cash draws, and expenditures should support related revenue before the requested reimbursement.

We completed a sample of draws for the Child Nutrition and ESSER programs. One of 17 Child Nutrition Cluster and one of seven ESSER cash draws tested did not have expenditures supporting revenues drawn, meaning internal controls were ineffective for ensuring OPI did not have excess cash for the Child Nutrition Cluster and ESSER programs. The overdraws were due to human error; one was a typo where the expenditures amount was $317 but $31,700 was requested. The error was corrected in the next draw. The other mistake was drawing for the same $1.7 million expenditure twice. OPI noted the error at fiscal year-end and reversed the revenue but did not fix the cash draw. There were not ESSER expenses to support the cash on hand for over a month.

All cash draws were reviewed by a second person, so OPI's controls should have caught these errors before requesting reimbursement from the federal program. The cash draw process at OPI is complex, because there are many federal programs. Management should consider adding cash management controls to their monitoring process in order to determine a way to improve the current control process, so human error is less likely to occur. Per federal regulations, OPI could owe interest on excess cash. With the current interest rates, this is likely immaterial, but larger errors could occur in the future if the control deficiency is not corrected.

Recommendation #12

We recommend the Office of Public Instruction:

A. *Enhance cash management internal controls and monitor their effectiveness to ensure the OPI only requests federal cash for incurred expenditures.*

B. *Comply with cash management requirements.*

Revenue Not Commensurate With Costs in Internal Service Fund

OPI should consider removing personal service costs from their indirect cost pool.

OPI's internal service fund includes the OPI's indirect cost pool, a cost that benefits all federal and state programs at OPI. The fund receives revenue from the federal government and state sources, based on a percent allowed by the federal government via an indirect cost rate agreement. State law requires fees for services deposited into the internal service fund to be commensurate with costs. In fiscal year 2020, expenses exceeded revenues in the OPI's internal service fund by $189,870. In fiscal year 2021, revenues and expenditures were close to each other, but there was not sufficient working capital in either fiscal year 2020 or 2021. This indicates the fund balance was not reasonable for either year.

OPI staff noted COVID-19 caused reduced chargeable operational expenses like travel and noted the approved rate is negotiated every two years, so OPI cannot adjust the negotiated rate promptly. Also, the CFO position was determined unallowable for the restricted rate calculation in December of 2018, but the costs of the position are still in the pool as of March 2022. The restricted rate is calculated as part of the indirect cost pool agreement process and its purpose is to make sure federal costs supplement, not supplant state costs. OPI starts by calculating an unrestricted rate and then removes certain costs determined unallowable by the federal government for the restricted rate. Most federal grants only allow for reimbursement at the restricted rate amount.

The CFO position is over $100,000 of personal services costs per year in the fund, which will mostly not be reimbursed by the federal government. As explained above, the costs are removed from the rate calculation, so leaving the position in the fund is not a federal compliance issue, but caused OPI to take out a general fund loan of $250,000 in fiscal year 2020 and $200,000 in fiscal year 2021.

During the audit period we became aware that another approximately $85,000 position in the pool was determined unallowable for the restricted rate calculation, which will further cause expenditures to outpace revenues if left as is. OPI staff noted they are adjusting who is supervising the position in the hope the position will be approved in the restricted rate in the future.

OPI has also begun to use the unrestricted rate instead of the restricted rate to recover state funds for the internal service fund in fiscal year 2022, causing revenue to match expenses more closely. However, costs will need to be reduced in fiscal year 2022 in order for OPI to pay back the general fund loan. As of March 10, 2022, there is a $225,000 loan in the fund. OPI staff note they will be able to use vacancy savings to reduce some of the CFO costs in fiscal year 2022 and should be able to keep revenue commensurate with costs going forward by using the unrestricted rate to recover more state funds. To comply with state law on an ongoing basis, OPI should also consider if the two positions should be removed from the indirect costs pool.

