



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Montana Board of Public Education*

*For the Two Fiscal Years Ended  
June 30, 2016*

MARCH 2017

LEGISLATIVE AUDIT  
DIVISION

16-22A

**LEGISLATIVE AUDIT  
COMMITTEE**

**REPRESENTATIVES**

RANDY BRODEHL, CHAIR  
[Randybrodehl57@gmail.com](mailto:Randybrodehl57@gmail.com)

KIM ABBOTT  
[Rep.Kim.Abbott@mt.gov](mailto:Rep.Kim.Abbott@mt.gov)

DAN BARTEL  
[Danbartel2@gmail.com](mailto:Danbartel2@gmail.com)

TOM BURNETT  
[Burnett.tom@gmail.com](mailto:Burnett.tom@gmail.com)

VIRGINIA COURT  
[virginacourt@yahoo.com](mailto:virginacourt@yahoo.com)

DENISE HAYMAN  
[Rep.Denise.Hayman@mt.gov](mailto:Rep.Denise.Hayman@mt.gov)

**SENATORS**

DEE BROWN  
[senatordee@yahoo.com](mailto:senatordee@yahoo.com)

TERRY GAUTHIER  
[Mrmac570@me.com](mailto:Mrmac570@me.com)

BOB KEENAN  
[Sen.Bob.Keenan@mt.gov](mailto:Sen.Bob.Keenan@mt.gov)

MARY McNALLY, VICE CHAIR  
[McNally4MTLeg@gmail.com](mailto:McNally4MTLeg@gmail.com)

J.P. POMNICHOWSKI  
[pomnicho@montanadsl.net](mailto:pomnicho@montanadsl.net)

GENE VUCKOVICH  
[Sen.Gene.Vuckovich@mt.gov](mailto:Sen.Gene.Vuckovich@mt.gov)

MEMBERS SERVE UNTIL A  
MEMBER'S LEGISLATIVE TERM  
OF OFFICE ENDS OR UNTIL A  
SUCCESSOR IS APPOINTED,  
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA,

FRAUD HOTLINE  
(STATEWIDE)  
1-800-222-4446  
(IN HELENA)  
444-4446  
[ladhotline@mt.gov](mailto:ladhotline@mt.gov)

**FINANCIAL-COMPLIANCE AUDITS**

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

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, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
Room 277, State Capitol  
P.O. Box 200802  
Helena, MT 59620-0802

Legislative Audit Division  
Room 160, State Capitol  
P.O. Box 201705  
Helena, MT 59620-1705

---

**AUDIT STAFF**

---

JOE ANDRIOLO  
SHANDELL VANDONSEL

JOHN FINE

---

Reports can be found in electronic format at:  
<http://leg.mt.gov/audit>

# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

March 2017

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Board of Public Education (board) for the two fiscal years ended June 30, 2016. Included in this report is one recommendation addressing internal controls over shared funds.

The board's written response to the audit recommendation is included in the audit report at page C-1. We thank the Executive Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver  
Legislative Auditor



## TABLE OF CONTENTS

Elected, Appointed, and Administrative Officials.....	ii
Report Summary .....	S-1
<b>CHAPTER I – INTRODUCTION.....</b>	<b>1</b>
Introduction .....	1
Background.....	1
Board of Public Education .....	1
Prior Audit Recommendations.....	2
<b>CHAPTER II – FINDINGS AND RECOMMENDATIONS.....</b>	<b>3</b>
Monitoring Cash Collections in Shared Funds.....	3
<b>INDEPENDENT AUDITOR’S REPORT AND BOARD FINANCIAL SCHEDULES</b>	
Independent Auditor’s Report .....	A-1
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2016 .....	A-5
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2015 .....	A-6
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2016.....	A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2015.....	A-8
Notes to the Financial Schedules .....	A-9
<b>REPORT ON INTERNAL CONTROL AND COMPLIANCE</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with <i>Government</i> <i>Auditing Standards</i> .....	B-1
<b>BOARD RESPONSE</b>	
Montana Board of Public Education .....	C-1

## ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

### Board of Public Education

Steve Bullock, Governor\*  
 Denise Juneau, Superintendent of Public Instruction\* (through January 1, 2017)  
 Elsie Arntzen, Superintendent of Public Instruction\* (as of January 2, 2017)  
 Clay Christian, Commissioner of Higher Education\*

