

Legislative Audit Division

State of Montana



Report to the Legislature

September 2004

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2004

Board of Public Education

This report contains an unqualified opinion on the financial schedules and no recommendations to the board.

Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

04-22B

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FINANCIAL-COMPLIANCE AUDITS

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

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

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

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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LEGISLATIVE AUDIT DIVISION

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



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

September 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Public Education (board) for the two fiscal years ended June 30, 2004. The objectives of our audit included determining whether the board's financial schedules presented fairly its financial position and results of operations at and for the period ended June 30, 2004, and assessing the board's compliance with applicable laws and regulations.

The board was created by Article X, section 9, of the 1972 Montana Constitution. The board consists of three ex officio members and seven members appointed by the governor and confirmed by the senate. A student, selected annually by the Montana Association of Student Councils, also sits as a non-voting member of the board.

There is a seven-member Certification Standards and Practices Advisory Council, authorized in section 2-15-1522, MCA, which makes recommendations to the board.

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. Included in this report is a list of the current members of the Board of Public Education.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial schedules and accompanying notes. We issued an unqualified opinion, which means the reader can rely on the presented information. The board's response to this report is included on page B-1.

This report does not contain any recommendations to the board. The prior financial-compliance audit report, issued for fiscal years 2000-01 and 2001-02, did not contain any recommendations.

We thank the Executive Secretary and the staff for their cooperation and assistance during the audit.

Respectfully submitted,

(Signature on File)

Scott A. Seecat
Legislative Auditor

Appointed and Administrative Officials

Board of Public Education

Judy Martz, Governor*

Linda McCullough, Superintendent of Public Instruction*

Sheila M. Stearns, Commissioner of Higher Education*

		<u>Term Expires</u>
Dr. Kirk Miller, Chairperson	Havre	2009
Diane Fladmo, Vice Chairperson	Glendive	2005
Storrs Bishop	Ennis	2010
Cal Gilbert	Great Falls	2011
John Fuller	Whitefish	2008
Patty Myers	Great Falls	2007
Randy Morris	Butte	2006
Erik Engellant, Student Representative	Great Falls	2004

*ex officio members

Steve Meloy, Executive Secretary

Certification Standards and Practices Advisory Council

		<u>Term Expires</u>
Gloria Curdy, Chairperson	Missoula	2005
Scott McCulloch, Vice Chairperson	Billings	2006
Charla Bunker	Great Falls	2005
Melodee Smith-Burreson	Missoula	2006
Dr. Douglas Reisig	Missoula	2004
Dan Villa	Anaconda	2004
Dr. George White	Billings	2005

Peter Donovan, Administrative Officer

For additional information regarding the board contact:

Steve Meloy, Executive Secretary
 Board of Public Education
 PO Box 200601
 Helena MT 59620-0601
 Phone: (406) 444-6576
 e-mail: smeloy@bpe.montana.edu

Members of the audit staff involved in this audit were Laurie Barrett, Melissa Heinert, and Jim Manning.

LEGISLATIVE AUDIT DIVISION

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



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

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures and Transfers-Out of the Board of Public Education for each of the fiscal years ended June 30, 2003 and 2004. The information contained in these financial schedules is the responsibility of the board's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

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

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

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Board of Public Education for each of the fiscal years ended June 30, 2003 and 2004, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

