



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Office of Public  
Instruction*

*For the Two Fiscal Years Ended  
June 30, 2023*

NOVEMBER 2024

LEGISLATIVE AUDIT  
DIVISION

23-37

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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 and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2023, was issued August 19, 2024. The submission deadline for the Single Audit Report for the two fiscal years ended June 30, 2025, is March 31, 2026.

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# LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Kenneth E. Varns, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller  
Miki Cestnik

November 2024

The Legislative Audit Committee  
of the Montana State Legislature:

It is a pleasure to provide the financial-compliance audit report on the Office of Public Instruction (OPI) for the two fiscal years ended June 30, 2023.

We focused our audit effort on state aid and federal funding distributed to school districts. We reviewed and tested selected control systems and determined compliance with various state laws and federal regulations. Specific testing was completed over five federal programs, including the Child Nutrition Cluster, Special Education Cluster, Title I, Comprehensive Literacy State Development Program, and the Education Stabilization Fund. Our audit identified 18 reportable federal findings related to internal controls and compliance with federal requirements for these federal programs. We also identified known questioned costs of \$52 million, \$7.9 million, and \$7.6 million in the Education Stabilization Fund, Title I, and Comprehensive Literacy State Development Programs, respectively. Known questioned costs are related to transactions we tested where the costs were not supported by adequate documentation or were otherwise not allowable under the federal program. Questioned costs are not financial misstatements and the resolution of the findings is the responsibility of the federal government. The reportable recommendations are included in the state's Single Audit report, #22-02, which was issued in August of 2024.

Because we found pervasive control deficiencies in our federal testing, we expanded our scope to test operating expenses in the general fund. We found additional control issues over general fund expenditures, as reported in Finding and Recommendation #1 in Chapter II of this report.

OPI's written response to the audit recommendation in this report is included on page C-1.

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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## APPOINTED AND ADMINISTRATIVE OFFICIALS

### Office of Public Instruction

Elsie Arntzen, Superintendent

Sharyl Allen, Deputy Superintendent (Effective April 2020 through August 2023)

Robert Stutz, Deputy Superintendent (Effective August 2024)  
Chief Legal Counsel (Effective February 2022)

Jake Griffith, Chief Legal Counsel (Effective June 2021 through January 2022)

Jay Phillips, Chief Financial Officer (Through February 2024)

April Grady, Chief Financial Officer (Effective May 2024)

John McCormick, Chief Accountability Officer (Effective August 2023)

Dr. Julie Murgel, Chief Program Officer (Effective January 2022)

Chris Sinrud, Chief Information Officer (Through June 2024)

Andy Campbell, Acting Chief Information Officer (Effective November 2024)

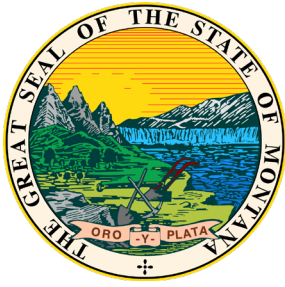
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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

Office of Public Instruction

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2023

A report to the Montana Legislature

### 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 200 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 manage federal grants and administer state funds and services 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 each fiscal year, 2022 and 2023.

The Office of Public Instruction (office) expended \$810 million in federal grant funds and \$1.8 billion in state General Fund monies during the audit period. All expenditure information presented on the office's schedules is accurate in all material respects. As explained in Chapter II of this audit report, the office did not always document the business need for General Fund expenditures. The 18 recommendations to the office found in the Single Audit report #22-02 are also summarized in Chapter II of this report, because, overall, the office needs to update controls and train staff on the importance of internal controls related to their federal and General Fund spending.

### **AUDITOR'S OPINION: UNMODIFIED**

We found OPI's financial schedules and note disclosures fairly present OPI's financial activity in all material respects.

For the full context of the department's financial activity, see the financial schedules and notes beginning on page A-4.

### **RECOMMENDATIONS:**

In this report, we issued the following recommendations:

To the department: 1

To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:

Fully Implemented: 4

Partially Implemented: 8

Not Implemented: 1

*(continued on back)*

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

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### **RECOMMENDATION #1 (page 8):**

#### *Compliance and Control*

We recommend the Office of Public Instruction establish and maintain an effective internal control system by:

- A. Complying with state policy by completing internal risk assessments, documenting important internal control processes, monitoring office internal controls, and adequately documenting all office purchases, including travel.
- B. Providing staff with training on the importance of internal controls over financial reporting and over compliance with federal regulations and state policy.

**Department response: 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 (office, OPI) for the two fiscal years ended June 30, 2023. 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 state BASE aid and federal funding distributed to 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 transactions to determine if the financial schedules were 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)
- Comprehensive Literacy Development Program (Literacy)
- Educational Stabilization Fund's Elementary and Secondary School Emergency Relief (ESSER)

The findings, recommendations, and office responses from the federal compliance work have already been reported in the state's Single Audit, #22-02. As indicated on page 5, the internal control related federal findings indicate a need for the office to enhance their overall internal control structure.