Recommendation #13

We recommend the Office of Public Instruction comply with state law by ensuring internal service fund fees are commensurate with costs.

Independent Auditor’s Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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, 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, 2021, and 2020, 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.

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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, deferred outflows of resources, liabilities, deferred inflows of resources 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 of Public Instruction as of June 30, 2021 and June 30, 2020, 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 presents fairly, in all material respects, the results of operations and changes in fund equity of the Office of Public Instruction for each of the fiscal years ended June 30, 2021, and 2020, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter
As discussed in Note 1 – Basis of Presentation, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues & Transfers-In. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2022, 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

April 7, 2022

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund
FUND EQUITY: July 1, 2020	$ (957,266)	$ 401,684	$ 0	$ 26,373	$ (2,226,765)
ADDITIONS					
Budgeted Revenues & Transfers-In		290,968	239,309,077	144,734	3,013,493
Nonbudgeted Revenues & Transfers-In		130,157			578
Prior Year Revenues & Transfers-In Adjustments		3,984		3,015	
Direct Entries to Fund Equity	861,260,290	59,206,148			
Total Additions	861,260,290	59,631,256	239,309,077	147,749	3,014,071
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	861,849,264	54,563,461	239,196,429	148,628	3,087,180
Nonbudgeted Expenditures & Transfers-Out		42,249		327,283	(21,502)
Prior Year Expenditures & Transfers-Out Adjustments	(14,980)	(500)	112,648	2,423	(21,242)
Total Reductions	861,834,284	54,605,210	239,309,077	478,334	3,044,436
FUND EQUITY: June 30, 2021	$ (1,531,260)	$ 5,427,730	$ 0	$ (304,212)	$ (2,257,130)

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund
FUND EQUITY: July 1, 2019	$ (809,881)	$ 330,934	$ 0	$ (174,351)	$ (2,082,426)
ADDITIONS					
Budgeted Revenues & Transfers-In	13,808	331,770	184,179,398	153,802	3,144,417
Nonbudgeted Revenues & Transfers-In		256,340	20,350		7,272
Prior Year Revenues & Transfers-In Adjustments		5,439			
Direct Entries to Fund Equity	829,689,350	45,693,178		4,016	139,132
Total Additions	829,703,158	46,286,727	184,199,748	157,818	3,290,821
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	829,821,202	46,221,133	184,045,851	141,266	3,461,895
Nonbudgeted Expenditures & Transfers-Out	31,347	(5,156)		(184,172)	(26,736)
Prior Year Expenditures & Transfers-Out Adjustments	(2,006)		153,896		
Total Reductions	829,850,542	46,215,977	184,199,748	(42,906)	3,435,159
FUND EQUITY: June 30, 2020	$ (957,266)	$ 401,684	$ 0	$ 26,373	$ (2,226,765)

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, 2021

	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Licenses and Permits	$ 164,752				$ 164,752
Taxes				$ 578	578
Charges for Services			$ 147,749	1,167,701	1,315,450
Sale of Documents, Merchandise and Property		$ 188			188
Grants, Contracts, and Donations	107,670				107,670
Transfers-in	138,000	3,776,392			3,914,392
Federal Indirect Cost Recoveries				1,845,792	1,845,792
Miscellaneous	11,687				11,687
Federal	3,000	235,532,497			235,535,497
Total Revenues & Transfers-In	425,109	239,309,077	147,749	3,014,071	242,896,006
Less: Nonbudgeted Revenues & Transfers-In	130,157			578	130,735
Prior Year Revenues & Transfers-In Adjustments	3,984		3,015		6,999
Actual Budgeted Revenues & Transfers-In	290,968	239,309,077	144,734	3,013,493	242,758,272