		<u>Term Expires</u>
Sharon Carroll, Chairperson	Ekalaka	2019
Darlene Schottle, Vice Chairperson	Bigfork	2022
Paul Andersen	Bozeman	2020
Jesse Barnhart	Broadus	2018
Mary Jo Bremner	Browning	2021
Tammy Lacey	Great Falls	2023
Erin Williams	Missoula	2017
Molly Demarco (Student Representative)	Great Falls	2017

\* ex officio members

Peter Donovan, Executive Director

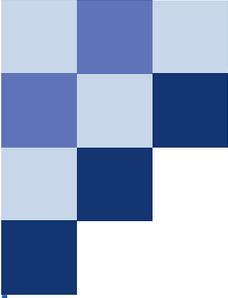
Kris Stockton, Administrative Specialist

### Certification Standards and Practices Advisory Council

Dr. Cindy O'Dell, Chairperson	Bigfork	2017
Kelly Elder, Vice Chairperson	Helena	2018
Noreen Burris	Billings	2017
Debbie Hendricks	Missoula	2018
Sabrina Steketee	Boulder	2018
Dr. Rob Watson	Bozeman	2019
Leanne Yenney	Bozeman	2017

For additional information concerning the Montana Board of Public Education, contact:

Peter Donovan, Executive Director  
 Montana Board of Public Education  
 P.O. Box 200601  
 Helena, MT 59620-0601  
 e-mail: [pdonovan@mt.gov](mailto:pdonovan@mt.gov)



# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### Montana Board of Public Education

For the Two Fiscal Years Ended June 30, 2016

MARCH 2017

16-22A

REPORT SUMMARY

The Montana Board of Public Education is supported by General Fund appropriations and yearly teacher license fees. These funds are collected and deposited by the Office of Public Instruction into a shared account with the board. The funding supports a significant portion of the expenditures and board activities which totaled approximately \$295,000 and \$308,000 in fiscal years 2015 and 2016, respectively. This report contains one recommendation to the board related to internal controls for monitoring cash collected for teacher license fee revenue.

### Context

The Montana Board of Public Education (board) was created by the Montana Constitution in 1972 to supervise, serve, maintain, and strengthen the public school system. The board presides over more than 400 school districts and the Montana School for the Deaf and Blind. The board is responsible for school accreditation standards and teacher certification, as well as adopting policies for various other education-related activities.

Collections associated with teacher license fees totaled approximately \$171,000 and \$169,000 in fiscal years 2015 and 2016, respectively. This funding does not result in revenue for the board because the revenue is already recognized by the Office of Public Instruction. Instead resources are provided to the board through direct entries to fund equity. Since the board has no activity on the Schedules of Total Revenues and Transfers-In, they are not included in this report.

We focused our audit effort on the review of expenditures related to other services, travel, and personal services. We also performed work

over budget authority and direct entries to fund equity, and evaluated compliance with selected state laws and regulations.

### Results

The current audit report contains one recommendation addressing the board's responsibility to monitor shared funds and establish internal controls to ensure its funding source is complete and accurate. We issued unmodified opinions on the financial schedules for each of the two fiscal years ended June 30, 2016. The prior audit report contained two recommendations which have been fully implemented.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (16-22A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>

Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE

Call toll-free 1-800-222-4446, or e-mail [ladhotline@mt.gov](mailto:ladhotline@mt.gov).



# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the Montana Board of Public Education (board) for the two fiscal years ended June 30, 2016. The objectives of the audit were to:

1. Determine whether the financial schedules present fairly, in all material respects, the results of operations and changes in fund equity for the board for each of the two fiscal years ended June 30, 2016, and 2015.
2. Obtain an understanding of the board's internal controls to the extent necessary to support our audit of the financial schedules and, if necessary, make recommendations for improvements in the management and internal controls.
3. Determine whether the board complies with selected laws and regulations.
4. Determine the implementation status of prior audit recommendations.

We addressed these objectives by focusing our audit effort on major activity of the board. This included analyzing other services, personal services, and travel expenditures; examining support for travel expenditures; and reviewing large transactions for reasonableness. We also performed work over budget authority and direct entries to fund equity. Throughout the audit, we reviewed and tested the board's control systems and evaluated compliance with selected state laws and regulations.

The board is supported by General Fund appropriations and yearly teacher license fees of \$6 collected and deposited into a shared account with the Office of Public Instruction (OPI). Collections associated with these fees totaled approximately \$171,000 and \$169,000 in fiscal years 2015 and 2016, respectively. This funding does not result in revenue for the board because the revenue is already recognized by OPI. Instead, resources are provided through direct entries to fund equity. The Schedules of Total Revenues & Transfers-In are not included in this report because there were no revenues or revenue estimates.

