

Legislative Audit Division

State of Montana



Report to the Legislature

October 2005

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Office of Public Instruction

This report contains two recommendations to the office. Issues addressed in this report include:

- ▶ Travel Expenditures
- ▶ Controls Over Federal Compliance

Direct comments/inquiries to:
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Helena MT 59620-1705

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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. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
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James Gillett, Financial-Compliance Audit

October 2005

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report for the Office of Public Instruction for the two fiscal years ended June 30, 2005. Our report contains two recommendations related to travel and controls over federal compliance. The office's written response to the audit recommendations is included in the back of the report.

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

Respectfully submitted,

/s/ Scott A Seecat

Scott A. Seecat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Office of Public Instruction

Members of the audit staff involved in this audit were Laurie Barrett, Jeane Carstensen-Garrett, Rick Eneas, John Fine, Danielle Gamradt, Cindy Jorgenson, Hollie Koehler, and Vickie Rauser.

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Elected, Appointed and Administrative Officials

Office of Public Instruction

Linda McCulloch, Superintendent

Dennis (Bud) Williams, Deputy Superintendent

Madalyn Quinlan, Chief of Staff

Cathy Warhank, Chief Legal Counsel

Nancy Coopersmith, Assistant Superintendent
Department of Education Services

Spencer Sartorius, Assistant Superintendent
Department of Education Services

Joan Anderson, Assistant Superintendent
Department of Operations

For additional information concerning the Office of Public Instruction, contact:

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**Office of Public
Instruction**

This financial-compliance audit report contains the results of our audit of the Office of Public Instruction (office) for the two fiscal years ended June 30, 2005. We issued an unqualified opinion on the financial schedules of the office for the two fiscal years ended June 30, 2005. The reader may rely on the financial information presented in the financial schedules and the supporting data on the states accounting system.

The prior audit contained no recommendations to the office. This report contains two recommendations for improving office compliance with state and federal laws and regulations.

The listing below summarizes the recommendations contained in this report and the office's response thereto.

Recommendation #1

We recommend the office improve controls over travel expenditures to ensure it complies with state law and policy. 4

Office Response: Concur. See page B-3.

Recommendation #2

We recommend the office improve controls over federal requirements related to cash management, subrecipient monitoring, and suspended and debarred parties. 7

Office Response: Concur. See page B-3.

Introduction

Introduction

We performed a financial-compliance audit of the Office of Public Instruction (office) for the two fiscal years ended June 30, 2005. The objectives of the audit were to:

1. Determine if the office complied with applicable laws and regulations.
2. Make recommendations for improvement in the office's internal and management controls.
3. Determine if the office's financial schedules present fairly the results of its operations for each of the two fiscal years ended June 30, 2005.

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

We performed procedures to evaluate charges for services for costs incurred in the office's Internal Service Fund as required by section 17-8-101(6), MCA. The Internal Service Fund contains the office's indirect cost pool. We found the charges and fund equity to be reasonable for the operations in this fund in fiscal years 2003-04 and 2004-05.

Office Organization and Function

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

The office, which is comprised of approximately 125 full-time equivalent employees, provides services to school age children and to teachers in more than 450 school districts. The staff furnishes technical assistance in planning, implementing, and evaluating

Introduction

educational programs. The office also oversees teacher preparation, teacher certification, school accreditation, school curriculum, school finance, and school law. The staff administers numerous federal grants and provides a variety of information services.

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

State Level Activities

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

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

Local Education Activities

The Local Education Activities program is established to distribute state and federal funds to local education agencies, which are primarily schools. Schools receive distributions for state support to schools, special education, traffic education, and federal grants. Total distributions to local education agencies amounted to \$682,023,175 and \$692,269,499 in fiscal years 2003-04 and 2004-05, respectively.

Prior Audit Recommendations

The prior audit report for fiscal year 2002-03 contained no recommendations to the office.

Findings and Recommendations

Control Structure

The objectives of management control structures include: identifying risks to achieving control objectives and determining how to manage them; applying policies and procedures to ensure management and accounting directives are carried out; informing and communicating methods used to record, process, summarize, and report an organization's transactions; and assessing the quality of the control structure over time. Establishing accountability requires management to develop, implement, and maintain a control structure for its operations. This audit report addresses the need for the office to implement controls and procedures to prevent errors and improve financial reporting.