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, 2020

	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		$ 155,891				$ 155,891
Taxes					$ 7,272	7,272
Charges for Services		22,850		$ 153,802	1,153,526	1,330,177
Sale of Documents, Merchandise and Property	$ 13,808					13,808
Grants, Contracts, and Donations		23,469				23,469
Transfers-in		322,594	$ 3,470,483			3,793,077
Federal Indirect Cost Recoveries					1,990,892	1,990,892
Miscellaneous		41,140				41,140
Federal		27,605	180,729,265			180,756,870
Total Revenues & Transfers-In	13,808	593,549	184,199,748	153,802	3,151,689	188,112,595
Less: Nonbudgeted Revenues & Transfers-In		256,340	20,350		7,272	283,962
Prior Year Revenues & Transfers-In Adjustments		5,439				5,439
Actual Budgeted Revenues & Transfers-In	13,808	331,770	184,179,398	153,802	3,144,417	187,823,194

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, 2021

	Local Education Activities	State Level Activities	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT			
Personal Services			
Salaries		$ 11,237,869	$ 11,237,869
Employee Benefits		4,268,090	4,268,090
Personal Services-Other		40,489	40,489
Total		15,546,449	15,546,449
Operating Expenses			
Other Services	$ 1,451,663	10,364,069	11,815,732
Supplies & Materials	13,578	551,756	565,334
Communications		298,396	298,396
Travel		70,279	70,279
Rent		689,762	689,762
Utilities		(1,740)	(1,740)
Repair & Maintenance		13,647	13,647
Other Expenses	2,004	3,594,837	3,596,841
Goods Purchased For Resale		43,071	43,071
Total	1,467,245	15,624,078	17,091,323
Local Assistance			
From State Sources	899,176,619	129	899,176,748
Total	899,176,619	129	899,176,748
Grants			
From State Sources	1,467,446	698,672	2,166,117
From Federal Sources	221,819,169	93,797	221,912,967
Grant To Governmental Entities	260,318		260,318
Total	223,546,932	792,469	224,339,401
Benefits & Claims			
Insurance Payments		1,322	1,322
Total		1,322	1,322
Transfers-out			
Fund transfers	678,470		678,470
Intra-Entity Expense		2,000,500	2,000,500
Total	678,470	2,000,500	2,678,970
Post Employment Benefits			
Other Post Employment Benefits		232,253	232,253
Employer Pension Expense		204,876	204,876
Total		437,129	437,129
Total Expenditures & Transfers-Out	$ 1,124,869,266	$ 34,402,075	$ 1,159,271,341
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	$ 850,146,944	$ 11,687,340	$ 861,834,284
State Special Revenue Fund	54,291,855	313,356	54,605,210
Federal Special Revenue Fund	220,430,468	18,878,609	239,309,077
Enterprise Fund		478,334	478,334
Internal Service Fund		3,044,436	3,044,436
Total Expenditures & Transfers-Out	1,124,869,266	34,402,075	1,159,271,341
Less: Nonbudgeted Expenditures & Transfers-Out		348,030	348,030
Prior Year Expenditures & Transfers-Out Adjustments	103,504	(25,155)	78,349
Actual Budgeted Expenditures & Transfers-Out	1,124,765,762	34,079,199	1,158,844,961
Budget Authority	1,714,592,887	65,133,874	1,779,726,761
Unspent Budget Authority	$ 589,827,125	$ 31,054,675	$ 620,881,799
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	$ 10,016,019		$ 10,016,019
State Special Revenue Fund	797,859	$ 146,450	944,309
Federal Special Revenue Fund	579,013,247	30,580,625	609,593,872
Enterprise Fund		17,240	17,240
Internal Service Fund		310,359	310,359
Unspent Budget Authority	$ 589,827,125	$ 31,054,675	$ 620,881,799