## **Internal Service Fund**

The Legislative Audit Division's financial audit model reform efforts currently include an evaluation of more effective methods for reporting the results of internal service fund analyses to the legislature. We did not report on the reasonableness of the fees and charges for services and fund equity for OPI's internal service fund as required by §17-8-101(6), MCA, during this audit because that analysis will be included in a new consolidated reporting approach in the future.

## **OPI Organization and Function**

The Superintendent of Public Instruction is the elected official overseeing Montana's K-12 public schools and serves as the state's executive officer for K-12 and vocational-technical education.

## **State-Level Activities**

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 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 driver 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**

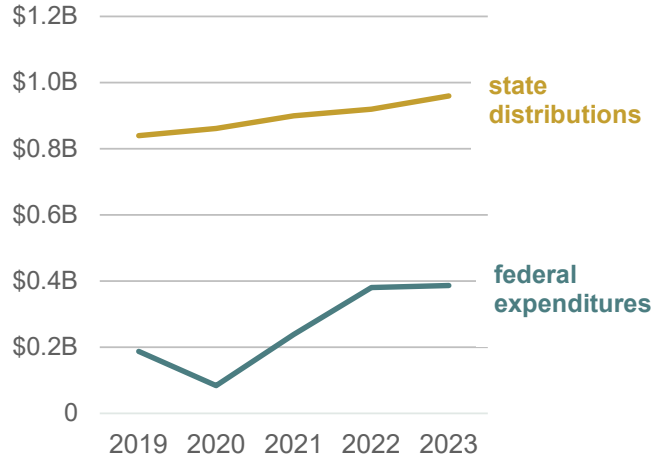
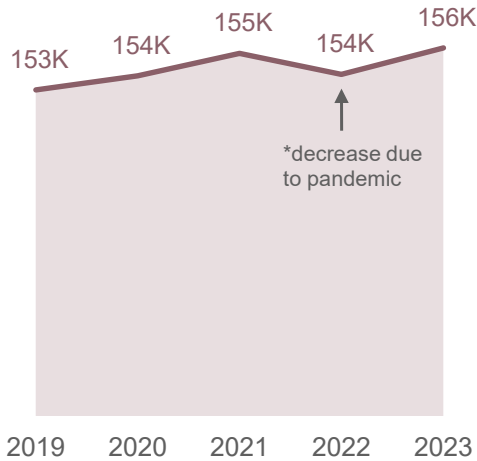
The Local Education Activities program is established to distribute state funds and federal grants to local education agencies, primarily K-12 schools or nonprofit organizations. Total state and federal expenditures and transfers to local education agencies were about \$1.3 billion each in fiscal years 2022 and 2023.

In the last five years, the ANB at schools has generally increased. Figure 1 (page 3) shows the ANB trend on the left, followed by the increase in state and federal dollar distributions on the right. The state increase is partially related to the upswing in ANB. The federal increase is mostly related to new, temporary federal COVID-19 programs. ANB is calculated by taking the average count of regularly enrolled pupils on the first Monday in October of the prior school fiscal year and the count of regularly enrolled pupils on the first Monday in February of the prior school fiscal year.

Figure 1  
**Montana Schools ANB and Funding**

The **ANB** for all Montana schools has been increasing...

as has **state** and **federal** funding to Montana schools.



\*Montana's ANB declined in 2022 because the COVID-19 pandemic impacted enrollment during the 2020-21 school year.

**Source: Compiled by Legislative Audit Division with ANB information provided by the office and with information from the state's final Schedule of Expenditures of Federal Awards, as well as the state's accounting system.**

### **Prior Audit Recommendations**

The prior audit report included 13 recommendations: four were fully implemented, eight were partially implemented, and one was not implemented. Those not fully implemented are further discussed or referenced to a current recommendation in Table 1 (page 4).