We noted instances where policies and procedures were in place, but were not effective in preventing errors. We found controls were not adequate to ensure travel vouchers were completed in accordance with state law and policy. We also found instances where current controls were not adequate to ensure compliance with some federal regulations. These issues are discussed in the following sections.

Travel Expenditures

The office does not have adequate controls in place to ensure travel claims are accurate and comply with state laws and policy.

Office personnel travel to various locations across the state and the country for meetings and conferences. State law and policy govern what travel costs are eligible for reimbursement to employees. State policy requires that efficiency and economy must be considered for all travel. It requires agencies to minimize the time away from the office. Both state law and policy restrict amounts employees can claim for meals, lodging, and other miscellaneous travel costs. Office policy requires supervisors to review and sign travel claim forms to ensure they are accurate.

We reviewed 15 travel claims for meetings and conferences that office personnel attended during fiscal year 2004-05. We found that nine of the fifteen claims, documentation attached was not always detailed enough at the time of payment to demonstrate compliance

Findings and Recommendations

with state law and policy. We found instances where employees claimed meals when meals were provided as part of the conferences and employees claimed meals and lodging that based on documentation was not clearly during office time. In one instance, there was no receipt for a miscellaneous purchase over the \$25 limit. Policy allows employees to arrive early or stay later if they determine it is cost effective. We did not find documentation showing calculations of cost efficiency. Based on attached documentation we could not verify how the office had determined cost efficiency.

We analyzed the travel costs and from attached documentation could not verify that approximately \$841 of \$6,254 should have been reimbursed. Based on the documentation we believe questioned costs exceed \$10,000 in the Federal Special Revenue Fund for fiscal year 2004-05.

We interviewed various personnel about office travel policy and all were familiar with the current policy. We also noted that the required supervisors were signing the claim forms, but based on our findings, they may not have been reviewing the claims thoroughly. The items we identified indicate a need for the office to strengthen controls and documentation to ensure travel is cost efficient and follows policy.

Recommendation #1

We recommend the office improve controls over travel expenditures to ensure it complies with state law and policy.

Federal Compliance

The office's controls currently in place to ensure compliance with federal regulations for cash management, reporting, subrecipient monitoring, and suspended and debarred parties are improperly designed.

Federal regulations require the office to maintain control over federal programs to provide reasonable assurance that it manages federal

Findings and Recommendations

awards in compliance with laws, regulations, and the provisions of contracts or grant agreements. The office receives a variety of federal funds used to support schools. They have controls in place to help ensure they are following federal requirements. However, we found instances where current controls could be improved to ensure the office meets requirements of the federal programs.

Cash Management

The office performs reconciliations and completes Cash Management Improvement Act (CMIA) spreadsheets as part of its controls to ensure compliance with federal cash management requirements. The state of Montana and the federal government have a written Treasury-State Agreement, that outlines how and when cash is requested from the federal government for larger grants. The office has several grants that are covered by this agreement. As part of the agreement the state is responsible for ensuring it can identify key items such as dates of amounts and disbursements, dates and amounts of receipts, and other key cash flow information. Overall, we noted that the office's procedures did not result in excessive cash balances.

We reviewed eleven cash draws from the federal government, related expenditures, reconciliations, and eight CMIA tracking spreadsheets. We found the following problems during our review:

- ▶ Two cash balances on the reconciliations do not correspond to the expenditure amounts supporting the cash draws.
- ▶ A draw and related expenditures was not properly included on the CMIA spreadsheet.
- ▶ A draw and related expenditures included on a CMIA spreadsheet does not agree with the state's accounting records.
- ▶ Seven draws did not comply with the provisions of the CMIA because the draws were either early or late.
- ▶ Twenty-nine draws were for more than the amount of expenditures incurred since the prior draw, or for less than the amount of expenditures incurred since the prior draw. Most of these draws were related to administrative draws, which account for a small percentage of all draws.