## **Background**

### **Board of Public Education**

It is the board's statutory responsibility to establish policies for school accreditation, teacher certification, state equalization aid distribution, special education, school bus standards, and various other education-related activities. The board consists of three ex officio members and seven members appointed by the governor and confirmed by the senate to serve seven year terms. A student, selected annually by the Montana

Association of Student Councils, also sits as a nonvoting member of the board. As of June 30, 2016, the board is authorized three full-time equivalent (FTE) staff, and employs two full-time and one part-time staff members. The board appoints a seven-member Certification Standards and Practices Advisory Council (CSPAC), authorized in §2-15-1522, MCA, for three year terms. CSPAC advises the board on certification issues concerning teachers, administrators, and specialists; professional standards and ethical conduct; and the status of approved teacher education programs in Montana.

### **Prior Audit Recommendations**

Our prior audit report of the board, for the two fiscal years ended June 30, 2014, contained two recommendations related to recording transactions in accordance with state accounting policy and spending appropriated Non-General Fund money before General Fund money as required by state law. The board fully implemented both of these audit recommendations.

## Chapter II – Findings and Recommendations

### Monitoring Cash Collections in Shared Funds

---

**The Montana Board of Public Education does not have controls in place to ensure cash collected and deposited by the Office of Public Instruction for teacher license fee revenue is complete and accurate.**

---

The Montana Board of Public Education (board) is supported in part by yearly teacher license fees recorded in the State Special Revenue Fund. The teacher license fees are collected and deposited by the Office of Public Instruction (OPI) in funds shared with the board. This cash is used in support of the operations of the board and the Certification Standards and Practices Advisory Council. The board administers these funds and is responsible for maintaining controls over activity in the funds. Teacher license fee revenues totaled approximately \$171,000 and \$169,000 in fiscal years 2015 and 2016, respectively.

State accounting policy requires management to monitor shared funds and to establish and maintain internal controls to ensure transactions are complete and accurate. During the audit, we determined the board did not have internal controls in place to ensure that cash collected and deposited by OPI is complete and accurate.

Without controls in place to ensure cash collected by OPI is complete and accurate, there is a risk for errors and misstatements to occur and not be detected and corrected in a timely manner. Cash could be recorded to an incorrect fund at OPI resulting in an understatement of cash for the board. Per discussion with management, the board is now working with OPI to develop controls over monitoring cash, but has not yet implemented a control process. Board management indicated that they have not had time to develop and implement this control process.

---

***RECOMMENDATION #1***

*We recommend the Montana Board of Public Education comply with state accounting policy and develop internal controls to monitor shared funds to ensure financial activity in these funds is complete and accurate.*

---



# Independent Auditor's Report and Board Financial Schedules



## LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### *Introduction*

We have audited the accompanying Schedules of Changes in Fund Equity and Schedules of Total Expenditures & Transfers-Out of the Montana Board of Public Education (board) for each of the fiscal years ended June 30, 2016, and 2015, and the related notes to the financial schedules.

### *Management's Responsibility for the Financial Schedules*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

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

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

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

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

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

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

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the board as of June 30, 2016, and June 30, 2015, or changes in financial position for the years then ended.

*Unmodified Opinions on Regulatory Basis of Accounting*

In our opinion, the Schedules of Changes in Fund Equity and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity of the board for each of the fiscal years ended June 30, 2016, and 2015, in conformity with the basis of accounting described in Note 1.

*Other Matters*

The board is supported by a General Fund appropriation and yearly teacher license fee revenues collected and deposited by the Office of Public Instruction (OPI). This funding does not result in revenue for the board because the revenue is already recognized by OPI and provided to the board through direct entries to fund equity. Therefore, the board has no activity on the Schedules of Total Revenues and these schedules are not included in this report.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2017, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