Table 1  
**Status of Prior Audit Recommendations**

Prior Audit Recommendation	Summary of Recommendation	Status
1	Comply with state internal control policy by completing internal risk assessments, documenting important control processes, and monitoring those internal controls. We also recommended the office educate staff on the importance of internal controls and associated responsibilities.	Partially Implemented. We noted internal control issues related to financial reporting, general fund expenditures, and federal compliance. See Finding #1 in Chapter II.
2	Implement internal controls to ensure compliance with subrecipient monitoring and comply with subrecipient monitoring requirements.	Partially Implemented. We reported similar findings in the #22-02 Montana Single Audit report, findings 2023-035 and 2023-040.
3	Strengthen internal controls to ensure ESSER subrecipient grant expenditures are allowable and obtain adequate support before reimbursing subrecipients.	Partially Implemented. We reported a similar finding in the #22-02 Montana Single Audit report, finding 2023-032.
4	Enhance internal controls to ensure ESSER annual reports are accurate and supported, correct and resubmit incorrect reports, and ensure ESSER reports include all required data elements and information is supported.	Partially Implemented. We reported a similar finding in the #22-02 Montana Single Audit report, finding 2023-031.
5	Establish internal controls to ensure Federal Funding Accountability and Transparency Act (FFATA) reports are submitted, supported, and timely, ensure all ESSER subawards over \$30,000 are reported using the subaward amount, and comply with reporting requirements for the FFATA.	Not Implemented. We reported similar findings in the #22-02 Montana Single Audit report, findings 2023-045 through 2023-047.
8	Develop internal controls to ensure earmarked funds are spent on allowable activities, improve documentation to support cost allowability, and comply with Title I earmarking requirements.	Partially Implemented. We reported a similar finding in the #22-02 Montana Single Audit report, findings 2023-033.
10	Follow policy related to allocation of grant funds, improve controls over period of performance by including cross training for monthly reconciliations, and improve controls related to state maintenance of effort by reviewing actual state expenditures to ensure compliance with federal regulations.	Partially Implemented. The office implemented portions of this recommendation; however, we reported on a similar finding related to maintenance of effort requirements for the Special Education program in the #22-02 Montana Single Audit report, finding 2023-044.
12	Enhance cash management internal controls and monitor their effectiveness to ensure the office only requests federal cash for incurred expenditures and complies with cash management requirements.	Partially Implemented. While we noted some similar issues during the current audit, cash management was not subject to audit during the audit period. (This means the federal government determined it did not need to be in our scope for a federal program). The instances noted were communicated to office staff.
13	Ensure internal service fund fees are commensurate with costs.	Partially Implemented. The Legislative Audit Division's financial audit model reform efforts currently include an evaluation of more effective methods for reporting the results of internal service fund analyses to the legislature. We did not report on the reasonableness of the fees and charges for services and fund equity for OPI's internal service fund as required by §17-8-101(6), MCA, during this audit because that analysis will be included in the new reporting approach.

Source: Compiled by the Legislative Audit Division.

# Chapter II - Findings and Recommendation

## Overall Internal Control Structure

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**The office should prioritize educating staff on the importance of internal controls related to financial reporting, general fund expenditures, and federal compliance.**

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### Introduction

State policy requires management to establish and maintain an effective internal control system, including:

- Identifying risks of material misstatement and noncompliance with laws and regulations (including federal regulations)
- Designing control activities responding to the risks identified
- Monitoring important controls
- Fixing control deficiencies

In the prior audit, we recommended that the office comply with state internal control policy and educate staff on the importance of internal controls. The office was able to provide documentation of its internal risk assessments, some of its internal control process, and documentation of planned monitoring of some internal control processes. The risk assessment and monitoring plan was completed in March of 2023, near the end of the audit period. The office reports they are currently updating their risk assessment and monitoring plan. It is expected to be finalized March of 2025. Risk assessments, internal controls, and monitoring plans should be updated quickly when internal control deficiencies are found so misstatements and noncompliance can be prevented in the future.

The office's internal controls did not prevent or detect and correct material noncompliance with federal regulations and state policies, indicating the office has not established and maintained an effective control system, in part, because the monitoring plan was developed at the end of the audit period. The office should continue to document its risk assessment process and expand it to consider risks of material noncompliance with federal regulations. Monitoring should be more extensive as well. For example, there was documentation on reviewing Title I and IDEA B allocations. However, there was no planned monitoring related to the ESSER controls, even though it was the largest federal program during the audit period.

Education on internal controls is necessary for the office's internal control processes to be effective. For example, a review can be done and signed off without being effective if the person completing the review is not someone trained to detect noncompliance. Training is essential when turnover occurs because new employees need to understand their responsibilities, including internal controls. The office reported that they had a 29.8%, 30.4%, and 18.7% turnover rate in calendar years 2021, 2022, and 2023, respectively. Office staff were new in position in the ESSER, Title I, and Literacy federal programs, contributing to some of the federal findings in the Single Audit report.

## Federal Compliance Controls

We identified material noncompliance in all five federal programs tested for the state's Single Audit. We issued adverse opinions for three of the five federal programs, meaning the noncompliance was pervasive to each of the programs as a whole. We issued qualified opinions for the other two programs, meaning the noncompliance was material but not pervasive. The federal findings and recommendations indicated controls were likely completed but either not documented, not effective, or the control process was not kept up to date when there was staff turnover.

Additionally, we found other indications in our current audit that internal controls were not in place and working as intended. We found misstatements in the office's draft notes to the financial schedules, and we found some general fund expenditures were not supported, both of which are discussed below.