Findings and Recommendations

- ▶ Eight draws were made as two draws instead of one. A draw was made before expenditures were recorded and then another after expenditures were recorded.
- ▶ Ten amounts entered on the CMIA spreadsheets were recorded on different dates and for different amounts than on the accounting system.

Office personnel said draws were sometimes made to minimize interest calculations on the CMIA spreadsheets. Personnel also stated they believed they were following the CMIA because they believed changes had been made to the Treasury-State Agreement. This agreement was finally amended September 2005. We believe documenting and drawing according to what is recorded on the accounting system and required by the CMIA would decrease the chances of non-compliance with federal regulations.

Subrecipient Monitoring

The office is responsible for monitoring entities other than school districts that receive federal monies from the office to ensure the entities meet federal and state audit requirements. Monitored entities that receive over \$500,000 of federal money also require an audit. The office tracks these entities to ensure it receives a copy of required audit reports. Personnel create a manual list of entities and use it to determine if an audit is required of the entity.

During the audit we noted that the list the office prepared to monitor the entities was incomplete. We found ten entities received federal funds, but were not on the monitoring list. Not all of the entities required an audit. However, if the list is not complete, there is potential that the office will not detect instances of non-compliance or questioned costs because it may not receive audit reports.

Office personnel indicated that some of the entities were not included on the monitoring list because the list only contained non-profit recipients. They did not include state agencies because they knew our office audits them. In addition, the list was prepared on a specific date and may have missed some entities that received funds after that date.

Findings and Recommendations

We believe the monitoring list and controls over the list may be improved if the office uses accounting records to determine what entities other than school districts receive federal aid. We used accounting records to find entities left off the list.

Suspended and Debarred Parties

Federal regulations prohibit contracting with suspended or debarred parties. The federal government provides a list of parties that are suspended and debarred. The office has standard language in contracts that require the party to certify that they are not suspended or debarred. The office does not currently use the federal list to determine if parties, with which it intends to contract, are suspended or debarred.

We found an instance where a suspended and debarred school had signed the agreement stating it was not suspended and debarred, but according to the federal list, it has been suspended indefinitely. The school has been suspended since October 1990. We reviewed accounting records for fiscal years 2002-03, 2003-04, and 2004-05, and we question \$36,199 of costs paid from various federal grants to the school. The majority of the funds were Title II A, Title IV Drug Free Schools, Title V, and School Renovation. In total there are 345 separate parties the office deals with. From our review this was the only party on the federal list of suspended and debarred parties that received funds from the office.

Office personnel indicated that they did not know the school was on the federal list and they were relying on the signed agreement. We believe the office should expand its current procedures to include reviewing the federal list prior to disbursing funds to entities.

Recommendation #2

We recommend the office improve controls over federal requirements related to cash management, subrecipient monitoring, and suspended and debarred parties.

**Independent Auditor's Report &
Office Financial Schedules**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of Public Instruction for the fiscal years ended June 30, 2005, and June 30, 2004. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

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

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

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Office of Public Instruction for the two fiscal years ended June 30, 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 30, 2005