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, 2020

	Local Education Activities	State Level Activities	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT			
Personal Services			
Salaries		$ 10,954,146	$ 10,954,146
Employee Benefits		4,035,184	4,035,184
Personal Services-Other		15,219	15,219
Total		15,004,549	15,004,549
Operating Expenses			
Other Services	$ 1,372,998	10,526,000	11,898,998
Supplies & Materials		656,430	656,430
Communications		279,000	279,000
Travel		719,833	719,833
Rent		719,660	719,660
Utilities		3,775	3,775
Repair & Maintenance		7,434	7,434
Other Expenses		4,102,273	4,102,273
Goods Purchased For Resale		13,644	13,644
Total	1,372,998	17,028,051	18,401,049
Equipment & Intangible Assets			
Total			
Local Assistance			
From State Sources	861,515,338		861,515,338
Total	861,515,338		861,515,338
Grants			
From State Sources	1,000,894		1,000,894
From Federal Sources	164,318,585	86,200	164,404,785
Grant To Governmental Entities	192,083		192,083
Total	165,511,562	86,200	165,597,762
Transfers-out			
Fund transfers	719,735	314,735	1,034,470
Intra-Entity Expense		2,000,500	2,000,500
Total	719,735	2,315,235	3,034,970
Post Employment Benefits			
Other Post Employment Benefits		5,293	5,293
Employer Pension Expense		99,560	99,560
Total		104,853	104,853
Total Expenditures & Transfers-Out	$ 1,029,119,633	$ 34,538,888	$ 1,063,658,521
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	$ 819,011,065	$ 10,839,478	$ 829,850,542
State Special Revenue Fund	45,900,703	315,273	46,215,977
Federal Special Revenue Fund	164,207,865	19,991,883	184,199,748
Enterprise Fund		(42,906)	(42,906)
Internal Service Fund		3,435,159	3,435,159
Total Expenditures & Transfers-Out	1,029,119,633	34,538,888	1,063,658,521
Less: Nonbudgeted Expenditures & Transfers-Out		(184,717)	(184,717)
Prior Year Expenditures & Transfers-Out Adjustments	(17,331)	169,221	151,890
Actual Budgeted Expenditures & Transfers-Out	1,029,136,964	34,554,384	1,063,691,347
Budget Authority	1,103,432,094	40,077,380	1,143,509,474
Unspent Budget Authority	$ 74,295,130	$ 5,522,996	$ 79,818,127
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	$ 7,318,652	$ 34,534	$ 7,353,186
State Special Revenue Fund	3,756,052	99,796	3,855,848
Federal Special Revenue Fund	63,220,427	5,239,777	68,460,204
Enterprise Fund		22,776	22,776
Internal Service Fund		126,113	126,113
Unspent Budget Authority	$ 74,295,130	$ 5,522,996	$ 79,818,127

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.

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) funds. 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 (LAC). The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

At the June 16, 2020 LAC meeting, the LAC voted to exclude revenue estimate activity from the Schedule of Total Revenues and Transfers-In effective for the 2020 audit cycle.

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. The office's General Fund activity includes K-12 BaseAid distributions, School Foods maintenance of effort, Tuition, State Adult Basic Education, Vocational Education Maintenance of Effort, and general operating activities.

- **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 Foods, 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 account for 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 Office finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The Office's Enterprise Fund is used to account for the Advanced Drivers Education program.

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 the two fiscal years ended June 30, 2021.
- **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. For the two fiscal years ended June 30, 2021, noncash liabilities related to state pension, compensated absences liabilities, unrecovered personal service expenditures, and less than anticipated revenues created negative fund equity.
- **Enterprise Fund –** the negative fund equity in the Enterprise Fund does not indicate overspent appropriation authority. For the fiscal year ended June 30, 2021, noncash liabilities related to the state pension liability created negative fund equity.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, Special Revenue, Enterprise, and Internal Service funds include entries generated by SABHRS to reflect the flow of resources within individual funds. The Schedule of Changes in Fund Equity for fiscal year 2020 and 2021 reflects the following material changes in activities:

Fiscal Year 2019 to 2020 Comparative

	Increases	Decreases	Activity
General Fund	$ 31,784,938		Statutorily Driven Funding Increases In K-12 Distributions, Major Maintenance Aid & Transformational Learning Funding
State Special		$ (8,954,621)	Decreased Guarantee Account Activity