## Controls Over the Notes to the Financial Schedules

The office's review procedures were ineffective in identifying errors in the disclosures provided to us for audit. In the original version of Note 3, Direct Entries to Fund Equity, the office disclosed information related to the prior audit period, misstating the information by over \$21 million. The note compares direct entries in the General Fund and the State Special Revenue Fund to the prior year and explains the reasons for the changes by fund type. The office had controls where someone reviewed the draft notes, but the review did not identify the error, indicating control procedures should be strengthened. The notes on page A-11 have been corrected.

## Unsupported General Fund Expenditures

State policy requires specific documentation for state purchases, and the office's internal controls did not always identify noncompliance with state policy. We tested 18 higher-risk general fund expenditures. The expenditures were considered higher risk because they were related to travel, included food purchases, were large purchases, or had unusual descriptions in the state's accounting system. The total costs tested for all 18 expenditures were \$107,744.

Out of the 18 expenditures tested, eight purchases did not have a documented business need at the time of purchase. Some items provided further evidence of control issues, such as a lack of supervisor approval or the office making a duplicate payment. The office later explained the business need for most items, but state policy requires documentation at the time of purchase. The office's requisition form at the time required attaching support, so all items had receipts, but the form did not require staff to document the business need for the purchase. After reviewing further support from the office, the following concerns remained:

Table 2  
**Number of Control Findings per Federal Program**

Program	Number of Findings
ESSER	3
Title I	7
Literacy	5
IDEA	2
Child Nutrition Cluster	1

Source: Compiled by the Legislative Audit Division.



- The office made an extra payment of \$1,659 to a food vendor catering an Indian Education luncheon for the legislature, costing \$3,318. The vendor identified the duplicate payment and returned the funds, but the office's controls did not prevent the duplicate payment.
- One travel reimbursement was paid without a documented business need. Office staff were able to provide more information on the business need for the travel during the audit. However, the office should have documented how the travel benefits the state at the time of purchase. Other noncompliance noted on the form included not completing the requested reimbursement within three months. In addition, the travel was completed by a high-level manager but reviewed by an administrative assistant and not the supervisor, as required by state policy. There is a risk that even a knowledgeable administrative assistant might not feel comfortable requiring more documentation from a high-level manager. Potential management override of internal controls increases the risk of fraud, waste, or abuse. As noted above, we confirmed the business need for the travel, but such issues could occur in the future if internal controls are not followed.
- The office purchased 20 books for a total of \$500 from an art museum but did not document what the books were for or who they were being distributed to. The person who made the purchase and the person who approved the purchase are no longer at the office, so the current staff members could not be sure about the business need for the books. Office staff noted that the books were likely used as part of a professional development session.
- One travel purchase did not show the type of airline seating, so we could not confirm that the least expensive seating was purchased as required by state policy. The round-trip flight from Missoula to Oklahoma City cost \$1,320. As noted above, waste can occur when internal control documentation requirements are not followed.

Office staff believe the federal control issues discussed on pages 5 and 6 were mostly caused by the influx of pandemic funding during the audit period. ESSER spending was over \$300 million during fiscal years 2022 and 2023. While we agree that the monetary influx was a factor, the number of findings in other federal programs suggests broader training on internal controls and federal compliance is needed across the office.

Regarding general fund expenditures, the office reported they agreed there were issues during the audit period, and they had been focused on improving the procurement and purchasing process before the audit started. Office officials report they have since put enhanced controls in place.

Finally, office staff said that the financial notes went through the proper preparation and review process, but the updated Note 3 table was not saved in the notes, and the old table was included instead. Office staff think their process is complete but plan to add the Centralized Services Senior Manager to the review process as an additional review.

## Summary

The office should improve its internal control system related to compliance with federal and state regulations. Administering federal programs, including distributions to all schools, is one of the office's main functions, and the federal government is relying on them to follow federal regulations. There is an increased risk of fraud, waste, or abuse of state and federal resources when the use of funds is not properly documented. Vague expense descriptions lack the transparency required in state government.

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### **RECOMMENDATION #1**

*We recommend the Office of Public Instruction establish and maintain an effective internal control system by:*

- A. Complying with state policy by completing internal risk assessments, documenting important internal control processes, monitoring office internal controls, and adequately documenting all office purchases, including travel.*
  - B. Providing staff with training on the importance of internal controls over financial reporting and over compliance with federal regulations and state policy.*
-

**Independent Auditor's Report and  
Office of Public Instruction's  
Financial Schedules**



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Kenneth E. Varns, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller  
Miki Cestnik

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### **Report on the Audit of Financial Schedules**

#### ***Opinions***

We have audited the financial schedules of the Office of Public Instruction which are comprised of the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2023, and 2022, and the related notes to the financial schedules.