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Internal Service Fund | Agency Fund |
|---|-----------------------|-------------------------------|---------------------------------|--------------------|--------------------------|------------------|
| FUND BALANCE: July 1, 2004 | \$ <u>(2,757,155)</u> | \$ <u>(12,184,577)</u> | \$ <u>(133)</u> | \$ <u>38,475</u> | \$ <u>(44,238)</u> | |
| PROPERTY HELD IN TRUST: July 1, 2004 | | | | | | \$ <u>44,068</u> |
| ADDITIONS | | | | | | |
| Budgeted Revenues & Transfers-In | 1,720 | 277,787 | 138,202,278 | 128,982 | 1,808,726 | |
| NonBudgeted Revenues & Transfers-In | 2,725 | 26,694 | 3,418 | | 2,784 | |
| Prior Year Revenues & Transfers-In Adjustments | 60 | (60) | | | | |
| Direct Entries to Fund Balance | 516,740,723 | 67,009,745 | 346,728 | | | |
| Additions to Property Held in Trust | | | | | | <u>92,708</u> |
| Total Additions | <u>516,745,228</u> | <u>67,314,166</u> | <u>138,552,424</u> | <u>128,982</u> | <u>1,811,510</u> | <u>92,708</u> |
| REDUCTIONS | | | | | | |
| Budgeted Expenditures & Transfers-Out | 509,442,297 | 59,979,930 | 138,561,187 | 157,840 | 1,629,040 | |
| NonBudgeted Expenditures & Transfers-Out | | 216,221 | | (8,134) | 14,067 | |
| Prior Year Expenditures & Transfers-Out Adjustments | 69 | 49,876 | (7,622) | 292 | (781) | |
| Reductions in Property Held in Trust | | | | | | <u>72,899</u> |
| Total Reductions | <u>509,442,366</u> | <u>60,246,027</u> | <u>138,553,565</u> | <u>149,998</u> | <u>1,642,326</u> | <u>72,899</u> |
| FUND BALANCE: June 30, 2005 | \$ <u>4,545,707</u> | \$ <u>(5,116,438)</u> | \$ <u>(1,274)</u> | \$ <u>17,459</u> | \$ <u>124,946</u> | |
| PROPERTY HELD IN TRUST: June 30, 2005 | | | | | | \$ <u>63,877</u> |

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

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Internal Service Fund | Agency Fund |
|---|-----------------------|-------------------------------|---------------------------------|--------------------|--------------------------|------------------|
| FUND BALANCE: July 1, 2003 | \$ (3,542,553) | \$ (13,092,477) | \$ (10,000) | \$ 36,031 | \$ (17,558) | |
| PROPERTY HELD IN TRUST: July 1, 2003 | | | | | | \$ 53,158 |
| ADDITIONS | | | | | | |
| Budgeted Revenues & Transfers-In | 12,410 | 303,551 | 132,707,007 | 88,918 | 1,543,919 | |
| NonBudgeted Revenues & Transfers-In | 4,953 | 268,067 | 17,308 | 2,685 | 2,171 | |
| Prior Year Revenues & Transfers-In Adjustments | 168 | (168) | (8,551) | | | |
| Direct Entries to Fund Balance | 514,888,478 | 48,618,603 | 2,008,943 | | | |
| Additions to Property Held in Trust | | | | | | 81,936 |
| Total Additions | <u>514,906,009</u> | <u>49,190,053</u> | <u>134,724,707</u> | <u>91,603</u> | <u>1,546,090</u> | <u>81,936</u> |
| REDUCTIONS | | | | | | |
| Budgeted Expenditures & Transfers-Out | 514,134,326 | 48,213,207 | 134,708,792 | 90,139 | 1,646,105 | |
| NonBudgeted Expenditures & Transfers-Out | 5,695 | 68,946 | 14,599 | 8,624 | 120,197 | |
| Prior Year Expenditures & Transfers-Out Adjustments | (19,410) | | (8,551) | (9,604) | (193,532) | |
| Reductions in Property Held in Trust | | | | | | 91,026 |
| Total Reductions | <u>514,120,611</u> | <u>48,282,153</u> | <u>134,714,840</u> | <u>89,159</u> | <u>1,572,770</u> | <u>91,026</u> |
| FUND BALANCE: June 30, 2004 | <u>\$ (2,757,155)</u> | <u>\$ (12,184,577)</u> | <u>\$ (133)</u> | <u>\$ 38,475</u> | <u>\$ (44,238)</u> | |
| PROPERTY HELD IN TRUST: June 30, 2004 | | | | | | <u>\$ 44,068</u> |