January 13, 2017



BOARD OF PUBLIC EDUCATION  
SCHEDULE OF CHANGES IN FUND EQUITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>State Special Revenue Fund</u>
FUND EQUITY: July 1, 2015	\$ <u>(4,973)</u>	\$ <u>89,036</u>
ADDITIONS		
Direct Entries to Fund Equity	<u>148,336</u>	<u>168,967</u>
Total Additions	<u>148,336</u>	<u>168,967</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	144,736	163,651
Nonbudgeted Expenditures & Transfers-Out	(421)	722
Prior Year Expenditures & Transfers-Out Adjustments	<u>(504)</u>	
Total Reductions	<u>143,811</u>	<u>164,372</u>
FUND EQUITY: June 30, 2016	\$ <u>(449)</u>	\$ <u>93,631</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION  
SCHEDULE OF CHANGES IN FUND EQUITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund
FUND EQUITY: July 1, 2014	\$ <u>(2,668)</u>	\$ <u>65,526</u>
ADDITIONS		
Direct Entries to Fund Equity	145,810	170,782
Total Additions	<u>145,810</u>	<u>170,782</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	148,470	147,453
Prior Year Expenditures & Transfers-Out Adjustments	<u>(355)</u>	<u>(182)</u>
Total Reductions	<u>148,115</u>	<u>147,271</u>
FUND EQUITY: June 30, 2015	\$ <u>(4,973)</u>	\$ <u>89,036</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>K-12 Education</u>	<u>Total</u>
<b>PROGRAM (ORG) EXPENDITURES &amp; TRANSFERS-OUT</b>		
Personal Services		
Salaries	\$ 152,025	\$ 152,025
Other Compensation	950	950
Employee Benefits	60,841	60,841
Total	<u>213,816</u>	<u>213,816</u>
Operating Expenses		
Other Services	28,395	28,395
Supplies & Materials	6,551	6,551
Communications	12,763	12,763
Travel	23,620	23,620
Rent	16,200	16,200
Other Expenses	6,838	6,838
Total	<u>94,368</u>	<u>94,368</u>
Total Expenditures & Transfers-Out	<u>\$ 308,184</u>	<u>\$ 308,184</u>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>		
General Fund	\$ 143,811	\$ 143,811
State Special Revenue Fund	164,372	164,372
Total Expenditures & Transfers-Out	<u>308,184</u>	<u>308,184</u>
Less: Nonbudgeted Expenditures & Transfers-Out	301	301
Prior Year Expenditures & Transfers-Out Adjustments	<u>(504)</u>	<u>(504)</u>
Actual Budgeted Expenditures & Transfers-Out	308,387	308,387
Budget Authority	<u>365,612</u>	<u>365,612</u>
Unspent Budget Authority	<u>\$ 57,225</u>	<u>\$ 57,225</u>
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>		
General Fund	\$ 42,798	\$ 42,798
State Special Revenue Fund	14,427	14,427
Unspent Budget Authority	<u>\$ 57,225</u>	<u>\$ 57,225</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>K-12 Education</u>	<u>Total</u>
<b>PROGRAM (ORG) EXPENDITURES &amp; TRANSFERS-OUT</b>		
Personal Services		
Salaries	\$ 146,885	\$ 146,885
Other Compensation	800	800
Employee Benefits	<u>55,204</u>	<u>55,204</u>
Total	<u>202,888</u>	<u>202,888</u>
Operating Expenses		
Other Services	32,496	32,496
Supplies & Materials	6,269	6,269
Communications	7,393	7,393
Travel	23,678	23,678
Rent	15,775	15,775
Other Expenses	<u>6,886</u>	<u>6,886</u>
Total	<u>92,498</u>	<u>92,498</u>
Total Expenditures & Transfers-Out	<u>\$ 295,387</u>	<u>\$ 295,387</u>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>		
General Fund	\$ 148,115	\$ 148,115
State Special Revenue Fund	<u>147,271</u>	<u>147,271</u>
Total Expenditures & Transfers-Out	295,387	295,387
Less: Nonbudgeted Expenditures & Transfers-Out		
Prior Year Expenditures & Transfers-Out Adjustments	<u>(537)</u>	<u>(537)</u>
Actual Budgeted Expenditures & Transfers-Out	295,923	295,923
Budget Authority	<u>394,678</u>	<u>394,678</u>
Unspent Budget Authority	<u>\$ 98,755</u>	<u>\$ 98,755</u>
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>		
General Fund	\$ 69,062	\$ 69,062
State Special Revenue Fund	<u>29,693</u>	<u>29,693</u>
Unspent Budget Authority	<u>\$ 98,755</u>	<u>\$ 98,755</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

**Board of Public Education**  
**Notes to the Financial Schedules**  
**For the Two Fiscal Years Ended June 30, 2016**

## **1. Summary of Significant Accounting Policies**

### **Basis of Accounting**

The Board of Public Education (Board) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category General and State Special Revenue. In applying the modified accrual basis, the Board 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 Board to record the cost of employees' annual and sick leave when used or paid.