#### ***Unmodified Opinions on Regulatory Basis of Accounting***

In our opinion, the accompanying financial schedules present fairly, in all material respects, the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2023, and 2022, in conformity with the basis of accounting described in Note 1.

#### ***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" section of our report, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the office, as of June 30, 2023, and June 30, 2022, or changes in financial position or cash flows for the years then ended.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Schedules section of our report. We are required to be independent of the Office of Public Instruction and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

As described in Note 1 of the financial schedules, the financial schedules are prepared by the Office of Public Instruction 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 and pervasive.

***Responsibilities of Management 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.

In preparing the financial schedules, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the office's ability to continue as a going concern for twelve months beyond the financial schedule date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibility for the Audit of the Financial Schedules***

Our objectives are to obtain reasonable assurance about whether the financial schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial schedules.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial schedules.

- Obtain an understanding of internal control relevant to the audit 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial schedules.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the office's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Report on Other Legal and Regulatory Requirements**

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2024, 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 solely 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 of Public Instruction's internal control over financial reporting and compliance.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

September 25, 2024

OFFICE OF PUBLIC INSTRUCTION  
SCHEDULE OF CHANGES IN FUND EQUITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund
FUND EQUITY: July 1, 2022	\$ (2,319,498)	\$ 9,613,816	\$ (2,948)	\$ (511,902)	\$ (1,854,078)
ADDITIONS					
Budgeted Revenues & Transfers-In	748				
Nonbudgeted Revenues & Transfers-In	14,532,176	428,118,392		150,270	2,887,728
Prior Year Revenues & Transfers-In Adjustments	(3,218)	81,114		7	5,234
Direct Entries to Fund Equity	58,429,509	117,348			
Total Additions	<u>917,656,672</u>	<u>73,197,162</u>	<u>428,316,854</u>	<u>150,277</u>	<u>2,892,962</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	917,871,467				
Nonbudgeted Expenditures & Transfers-Out	(5,688)	67,130,485	428,254,807	152,397	2,936,313
Prior Year Expenditures & Transfers-Out Adjustments	3,217	279,402	(2,351)	(42,840)	57,183
Total Reductions	<u>917,868,996</u>	<u>(39,187)</u>	<u>428,252,456</u>	<u>110,357</u>	<u>(42,076)</u>
FUND EQUITY: June 30, 2023	<u>\$ (2,531,074)</u>	<u>\$ 15,440,578</u>	<u>\$ 61,451</u>	<u>\$ (471,982)</u>	<u>\$ (1,912,536)</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 EQUITY  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund
FUND EQUITY: July 1, 2021	\$ (1,531,260)	\$ 5,427,730	\$ 0	\$ (304,212)	\$ (2,257,130)
<b>ADDITIONS</b>					
Budgeted Revenues & Transfers-In	10,726	10,952,037	381,228,723	142,694	2,886,766
Nonbudgeted Revenues & Transfers-In	376,977	48,699	359,543		4,180
Prior Year Revenues & Transfers-In Adjustments		5,431			
Direct Entries to Fund Equity	883,970,344	51,459,779	119,552		
Total Additions	884,358,047	62,465,947	381,707,818	142,694	2,890,947
<b>REDUCTIONS</b>					
Budgeted Expenditures & Transfers-Out	884,854,796	58,243,520	381,125,703	154,930	2,576,984
Nonbudgeted Expenditures & Transfers-Out	371,546	35,716	361,894	193,879	(88,890)
Prior Year Expenditures & Transfers-Out Adjustments	(80,057)	625	223,169	1,575	(199)
Total Reductions	885,146,285	58,279,861	381,710,766	350,384	2,487,895
FUND EQUITY: June 30, 2022	\$ (2,319,498)	\$ 9,613,816	\$ (2,948)	\$ (511,902)	\$ (1,854,078)

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, 2023

	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		172,038				\$ 172,038
Taxes					4,645	4,645
Charges for Services	748	3,000		150,270	1,258,964	1,412,234
Sale of Documents, Merchandise and Property		5,324,616				5,324,616
Grants, Contracts, and Donations		9,256,712	4,571,133			13,827,845
Transfers-in				7	590	597
Capital Asset Sale Proceeds					1,628,764	1,628,764
Federal Indirect Cost Recoveries						11,287
Miscellaneous						
Federal	748		423,628,373			423,628,373
Total Revenues & Transfers-in		14,767,653	428,199,506	150,277	2,892,962	446,011,146
Less: Nonbudgeted Revenues & Transfers-in		238,695		7	5,234	243,937
Prior Year Revenues & Transfers-in Adjustments		(3,218)				
Actual Budgeted Revenues & Transfers-in	\$ 748	\$ 14,532,176	\$ 428,118,392	\$ 150,270	\$ 2,887,728	\$ 445,689,314