Fiscal Year 2020 to 2021 Comparative

	Increases	Decreases	Activity
General Fund	$ 31,570,940		Statutorily Driven Funding Increases In K-12 Distributions, Major Maintenance Aid Funding, Transformational Learning Funding, Montana Advanced Opportunities and Special Education GTB Funding
State Special	$ 13,512,970		Increased Guarantee Account Activity & Debt Service Assistance Funding

4. New Federal Programs

As part of the response to COVID-19 the Department of Education (Department) provided new program funding to the Office to prevent, prepare for, and respond to COVID-19. The Department awarded $41,295,230 from the CARES Act, $170,099,465 from the Coronavirus Response and Relief Supplemental Appropriations (CRRSA), and $382,019,236 from the American Rescue Plan Act (ARPA). As presented in Note 5, a material amount of the COVID-19 funds remained unexpended for administrative activities or distribution to LEAs. The Office also received $12,816,385 in Emergency Assistance for Private Non-Public Schools in fiscal year 2021.

5. Unspent Budget Authority

The Schedule of Total Expenditures & Transfers-Out for fiscal years 2020 and 2021 presents unspent budget authority. The below table presents the material portions of unspent budget authority for both local education and state level activities:

Fiscal Year 2020 Unspent Budget Authority

		Unspent Authority	Unspent Authority Reason(s)
General Fund	$	7,353,185	Lower than estimated K-12 Base Aid & Transportation distributions, Gifted & Talented and Recruitment & Retention distributions
State Special	$	3,855,848	Lower than estimated Oil & Gas revenues in the Guarantee Account
Federal Special	$	68,460,204	Lower than estimated distributions for CARES Act and Montana Comprehensive Learning Program funds

Fiscal Year 2021 Unspent Budget Authority

		Unspent Authority	Unspent Authority Reason(s)
General Fund	$	10,016,018	Lower than estimated K-12 Base Aid and Transportation distributions, National Board Certified Teachers distributions, Recruitment & Retention distributions, and unused Base Aid Supplemental
Federal Special	$	609,593,872	Lower than estimated distributions for Cares Act funding, Coronavirus Response and Relief Supplemental Appropriations funding (HB630), American Rescue Plan Act funding (HB632), Emergency Assistance for Private & Non-Public Schools funding, and the Montana Comprehensive Learning Program

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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, 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, 2020, and 2021, and the related notes to the financial schedules, and have issued our report thereon dated April 7, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the office's internal control over financial reporting as a basis for designing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the office'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any

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deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below, that we consider to be a significant deficiency.

> Controls were not adequate over the Montana Agreement and Payment System (MAPS), the system that calculates Child Nutrition payments for fiscal years 2020 and 2021. See finding on page 16.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the office'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 financial schedules. 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*.

Office of Public Instruction Response to Findings

The office's response to the findings identified in our audit are described on page C-1 of this report. The office's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

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

April 7, 2022

Office of Public Instruction

Office Response

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OFFICE OF PUBLIC INSTRUCTION
STATE OF MONTANA

Putting Montana Students First A+

May 18, 2022

Angus Maciver
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

RECEIVED
MAY 19 2022
LEGISLATIVE AUDIT DIV.

Re: Financial-Compliance Audit

Dear Mr. Maciver:

The Office of Public Instruction appreciates and would like to thank you for the opportunity to work with the Legislative Audit Division. In review of the audit report, with the exception of one recommendation the Office concurs. The Office is working and will continue to enhance internal controls for all programs. Enhancement of internal controls includes assessment of current internal controls, documentation of program activities, and new or continued trainings for current and existing staff. Of the nine federal compliance recommendations in the report, the Office has partially implemented six non-fiscal related recommendations, three recommendations with potential fiscal impact, and one recommendation has been fully implemented. In response to the state compliance recommendation the Office is working to strengthen internal controls for all programs by implementing a more robust process which identifies areas with higher operational risk. The Office is confident the enhancements will address the current recommendations and aid in the prevention of future recommendations.