August 10, 2004

BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2003	\$ <u>2,331</u>	\$ <u>154,965</u>	\$ <u>0</u>
ADDITIONS			
NonBudgeted Revenues & Transfers-In	825	5,500	
Direct Entries to Fund Balance	<u>152,061</u>	<u>166,837</u>	<u>22,789</u>
Total Additions	<u>152,886</u>	<u>172,337</u>	<u>22,789</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	151,223	152,783	22,789
NonBudgeted Expenditures & Transfers-Out	<u>1,078</u>	<u>6,320</u>	
Total Reductions	<u>152,301</u>	<u>159,103</u>	<u>22,789</u>
FUND BALANCE: June 30, 2004	\$ <u>2,916</u>	\$ <u>168,199</u>	\$ <u>0</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 BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund
FUND BALANCE: July 1, 2002	\$ <u>2,966</u>	\$ <u>126,871</u>
ADDITIONS		
NonBudgeted Revenues & Transfers-In	331	
Direct Entries to Fund Balance	<u>155,315</u>	<u>175,557</u>
Total Additions	<u>155,646</u>	<u>175,557</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	156,106	144,817
NonBudgeted Expenditures & Transfers-Out		2,646
Prior Year Expenditures & Transfers-Out Adjustments	<u>175</u>	
Total Reductions	<u>156,281</u>	<u>147,463</u>
FUND BALANCE: June 30, 2003	\$ <u><u>2,331</u></u>	\$ <u><u>154,965</u></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 REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Taxes	\$ 789		\$ 789
Miscellaneous	36		36
Grants, Contracts, Donations and Abandonments		\$ 5,500	5,500
Total Revenues & Transfers-In	<u>825</u>	<u>5,500</u>	<u>6,325</u>
Less: Nonbudgeted Revenues & Transfers-In	<u>825</u>	<u>5,500</u>	<u>6,325</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</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 REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General Fund</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS	
Taxes	\$ 272
Miscellaneous	59
Total Revenues & Transfers-In	<u>331</u>
Less: Nonbudgeted Revenues & Transfers-In	331
Actual Budgeted Revenues & Transfers-In	0
Estimated Revenues & Transfers-In	0
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</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, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>ADMINISTRATION</u>	<u>ADVISORY COUNCIL</u>	<u>TOTAL</u>
Personal Services			
Salaries	\$ 69,961	\$ 94,922	\$ 164,883
Other Compensation	1,350		1,350
Employee Benefits	17,207	29,289	46,496
Total	<u>88,518</u>	<u>124,211</u>	<u>212,729</u>
Operating Expenses			
Other Services	25,418	5,831	31,249
Supplies & Materials	5,208	2,797	8,005
Communications	2,272	2,343	4,615
Travel	33,702	12,652	46,354
Rent	4,517	4,280	8,797
Repair & Maintenance	485		485
Other Expenses	18,774	3,185	21,959
Total	<u>90,376</u>	<u>31,088</u>	<u>121,464</u>
Total Expenditures & Transfers-Out	<u>\$ 178,894</u>	<u>\$ 155,299</u>	<u>\$ 334,193</u>
 EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 152,301		\$ 152,301
State Special Revenue Fund	3,804	\$ 155,299	159,103
Federal Special Revenue Fund	22,789		22,789
Total Expenditures & Transfers-Out	<u>178,894</u>	<u>155,299</u>	<u>334,193</u>
Less: Nonbudgeted Expenditures & Transfers-Out	<u>4,883</u>	<u>2,515</u>	<u>7,398</u>
Actual Budgeted Expenditures & Transfers-Out	174,011	152,784	326,795
Budget Authority	<u>212,379</u>	<u>170,622</u>	<u>383,001</u>
Unspent Budget Authority	<u>\$ 38,368</u>	<u>\$ 17,838</u>	<u>\$ 56,206</u>
 UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 21,128		\$ 21,128
State Special Revenue Fund	15,029	\$ 17,838	32,867
Federal Special Revenue Fund	2,211		2,211
Unspent Budget Authority	<u>\$ 38,368</u>	<u>\$ 17,838</u>	<u>\$ 56,206</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, 2003

	<u>ADMINISTRATION</u>	<u>ADVISORY COUNCIL</u>	<u>TOTAL</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT			
Personal Services			
Salaries	\$ 87,045	\$ 77,441	\$ 164,486
Other Compensation	1,850		1,850
Employee Benefits	21,540	21,383	42,923
Total	<u>110,435</u>	<u>98,824</u>	<u>209,259</u>
Operating Expenses			
Other Services	4,838	17,759	22,597
Supplies & Materials	4,441	4,934	9,375
Communications	2,479	2,266	4,745
Travel	17,190	17,546	34,736
Rent	5,516	4,943	10,459
Repair & Maintenance	1,089		1,089
Other Expenses	10,293	1,191	11,484
Total	<u>45,846</u>	<u>48,639</u>	<u>94,485</u>
Total Expenditures & Transfers-Out	<u>\$ 156,281</u>	<u>\$ 147,463</u>	<u>\$ 303,744</u>
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 156,281		\$ 156,281
State Special Revenue Fund		\$ 147,463	147,463
Total Expenditures & Transfers-Out	<u>156,281</u>	<u>147,463</u>	<u>303,744</u>
Less: Nonbudgeted Expenditures & Transfers-Out		2,646	2,646
Prior Year Expenditures & Transfers-Out Adjustments	<u>175</u>		<u>175</u>
Actual Budgeted Expenditures & Transfers-Out	156,106	144,817	300,923
Budget Authority	<u>189,828</u>	<u>187,653</u>	<u>377,481</u>
Unspent Budget Authority	<u>\$ 33,722</u>	<u>\$ 42,836</u>	<u>\$ 76,558</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 21,681		\$ 21,681
State Special Revenue Fund	12,041	\$ 42,836	54,877
Unspent Budget Authority	<u>\$ 33,722</u>	<u>\$ 42,836</u>	<u>\$ 76,558</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, 2004