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, 2022

	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		151,973				151,973
Taxes					4,180	4,180
Charges for Services		24,591			1,229,780	1,397,066
Sale of Documents, Merchandise and Property	10,726			142,694		153,420
Grants, Contracts, and Donations		3,364,827				3,364,827
Transfers-in		7,456,728	3,857,203			11,313,930
Inception of Lease/Installment Contract	376,977	8,048	359,543			744,568
Federal Indirect Cost Recoveries					1,656,986	1,656,986
Federal			377,371,521			377,371,521
Total Revenues & Transfers-In	387,703	11,006,168	381,588,266	142,694	2,890,947	396,015,778
Less: Nonbudgeted Revenues & Transfers-In	376,977	48,699	359,543		4,180	789,400
Prior Year Revenues & Transfers-In Adjustments		5,431				5,431
Actual Budgeted Revenues & Transfers-In	10,726	10,952,037	381,228,723	142,694	2,886,766	395,220,947

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, 2023

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>LOCAL EDUCATION ACTIVITIES</u>	<u>STATE LEVEL ACTIVITIES</u>	<u>Total</u>
Personal Services			
Salaries		\$ 11,672,275	\$ 11,672,275
Employee Benefits		4,239,483	4,239,483
Personal Services-Other		58,504	58,504
Total		<u>15,970,263</u>	<u>15,970,263</u>
Operating Expenses			
Other Services	\$ 1,356,588	24,480,910	25,837,498
Supplies & Materials		669,764	669,764
Communications	365	319,995	320,360
Travel		627,149	627,149
Rent		672,966	672,966
Utilities		2,969	2,969
Repair & Maintenance		11,109	11,109
Other Expenses		3,315,426	3,315,426
Goods Purchased For Resale		35	35
Total	<u>1,356,953</u>	<u>30,100,322</u>	<u>31,457,275</u>
Equipment & Intangible Assets			
Equipment		40,166	40,166
Total		<u>40,166</u>	<u>40,166</u>
Local Assistance			
From State Sources	959,616,987		959,616,987
Total	<u>959,616,987</u>		<u>959,616,987</u>
Grants			
From State Sources	5,293,252	1,476,786	6,770,037
From Federal Sources	393,079,432	53,525	393,132,957
Grant To Governmental Entities	834,226	13,224	847,450
Total	<u>399,206,910</u>	<u>1,543,535</u>	<u>400,750,445</u>
Transfers-out			
Fund transfers	6,393,947	70,375	6,464,322
Intra-Entity Expense		2,030,620	2,030,620
Total	<u>6,393,947</u>	<u>2,100,995</u>	<u>8,494,942</u>
Debt Service			
Lease Liability		107,859	107,859
Total		<u>107,859</u>	<u>107,859</u>
Post Employment Benefits			
Other Post Employment Benefits		37,862	37,862
Employer Pension Expense		77,830	77,830
Total		<u>115,692</u>	<u>115,692</u>
Total Expenditures & Transfers-Out	<u>\$ 1,366,574,797</u>	<u>\$ 49,978,831</u>	<u>\$ 1,416,553,629</u>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>			
General Fund	\$ 904,658,100	\$ 13,210,897	\$ 917,868,996
State Special Revenue Fund	66,686,061	684,339	67,370,400
Federal Special Revenue Fund	395,230,636	33,021,819	428,252,456
Enterprise Fund		110,357	110,357
Internal Service Fund		2,951,420	2,951,420
Total Expenditures & Transfers-Out	<u>1,366,574,797</u>	<u>49,978,831</u>	<u>1,416,553,629</u>
Less: Nonbudgeted Expenditures & Transfers-Out		285,406	285,406
Prior Year Expenditures & Transfers-Out Adjustments	(39,187)	(38,059)	(77,246)
Actual Budgeted Expenditures & Transfers-Out	<u>1,366,613,984</u>	<u>49,731,484</u>	<u>1,416,345,469</u>
Budget Authority	1,612,439,550	91,052,135	1,703,491,685
Unspent Budget Authority	<u>\$ 245,825,565</u>	<u>\$ 41,320,651</u>	<u>\$ 287,146,216</u>
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>			
General Fund	\$ 21,791,114	\$ 35,741	\$ 21,826,855
State Special Revenue Fund	9,166,870	66,610	9,233,480
Federal Special Revenue Fund	214,867,582	40,838,315	255,705,897
Enterprise Fund		10,355	10,355
Internal Service Fund		369,629	369,629
Unspent Budget Authority	<u>\$ 245,825,565</u>	<u>\$ 41,320,651</u>	<u>\$ 287,146,216</u>