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

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | 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 | | \$ 166,324 | | | | \$ 166,324 |
| Taxes | | | | | \$ 2,784 | 2,784 |
| Charges for Services | | 83,185 | | \$ 128,982 | 670,018 | 882,185 |
| Sale of Documents, Merchandise and Property | \$ 1,720 | | | | | 1,720 |
| Miscellaneous | 2,785 | | | | | 2,785 |
| Grants, Contracts, Donations and Abandonments | | 54,912 | \$ 3,418 | | | 58,330 |
| Other Financing Sources | | | 3,403,589 | | | 3,403,589 |
| Federal | | | 134,798,689 | | | 134,798,689 |
| Federal Indirect Cost Recoveries | | | | | 1,138,708 | 1,138,708 |
| Total Revenues & Transfers-In | <u>4,505</u> | <u>304,421</u> | <u>138,205,696</u> | <u>128,982</u> | <u>1,811,510</u> | <u>140,455,114</u> |
| Less: Nonbudgeted Revenues & Transfers-In | 2,725 | 26,694 | 3,418 | | 2,784 | 35,621 |
| Prior Year Revenues & Transfers-In Adjustments | 60 | (60) | | | | 0 |
| Actual Budgeted Revenues & Transfers-In | <u>1,720</u> | <u>277,787</u> | <u>138,202,278</u> | <u>128,982</u> | <u>1,808,726</u> | <u>140,419,493</u> |
| Estimated Revenues & Transfers-In | 13,124 | 52,836,614 | 144,631,835 | 170,000 | 1,850,000 | 199,501,573 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | <u>\$ (11,404)</u> | <u>\$ (52,558,827)</u> | <u>\$ (6,429,557)</u> | <u>\$ (41,018)</u> | <u>\$ (41,274)</u> | <u>\$ (59,082,080)</u> |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | | |
| Licenses and Permits | | \$ (855,030) | | | | \$ (855,030) |
| Charges for Services | | (2,215) | | \$ (41,018) | \$ (39,982) | (83,215) |
| Sale of Documents, Merchandise and Property | \$ (11,404) | | | | | (11,404) |
| Grants, Contracts, Donations and Abandonments | | (1,582) | | | | (1,582) |
| Other Financing Sources | | (51,700,000) | \$ (32,113) | | | (51,732,113) |
| Federal | | | (6,397,444) | | | (6,397,444) |
| Federal Indirect Cost Recoveries | | | | | (1,292) | (1,292) |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | <u>\$ (11,404)</u> | <u>\$ (52,558,827)</u> | <u>\$ (6,429,557)</u> | <u>\$ (41,018)</u> | <u>\$ (41,274)</u> | <u>\$ (59,082,080)</u> |

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

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | <u>General Fund</u> | <u>State Special Revenue Fund</u> | <u>Federal Special Revenue Fund</u> | <u>Enterprise Fund</u> | <u>Internal Service Fund</u> | <u>Total</u> |
|---|-------------------------|---------------------------------------|---|----------------------------|----------------------------------|------------------------|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | | | |
| Licenses and Permits | | \$ 166,777 | | | | \$ 166,777 |
| Taxes | | | | | \$ 2,171 | 2,171 |
| Charges for Services | | 62,405 | | \$ 88,918 | 633,535 | 784,858 |
| Sale of Documents, Merchandise and Property | \$ 12,410 | | | | | 12,410 |
| Miscellaneous | 5,121 | | \$ 17,293 | 2,685 | | 25,099 |
| Grants, Contracts, Donations and Abandonments | | 342,268 | 15 | | | 342,283 |
| Other Financing Sources | | | 3,540,127 | | | 3,540,127 |
| Federal | | | <u>129,158,329</u> | | <u>910,384</u> | <u>130,068,713</u> |
| Total Revenues & Transfers-In | <u>17,531</u> | <u>571,450</u> | <u>132,715,764</u> | <u>91,603</u> | <u>1,546,090</u> | <u>134,942,438</u> |
| Less: Nonbudgeted Revenues & Transfers-In | 4,953 | 268,067 | 17,308 | 2,685 | 2,171 | 295,184 |
| Prior Year Revenues & Transfers-In Adjustments | <u>168</u> | <u>(168)</u> | <u>(8,551)</u> | | | <u>(8,551)</u> |
| Actual Budgeted Revenues & Transfers-In | <u>12,410</u> | <u>303,551</u> | <u>132,707,007</u> | <u>88,918</u> | <u>1,543,919</u> | <u>134,655,805</u> |
| Estimated Revenues & Transfers-In | <u>42,124</u> | <u>52,859,889</u> | <u>150,178,929</u> | <u>121,000</u> | <u>1,850,000</u> | <u>205,051,942</u> |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | <u>\$ (29,714)</u> | <u>\$ (52,556,338)</u> | <u>\$ (17,471,922)</u> | <u>\$ (32,082)</u> | <u>\$ (306,081)</u> | <u>\$ (70,396,137)</u> |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | | |
| Licenses and Permits | | \$ (836,544) | | | | \$ (836,544) |
| Charges for Services | | (19,794) | | \$ (32,082) | \$ (76,465) | (128,341) |
| Sale of Documents, Merchandise and Property | \$ (29,714) | | | | | (29,714) |
| Other Financing Sources | | (51,700,000) | \$ 7,424 | | | (51,692,576) |
| Federal | | | <u>(17,479,346)</u> | | <u>(229,616)</u> | <u>(17,708,962)</u> |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | <u>\$ (29,714)</u> | <u>\$ (52,556,338)</u> | <u>\$ (17,471,922)</u> | <u>\$ (32,082)</u> | <u>\$ (306,081)</u> | <u>\$ (70,396,137)</u> |