The following is our response to the recommendations contained in the Office of Public Instruction's (OPI) 2020-2021 audit report.

Recommendation #1
We Recommend the Office of Public Instruction:

A. Comply with state internal control policy by completing internal risk assessments, documenting important internal control processes, and monitoring those internal controls

B. Educate staff on the importance of internal controls and their associated responsibilities

OPI Response: We Concur

A. OPI will work to enhance its internal control risk assessment which will include a more detailed assessment of risk at the revenue and expenditure level, include considerations related to non-compliance with federal regulations, and implementation of a monitoring plan to test controls throughout the fiscal year.
B. OPI has already began the process of educating staff on the importance of internal controls and how controls relate to staffs' daily activities. OPI will work to incorporate internal control trainings as part of the on-boarding process to ensure new staff understands the importance of internal controls and their role in maintaining effective controls.

Recommendation #2

We recommend the Office of Public Instruction:

A. Continue to implement internal controls to ensure compliance with federal subrecipient monitoring requirements by documenting an office-wide subrecipient monitoring plan, and

B. Comply with federal subrecipient monitoring requirements

OPI Response: We Concur

OPI will continue to enhance the subrecipient monitoring process to ensure compliance with federal regulations. The following represents status of the related recommendations:

- Subaward Disclosures – Grant award notifications in the Grants Management System have been updated to include all federally required information.
- Risk Assessments – As noted in the report, OPI has been working to enhance the risk assessment process since the prior audit recommendation. OPI has implemented an overall assessment of risk process which includes both fiscal and programmatic considerations as federally required. OPI is working to enhance the process further to ensure non-public organizations are included. OPI will implement trainings to ensure OPI staff understands federal requirements associated with assessed level of risk and to ensure consistency in the use of assessed risks as it relates to monitoring activities.
- Management Decisions – OPI has updated the management decisions process to ensure documentation is sufficient to meet federal regulations and non-school recipients are included in the management decision process.

Recommendation #3

We recommend the Office of Public Instruction:

A. Strengthen internal controls to ensure ESSER subrecipient grant expenditures are allowable under the program

B. Review and evaluate ESSER subrecipients budgets and cash requests and, where appropriate, obtain additional support or recoup improperly spent funds

OPI Response: We Concur

OPI has enhanced the budget and cash request process which requires more descriptive information when submitting program budgets and making requests for reimbursement. OPI is working to finalize the program monitoring schedule which will include more in-depth review of ESSER fiscal activity. In addition, OPI has requested local auditors to include ESSER activities as part of audit engagements to provide additional assurance over allowable uses of ESSER funds.

Recommendation #4

We recommend the Office of Public Instruction:

A. Enhance internal controls to ensure ESSER annual reports are accurate and supported
B. Correct and resubmit the ESSER annual report
C. Ensure ESSER annual reports include all required data elements and those elements are fully supported as required by federal regulations

OPI Response: We Concur

OPI is currently in the process of amending the ESSER report. Due to reporting issues on a national level, the Department of Education reopened the reporting window which allows states additional time to address identified data issues. OPI will work with the Department to ensure the report is accurate and meets federal reporting requirements.

Recommendation #5

We recommend the Office of Public Instruction:

A. Establish internal controls to ensure Federal Funding Accountability and Transparency (FFATA) reports are submitted, supported, and timely.
B. Review and if necessary resubmit the ESSER I FFATA reports and ensure all subawards over $30,000 are reported using the subaward amount.
C. Comply with reporting requirements for the FFATA

OPI Response: We Concur
OPI has updated the FFATA desk manual to include a secondary review step. OPI has revised and resubmitted the ESSER FFATA report to ensure compliance with federal reporting requirements.