OFFICE OF PUBLIC INSTRUCTION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>LOCAL EDUCATION ACTIVITIES</u>	<u>STATE LEVEL ACTIVITIES</u>	<u>Total</u>
Personal Services			
Salaries		\$ 10,591,787	\$ 10,591,787
Employee Benefits		3,557,240	3,557,240
Personal Services-Other		(37,803)	(37,803)
Total		<u>14,111,224</u>	<u>14,111,224</u>
Operating Expenses			
Other Services	\$ 1,125,840	11,146,801	12,272,640
Supplies & Materials	5,974	327,548	333,522
Communications	126	286,663	286,790
Travel		426,883	426,883
Rent		513,097	513,097
Utilities		854	854
Repair & Maintenance		11,685	11,685
Other Expenses		3,659,366	3,659,366
Total	<u>1,131,940</u>	<u>16,372,897</u>	<u>17,504,837</u>
Equipment & Intangible Assets			
Intangible Assets		744,568	744,568
Total		<u>744,568</u>	<u>744,568</u>
Local Assistance			
From State Sources	919,630,786	32,000	919,662,786
Total	<u>919,630,786</u>	<u>32,000</u>	<u>919,662,786</u>
Grants			
From State Sources	4,778,906	86,143	4,865,048
From Federal Sources	360,514,995	452,458	360,967,452
Grant To Governmental Entities	433,703	761	434,464
Total	<u>365,727,604</u>	<u>539,361</u>	<u>366,266,965</u>
Transfers-out			
Fund transfers	6,907,453	42,225	6,949,678
Intra-Entity Expense		2,240,395	2,240,395
Total	<u>6,907,453</u>	<u>2,282,620</u>	<u>9,190,073</u>
Debt Service			
Lease Liability		179,047	179,047
Total		<u>179,047</u>	<u>179,047</u>
Post Employment Benefits			
Other Post Employment Benefits		(3,636)	(3,636)
Employer Pension Expense		319,327	319,327
Total		<u>315,691</u>	<u>315,691</u>
Total Expenditures & Transfers-Out	<u>\$ 1,293,397,783</u>	<u>\$ 34,577,408</u>	<u>\$ 1,327,975,191</u>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>			
General Fund	\$ 873,123,837	\$ 12,022,448	\$ 885,146,285
State Special Revenue Fund	57,998,094	281,767	58,279,861
Federal Special Revenue Fund	362,275,852	19,434,914	381,710,766
Enterprise Fund		350,384	350,384
Internal Service Fund		2,487,895	2,487,895
Total Expenditures & Transfers-Out	<u>1,293,397,783</u>	<u>34,577,408</u>	<u>1,327,975,191</u>
Less: Nonbudgeted Expenditures & Transfers-Out		874,145	874,145
Prior Year Expenditures & Transfers-Out Adjustments	113,503	31,611	145,113
Actual Budgeted Expenditures & Transfers-Out	<u>1,293,284,280</u>	<u>33,671,652</u>	<u>1,326,955,933</u>
Budget Authority	1,761,296,033	67,451,757	1,828,747,790
Unspent Budget Authority	<u>\$ 468,011,753</u>	<u>\$ 33,780,105</u>	<u>\$ 501,791,858</u>
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>			
General Fund	\$ 5,797,087	\$ 763,935	\$ 6,561,022
State Special Revenue Fund	5,861,213	75,025	5,936,238
Federal Special Revenue Fund	456,353,453	32,162,089	488,515,542
Enterprise Fund		5,383	5,383
Internal Service Fund		773,672	773,672
Unspent Budget Authority	<u>\$ 468,011,753</u>	<u>\$ 33,780,105</u>	<u>\$ 501,791,858</u>



Office of Public Instruction  
 Notes to the Financial Schedules  
 For the Two Fiscal Years Ended June 30, 2023

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.

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, K-12 Student 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, the Equalization Account, 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, ESSER, 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, 2023.

**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, 2023, noncash liabilities related to state pension, OPEB Liabilities, compensated absences liabilities, and less than anticipated revenues are the primary causes of 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, 2023, noncash liabilities related to the state pension liability are the primary causes 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 2023 reflects the following material changes in activities:

Fiscal year 2021 to 2022 Comparative			
	Increases	Decreases	Activity
General Fund	22,710,054		Statutorily Driven Funding Increase in K-12 Distributions, Major Maintenance Aid Funding Transformational Learning Funding, Montana Advanced Opportunities and Special Education GTB Funding
State Special		(7,746,369)	Decrease in Facility and Tech and Guarantee special revenue

Fiscal Year 2022 to 2023 Comparative			
	Increases	Decreases	Activity
General Fund	33,686,328.00		Statutorily Driven Finding Increase in K-12 Distributions, GTB Funding, County Retirement GTB Funding Quality Educator Funding.
State Special	6,969,730.00		Increased Guarantee Account Activity & CSCT Transfers

4. **Unspent Budget Authority**

The Schedule of Total Expenditures & Transfers-Out for fiscal years 2022 and 2023 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 2022 Unspent Budget Authority**

	<u>Unspent Authority</u>	<u>Unspent Authority Reasons</u>
<b>General Fund</b>	6,561,022.00	Lower than estimated K-12 Base Aid, Transportation, MT Indian Lang Preservation, & Advancing Opportunity distributions.
<b>State Special</b>	5,936,238.00	Lower than anticipated claims for the CSCT program transferred to DPHHS & the allocation for the e-rate broadband program under HB 0181 remained unspent
<b>Federal Special</b>	488,515,542.00	Lower than estimated distributions for ESSER II, ESSER III, EANS 1, Montana Comprehensive Learning Program, and non Covid National School Lunch Program funds.