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

### **Basis of Presentation**

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The Board uses the following funds:

### **Governmental Fund Category**

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Board State Special Revenue Funds include the Certification Standards and Practices Advisory Council (CSPAC) and the Research Fund account, both of which are funded by teacher certification fees.

## **2. Direct Entries to Fund Equity**

Direct entries to fund equity in the General and Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. In the General Fund, they are primarily the movement of cash resulting from the Board paying its obligations. In the State Special Revenue Funds, they are a result of the use of teacher licensure fees. Fees are collected by the Office of Public Instruction, but the Board administers the fund.

## **3. OTO Funds for Legal Services**

For the 2017 Biennium budget, the Board of Public Education gave up one vacant FTE, in exchange for One Time Only funds equaling \$30,000 for each year in the biennium (\$60,000 for the biennium) to dedicate to legal services. The Board contracts with Agency Legal Services under the Montana Department of Justice to perform legal functions on behalf of the Board, such as handling licensure appeals, requests for educator license revocation, acting as the hearings officer for hearings, and other miscellaneous legal issues that arise. These OTO funds are dedicated to the General Fund and its own subclass of 235H3. For the purposes of this audit, only FY16 has dedicated OTO funds for legal expenses. The Board did not have dedicated funds for legal expenses in FY15, therefore legal expenses were paid out of the Boards operating funds.

# Report on Internal Control and Compliance



# LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

## 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 and Schedules of Total Expenditures & Transfers-Out of the Montana Board of Public Education (board) for each of the fiscal years ended June 30, 2016, and 2015, and the related notes to the financial schedules, and have issued our report thereon dated January 13, 2017.

### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial schedules, we considered the board's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control. Accordingly, we do not express an opinion on the effectiveness of the board'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 were not identified. Given these limitations, during our audit we did not identify

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be a significant deficiency.

- ◆ As described on page 3 of this report, the board does not have controls in place to ensure that cash received from teacher license fee revenues collected by the Office of Public Instruction and used to fund the board's activity are complete and accurate. As a result cash could be understated, which is considered a significant deficiency.

### *Compliance and Other Matters*

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

### *The Board of Public Education Response to Findings*

The board's response to the findings identified in our audit are described on page C-1 of this report. The board'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 board'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 board'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

January 13, 2017

MONTANA BOARD OF  
PUBLIC EDUCATION

BOARD RESPONSE



State of Montana



## Board of Public Education

PO Box 200601  
 Helena, Montana 59620-0601  
 (406) 444-6576  
 www.bpe.mt.gov

March 7, 2017

**BOARD MEMBERS****APPOINTED MEMBERS:**

Sharon Carroll - Chair  
 Ekalaka

Darlene Schottle-Vice Chair  
 Big Fork

Paul Andersen  
 Bozeman

Erin Williams  
 Missoula

Jesse Barnhart  
 Broadus

Mary Jo Bremner  
 Browning

Tammy Lacey  
 Great Falls

Molly DeMarco, Student Rep.  
 Great Falls

**EX OFFICIO MEMBERS:**

Clayton Christian  
 Commissioner of  
 Higher Education

Elsie Arntzen,  
 Superintendent of  
 Public Instruction

Steve Bullock, Governor

**EXECUTIVE DIRECTOR:**

Pete Donovan

Angus Maciver  
 Legislative Auditor  
 Legislative Audit Division  
 State Capitol Building, Room 160  
 Helena MT 59620

The purpose of this letter is to provide comments by the Board of Public Education (BPE) concerning the Legislative Audit Division's financial compliance audit. We thank the legislative Audit Division and specifically Joe Andriolo for his hard work and professionalism during this audit. The following is our response to the recommendation in the financial compliance audit.

**Recommendation #1:**

**We recommend the Montana Board of Public Education comply with state accounting policy and develop internal controls to monitor shared funds to ensure financial activity in these funds is complete and accurate.**

We concur. The Board of Public Education (BPE) and the Office of Public Instruction (OPI) are currently working together in monitoring these shared funds. As of September 2016, the BPE is receiving monthly reports from the OPI showing the total deposited monies in the shared accounts. The BPE is in the process of creating a reconciliation process to verify the deposited monies are being balanced correctly. The BPE expects this process to be fully implemented in the coming months.

Thank you for the opportunity to comment on the financial audit. We will implement these recommendations.

Sincerely,

Peter Donovan  
 Executive Director  
 Board of Public Education

RECEIVED  
 MAR 08 2017  
 LEGISLATIVE AUDIT DIV.