Recommendation #6
We recommend the Office of Public Instruction:

A. Establish internal control procedures, including segregated duties, to ensure an annual physical inventory is completed, and the inventory is reconciled to OPI and warehouse records
B. Comply with federal regulations to complete and document a physical inventory and reconciliation to records for donated foods for the Child Nutrition Cluster

OPI Response: We Concur
OPI will work to enhance the current inventory process to ensure proper documentation is retained, non-reconciled items are fully reconciled, and the process has proper segregation of duties.

Recommendation #7
We recommend the Office of Public Instruction document internal control procedures over the Montana Agreement and Payment System's calculation of Child Nutrition payments to schools to ensure payments recorded in the state's accounting records and sent to subrecipients are correctly calculated.

OPI Response: We Concur
OPI has an established process for updating and testing program rates in the MAPS system. OPI understands the importance of and will work to enhance documentation related to rate changes. OPI is currently working with the MAPS vendor to obtain a SOC 1 Type 2 report which will provide additional system assurances.

Recommendation #8
We recommend the Office of Public Instruction:

A. Develop internal controls to ensure earmarked funds are spent on allowable activities and improve documentation to support cost allowability.
B. Comply with Title I earmarking requirements

OPI Response: We Concur
OPI has implemented a new accounting structure which clearly delineates administrative vs support activities. Due to COVID, the Department of Education approved a waiver for this federal program which extended the allowable period in which the funds can be expended. OPI will utilize the extended period to make applicable adjustments to program activity to ensure compliance with federal requirements.

Recommendation #9

We recommend the Office of Public Instruction:

A. Develop internal controls that address LEAs responsibilities for documenting the removal of a student from adjusted cohort, and
B. Monitor the LEAs adherence to the federal requirements

OPI Response: We Concur

OPI will enhance current guidance to ensure schools are adequately informed of Title I graduation rate policy and procedure requirements. OPI will evaluate the need and implement as deemed appropriate a monitoring plan to ensure schools are compliant with Title I regulations.

Recommendation #10

We recommend the Office of Public Instruction:

A. Follow OPI policy related to allocation of grant funds,
B. Improve controls over period of performance by including cross training for monthly reconciliations, and
C. Improve controls related to state maintenance of effort by reviewing actual state expenditures to ensure compliance with federal regulations

OPI Response: We Concur

A. OPI staff responsible for the review of 10% variances and secondary review of allocation calculations are aware of these requirements. OPI will ensure these processes are completed and properly documented.
B. OPI will continue to enhance the reconciliation process by cross training accounting staff to ensure all program activity is reconciled timely and accurately.
C. OPI has implemented a fiscal year end procedure to review Special Education MOE activity to ensure compliance with federal regulations.

Recommendation #11

We recommend the Office of Public Instruction enhance internal controls for the grant reimbursement process for the 21st Century Community Learning Centers program to ensure expenditures area allowable

OPI Response: We Concur

OPI will continue to enhance the process to ensure more detailed descriptions of budgeted and actual expenditure activity is provided to ensure compliance with federal regulations.

Recommendation #12

We recommend the Office of Public Instruction:

A. Enhance cash management internal controls and monitor their effectiveness to ensure the OPI only requests federal cash for incurred expenditures.
B. Comply with cash management requirements.

OPI Response: We Do not Concur
OPI acknowledges there were two instances in the audit period where cash was ordered in excess of expenditures. Although the secondary reviewer did not identify the error, compensating controls in the cash ordering process did identify the excess cash resulting in correcting journals for the excess funds.

Recommendation #13

We recommend the Office of Public Instruction comply with state law by ensuring internal service fund fees are commensurate with costs.

OPI Response: We Concur
OPI will continue to work with the Department of Education in negotiating a rate which will ensure applicable costs are recoverable. Upon completion of the current negotiated rate term, OPI will start submitting annual rate proposals which will ensure the negotiated rate addresses current fiscal year constraints.

Respectfully,

Elsie Arntzen
Superintendent of Public Instruction