**Fiscal Year 2023 Unspent Budget Authority**

	<u>Unspent Authority</u>	<u>Unspent Authority Reasons</u>
<b>General Fund</b>	21,826,855.00	Lower than estimated K-12 Base Aid, Transportation, QE Incentive Starting Teacher, Advancing Opportunity distributions.
<b>State Special</b>	9,233,480.00	Lower than anticipated claims for the CSCT program transferred to DPHHS, & excess appropriation received through a supplemental.
<b>Federal Special</b>	255,705,897.00	Lower than estimated distributions for ESSER III, EANS II, & Montana Comprehensive Learning Program funds.

**5. Overstated Revenues**

Revenue was overstated by \$40,401,836 on the Schedule of Total Revenues & Transfers In within federal funds revenue account and the Schedule of Changes in Fund Equity for fiscal year 2023. At fiscal yearend there was an accrual for federal activities. A corresponding due from federal revenue accrual was completed in error. This caused the overstatement of revenues. The fund equity is overstated.

**6. Subsequent Events**

State Special Revenue will increase significantly in SFY24 due to an increase in revenue from DNRC based on the calculation of timber sale funding transferring to the Technology fund. There was also a statutory change that significantly shifts K-12 Base Aid funding from General Fund to State Special Revenue in SFY24.

# Report on Internal Control and Compliance



# LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Kenneth E. Varns, Legal Counsel



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Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller  
Miki Cestnik

## 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, 2023, and 2022, and the related notes to the financial schedules, and have issued our report thereon dated September 25, 2024.

### ***Report on Internal Control Over Financial Reporting***

In planning and performing our audit of the financial schedules, we considered the Office of Public Instruction's internal control over financial reporting 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 of Public Instruction's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office of Public Instruction's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.

- The draft Note 3 had information in it from the prior bluebook that had not been updated from the prior audit's notes. See further information in Finding and Recommendation #1.

### ***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Office of Public Instruction's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the Office of Public Instruction's response to the findings identified in our audit as described on page C-1 of this report. The Office of Public Instruction'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 of Public Instruction'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 of Public Instruction'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

September 25, 2024

OFFICE OF PUBLIC  
INSTRUCTION

OFFICE RESPONSE





Elsie Arntzen, Superintendent  
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OFFICE OF PUBLIC INSTRUCTION  
STATE OF MONTANA

Putting Montana Students First **A+**



November 21, 2024

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

RECEIVED  
November 21, 2024  
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 the review of the audit report, 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 training for current and existing staff.

In response to the state compliance recommendation, the Office is working to strengthen internal controls for all programs by implementing a more robust process that identifies areas with higher operational risk. The Office is confident the enhancements will address the current recommendations and aid in preventing future recommendations.

The following is our response to the recommendations contained in the Office of Public Instruction's (OPI) 2022-2023 audit report.

**Recommendation #1**

We recommend the Office of Public Instruction:

- A. Comply with state policy and federal regulations by completing internal risk assessments, documenting important internal control processes, monitoring office internal controls, and adequately documenting all office purchases, including travel.
- B. Provide staff with training on the importance of internal controls over financial reporting and compliance with federal regulations and state policy.



OPI Response: We Concur

- A. The OPI has already performed staff training to implement more robust documentation of important internal controls and the organization of important files and documents to be more readily accessible.
  - a. The OPI has begun to create stronger internal controls, and monitoring procedures for those created internal controls in compliance with MOM 399.
  - b. Finally, the Office has implemented stronger requirements on documents received for office purchases, including travel, to ensure all appropriate and necessary information is received at the time of payment in conjunction with 2 CFR 200 Subpart E.
  
- B. The OPI has already provided training to agency staff regarding documenting procedures, maintaining documentation, and implementing stronger internal controls over compliance to ensure a positive audit culture. These procedures, documentation, and internal controls will be monitored regularly to ensure full compliance with federal regulations and state policy are achieved and maintained.

Respectfully,

A handwritten signature in black ink, appearing to read "Elsie Arntzen". The signature is written in a cursive style with a large initial "E" and a long, sweeping underline.

Elsie Arntzen  
Montana State Superintendent