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

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | <u>LOCAL EDUCATION ACTIVITIES</u> | <u>STATE LEVEL ACTIVITIES</u> | <u>TOTAL</u> |
|---|---------------------------------------|-----------------------------------|-----------------------|
| Personal Services | | | |
| Salaries | | \$ 6,099,918 | \$ 6,099,918 |
| Employee Benefits | | 1,819,731 | 1,819,731 |
| Personal Services-Other | | 18,007 | 18,007 |
| Total | | <u>7,937,656</u> | <u>7,937,656</u> |
| Operating Expenses | | | |
| Other Services | \$ 780 | 5,559,400 | 5,560,180 |
| Supplies & Materials | | 643,050 | 643,050 |
| Communications | | 291,199 | 291,199 |
| Travel | 643 | 652,092 | 652,735 |
| Rent | | 318,017 | 318,017 |
| Utilities | | 724 | 724 |
| Repair & Maintenance | | 80,420 | 80,420 |
| Other Expenses | | 2,248,639 | 2,248,639 |
| Total | <u>1,423</u> | <u>9,793,541</u> | <u>9,794,964</u> |
| Equipment & Intangible Assets | | | |
| Equipment | | 12,862 | 12,862 |
| Total | | <u>12,862</u> | <u>12,862</u> |
| Local Assistance | | | |
| From State Sources | 564,253,131 | 19,301 | 564,272,432 |
| Total | <u>564,253,131</u> | <u>19,301</u> | <u>564,272,432</u> |
| Grants | | | |
| From State Sources | 441,692 | | 441,692 |
| From Federal Sources | 127,574,676 | | 127,574,676 |
| Total | <u>128,016,368</u> | | <u>128,016,368</u> |
| Total Expenditures & Transfers-Out | <u>\$ 692,270,922</u> | <u>\$ 17,763,360</u> | <u>\$ 710,034,282</u> |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | |
| General Fund | \$ 504,937,530 | \$ 4,504,836 | \$ 509,442,366 |
| State Special Revenue Fund | 59,758,716 | 487,311 | 60,246,027 |
| Federal Special Revenue Fund | 127,574,676 | 10,978,889 | 138,553,565 |
| Enterprise Fund | | 149,998 | 149,998 |
| Internal Service Fund | | 1,642,326 | 1,642,326 |
| Total Expenditures & Transfers-Out | <u>692,270,922</u> | <u>17,763,360</u> | <u>710,034,282</u> |
| Less: Nonbudgeted Expenditures & Transfers-Out | 18,000 | 204,154 | 222,154 |
| Prior Year Expenditures & Transfers-Out Adjustments | <u>50,000</u> | <u>(8,166)</u> | <u>41,834</u> |
| Actual Budgeted Expenditures & Transfers-Out | 692,202,922 | 17,567,372 | 709,770,294 |
| Budget Authority | 706,576,505 | 23,042,134 | 729,618,639 |
| Unspent Budget Authority | <u>\$ 14,373,583</u> | <u>\$ 5,474,762</u> | <u>\$ 19,848,345</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | | |
| General Fund | \$ 5,439,509 | \$ 10,636 | \$ 5,450,145 |
| State Special Revenue Fund | | 7,302 | 7,302 |
| Federal Special Revenue Fund | 8,934,074 | 5,232,450 | 14,166,524 |
| Enterprise Fund | | 9,798 | 9,798 |
| Internal Service Fund | | 214,576 | 214,576 |
| Unspent Budget Authority | <u>\$ 14,373,583</u> | <u>\$ 5,474,762</u> | <u>\$ 19,848,345</u> |