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

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the board incurs the related liability and it is measurable. With the exception of the cost of employees' annual and sick leave, state accounting policy also requires the board to record the cost of employees' annual leave and sick leave when used or paid.

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

Board accounts are organized in funds according to state law applicable at the time transactions were recorded. 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.

Notes to the Financial Schedules

State Special Revenue Fund – to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Board State Special Revenue Funds include the Certification Standards and Practices Advisory Council account, the Research Fund account, both of which are funded by teacher certification fees. State Special Revenue Funds also include the Montana Commission on Teaching account, which is privately funded through the National Commission of Teachers.

Federal Special Revenue Fund – to account for money received from federal sources used for the operation of state government. The Federal Special Revenue Funds are from Growth and Tax Relief Reconciliation Act Funds.

2. **General Fund Balance**

Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. The board's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balances for each of the two fiscal years ended June 30, 2003 and June 30, 2004. The balances reflect activity at the board and not the fund balance of the statewide General Fund.

3. **Direct Entries to Fund Balance**

Direct entries to fund balances in the General and State Special Revenue Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.



Board of Public Education

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Helena, Montana 59620-0601
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mtbpe@bpe.montana.edu
www.montana.edu/~wwwbpe

September 2, 2004

BOARD MEMBERS

APPOINTED MEMBERS:

Dr. Kirk Miller, Ed.D.- Chair
Havre

Diane Fladmo - Vice Chair
Glendive

Storrs Bishop
Ennis

John Fuller
Whitefish

Randy Morris
Butte

Patty Myers
Great Falls

Joyce Silverthorne
Dixon

Erik Engellant, Student Rep.
Great Falls

EX OFFICIO MEMBERS:

Sheila Stearns, Ed. D.
Commissioner of
Higher Education

Linda McCulloch,
Superintendent of
Public Instruction

Judy Martz, Governor

EXECUTIVE SECRETARY:

Steve Meloy

Scott A. Seacat, Legislative Auditor
Legislative Audit Division
Room 160
State Capitol
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

I have been afforded the opportunity to respond to the recent audit conducted by Laurie Barrett and Melissa Heinert of the Legislative Audit Division. The audit covered the financial and programmatic operations of the Board of Public Education for two fiscal years ending June 30, 2004.

On behalf of the Board of Public Education and its staff, please allow me to recognize and express our gratitude for the courteous and professional manner with which this audit was conducted. The board staff looks forward to this agency interaction as a way to ensure that our activities are not only aligned with state procedural and financial requirements but that we are operating in a manner consistent with our statutory and constitutional obligations.

Your staff, led by James Gillett, entered our work world in a friendly, very helpful and unintimidating fashion. Though they dealt in both areas of specificity and general application of law we felt that all appropriate areas were examined in a user friendly and thorough manner.

The Board of Public Education is one of the smallest agencies in government. Because of limited staff it is sometimes difficult to respond to the many types of technical demands made on all agencies. Where larger agencies have separate staff dealing with such areas as financial compliance, personnel, budgetary, Information Technology, etc. we cover all areas, in most cases, with one or two FTE. We appreciate your consideration of this reality as you conduct your audit.

Again, thank you for your attention and favorable findings and on behalf of our staff, we look forward to the next audit.

Sincerely,

Steve Meloy
Executive Secretary, Board of Public Education

Cc: James Gillett
Laurie Barrett
Melissa Heinert

RECEIVED

SEP 03 2004

LEGISLATIVE AUDIT DIV.