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

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | <u>LOCAL EDUCATION ACTIVITIES</u> | <u>STATE LEVEL ACTIVITIES</u> | <u>TOTAL</u> |
|---|---------------------------------------|-----------------------------------|-----------------------|
| Personal Services | | | |
| Salaries | | \$ 5,708,315 | \$ 5,708,315 |
| Employee Benefits | | 1,602,582 | 1,602,582 |
| Personal Services-Other | | (30,512) | (30,512) |
| Total | | <u>7,280,385</u> | <u>7,280,385</u> |
| Operating Expenses | | | |
| Other Services | \$ 355 | 5,696,176 | 5,696,531 |
| Supplies & Materials | | 486,136 | 486,136 |
| Communications | | 264,470 | 264,470 |
| Travel | 1,469 | 580,487 | 581,956 |
| Rent | | 310,179 | 310,179 |
| Utilities | | 321 | 321 |
| Repair & Maintenance | | 57,191 | 57,191 |
| Other Expenses | | 1,978,348 | 1,978,348 |
| Total | <u>1,824</u> | <u>9,373,308</u> | <u>9,375,132</u> |
| Equipment & Intangible Assets | | | |
| Equipment | | 81,538 | 81,538 |
| Total | | <u>81,538</u> | <u>81,538</u> |
| Local Assistance | | | |
| From State Sources | 557,203,573 | 19,301 | 557,222,874 |
| From Federal Sources | 2,000,000 | | 2,000,000 |
| Total | <u>559,203,573</u> | <u>19,301</u> | <u>559,222,874</u> |
| Grants | | | |
| From State Sources | 416,388 | | 416,388 |
| From Federal Sources | 122,403,214 | | 122,403,214 |
| Total | <u>122,819,602</u> | | <u>122,819,602</u> |
| Total Expenditures & Transfers-Out | <u>\$ 682,024,999</u> | <u>\$ 16,754,532</u> | <u>\$ 698,779,531</u> |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | |
| General Fund | \$ 509,614,026 | \$ 4,506,585 | \$ 514,120,611 |
| State Special Revenue Fund | 48,007,759 | 274,394 | 48,282,153 |
| Federal Special Revenue Fund | 124,403,214 | 10,311,626 | 134,714,840 |
| Enterprise Fund | | 89,159 | 89,159 |
| Internal Service Fund | | 1,572,770 | 1,572,770 |
| Total Expenditures & Transfers-Out | <u>682,024,999</u> | <u>16,754,534</u> | <u>698,779,533</u> |
| Less: Nonbudgeted Expenditures & Transfers-Out | | 218,060 | 218,060 |
| Prior Year Expenditures & Transfers-Out Adjustments | (18,113) | (212,282) | (231,095) |
| Actual Budgeted Expenditures & Transfers-Out | <u>682,043,112</u> | <u>16,749,456</u> | <u>698,792,568</u> |
| Budget Authority | 689,333,773 | 20,823,325 | 710,157,098 |
| Unspent Budget Authority | <u>\$ 7,290,661</u> | <u>\$ 4,073,869</u> | <u>\$ 11,364,530</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | | |
| General Fund | \$ 453,837 | \$ 10,422 | \$ 464,259 |
| State Special Revenue Fund | 2,470,491 | 72,992 | 2,543,483 |
| Federal Special Revenue Fund | 4,366,333 | 3,709,430 | 8,075,763 |
| Enterprise Fund | | 45,972 | 45,972 |
| Internal Service Fund | | 235,053 | 235,053 |
| Unspent Budget Authority | <u>\$ 7,290,661</u> | <u>\$ 4,073,869</u> | <u>\$ 11,364,530</u> |

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

Office of Public Instruction

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2005

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 Funds. In applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are measurable 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 leave and sick leave when used or paid.

The office uses accrual basis accounting for its Proprietary and Fiduciary Fund categories. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

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

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Notes to the Financial Schedules

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. General Fund activity primarily involves distributions of state support to schools.

State Special Revenue Fund – to account for proceeds of specific nonfederal revenue sources that are legally restricted to expenditures for specific purposes. Office State Special Revenue Funds include traffic safety education and distributions of state support to schools made through the Guarantee Account.

Federal Special Revenue Fund – to account for federal funds received by the office. Office Federal Special Revenue Funds account for activities of Title I and Title II, Child Nutrition and Commodities, Individuals with Disabilities Education Act, and various other federal grants.

Proprietary Fund Category

Internal Service Fund – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The office Internal Service Fund contains its indirect cost pool.

Enterprise Fund – to account for operations financed and operated in a manner similar to private business enterprises, for which a fee is charged to external users. The office Enterprise Fund includes the advanced driver's education program.

Fiduciary Fund Category

Agency Fund – to account for resources held by the state in a custodial capacity. The office records custodial cash accounts for student vocational education organizations in the Agency Fund.

2. **General Fund Balance**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide

fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for fiscal years ended June 30, 2005, and June 30, 2004.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and State and Federal Special Revenue Fund types include entries generated by the accounting system to reflect the flow of resources within individual funds shared by separate agencies. Direct entries to fund balance in the General Fund represent moneys made available for state support to schools. In the State Special Revenue Fund, direct entries to fund balance represent a portion of the fees collected by the Department of Justice for driver's licenses and duplicate licenses that are made available to the office for distribution to schools for traffic and safety education. It also includes certification fees collected by the office that are statutorily available to the Board of Public Education for advisory council and research fund purposes. In addition, moneys made available for distribution to schools through the Guarantee Account are recorded as direct entries to fund balance.

4. Guarantee Account

The negative fund balance in the State Special Revenue Fund at June 30, 2005, and June 30, 2004, does not indicate overspent appropriation authority. The office pays obligations from the Guarantee Account, yet the revenue designated to fund the obligations is not included on the office's financial schedules because it is collected the by the Department of Natural Resources and Conservation (DNRC). The estimated revenue on the Schedule of Revenues & Transfers-In in the State Special Revenue Fund under Other Financing Sources for both fiscal years of \$51,700,000 is money transferred to the Guarantee Account. The DNRC is responsible for the revenue distributions to this fund. Recorded transfers to the Guarantee Account were \$50,436,747 and \$62,379,925 for fiscal years 2003-04 and 2004-05, respectively.

Office Response



— **Montana Office of Public Instruction** —

Linda McCulloch
State Superintendent

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OCT 19 2005

LEGISLATIVE AUDIT DIV.

October 19, 2005

**TO THE LEGISLATIVE AUDIT COMMITTEE OF THE MONTANA STATE
LEGISLATURE**

Following is our response to recommendations contained in the Office of Public Instruction's (OPI) 2004-2005 audit report.

Recommendation #1

We recommend the office improves controls over travel expenditures to ensure it complies with state law and policy.

OPI response: We concur. OPI policy requires two levels of written supervisory approval before an employee travels out-of-state, which allows them to review and determine the cost effectiveness of the travel plans beforehand. The office will amend its travel policies to centralize documentation so the claims are easier for auditors to verify and will closely monitor travel expenditures to ensure compliance.

Recommendation #2

We recommend the office improve controls over federal requirements related to cash management, subrecipient monitoring, and suspended and debarred parties.

OPI response: We concur. The FY 2005 CMIA agreement was finally amended in September 2005 by the Department of Administration. The final agreement more closely reflects the procedures staff thought were already effective during FY 2005 and had been using for cash draws during FY 2005. Staff has worked with the Department of Administration to ensure our methods used for FY 2006 adhere to the current agreement related to cash management for CMIA programs. Auditors informed staff of a report that is available from the state accounting system, and it will be used to determine non-school subrecipients subject to audit monitoring. Staff will monitor the list of suspended and debarred parties prior to disbursing funds.

Sincerely,

Linda McCulloch
State Superintendent

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