



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Board of Public
Education*

*For the Two Fiscal Years Ended
June 30, 2008*

OCTOBER 2008

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DIVISION

08-22B

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

October 2008

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, 2008. This report contains two recommendations where the board should improve compliance with state accounting policy. The board's written response to the audit recommendations are included at the end of the audit report.

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Board of Public Education

Brian Schweitzer, Governor*

Linda McCulloch, Superintendent of Public Instruction*

Sheila M. Stearns, Commissioner of Higher Education*

		<u>Term Expires</u>
Patty Myers, Chairperson	Great Falls	2014
Angela McLean, Vice Chairperson	Anaconda	2013
Storrs Bishop	Ennis	2010
Sharon Carroll	Ekalaka	2012
Cal Gilbert	Great Falls	2011
Dr. Kirk Miller	Bozeman	2009
Bernard Olson	Lakeside	2015
Katie Wood, Student Representative	Laurel	2009

*ex officio members

Steve Meloy, Executive Secretary

Certification Standards and Practices Advisory Council

		<u>Term Expires</u>
Dr. Douglas Reisig, Chairperson	Missoula	2010
Melodee Smith-Burres, Vice Chairperson	Missoula	2009
Sharon Applegate	Kalispell	2011
Judie Woodhouse	Billings	2009
Tonia Bloom	Hamilton	2010
Patty Muir	Laurel	2011
Mary Susan Fishbaugh	Billings	2011

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@montana.edu

REPORT SUMMARY

Board of Public Education

This report contains the results of our financial-compliance audit of the Board of Public Education (board) for the two fiscal years ended June 30, 2008. We issued a qualified opinion on the fiscal year 2006-07 and 2007-08 Schedules of Expenditures & Transfers-Out and an unqualified opinion on the other fiscal year 2006-07 and 2007-08 financial schedules contained in this report. The Independent Auditor’s Report on page A-3 and the recommendation on page 3 discuss the misstatement on the board’s financial schedules. The reader should use caution when relying on the financial information presented and the supporting information on the state’s accounting system.

This report contains two recommendations to the board related to compliance with state accounting policies. The prior audit report contained no recommendations to the board.

The listing below serves as a means of summarizing the recommendation contained in the report, the board’s response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend that the board:

- A. Record expenditures related to rent and payroll in the proper year according to state accounting law and policy.
 - B. Develop and implement controls to properly record expenditures at fiscal year-end. 4
- Board Reponse: Concur..... B-3

Recommendation #2

- We recommend the board implement procedures for monitoring and testing its internal control procedures.4
- Board Reponse: Concur..... B-3

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Board of Public Education (board) for the two fiscal years ended June 30, 2008. The objectives of our audit were to:

1. Determine the board’s compliance with selected state laws and regulations.
2. Obtain an understanding of the board’s internal control to the extent necessary to support our audit of the financial schedules and if necessary, make recommendations for improvements in management and internal controls of the board.
3. Determine if the board’s financial schedules are fairly presented for the two fiscal years ended June 30, 2008.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendation made in this report. Areas of concern deemed not to have significant effect on the successful operations of the board are not specifically included in the report, but have been discussed with management.

Auditing standards require us to communicate, in writing, control deficiencies we identified as a result of audit objective #2 above and considered to be significant or material. A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis. A significant deficiency affects management’s ability to accurately process transactions. A material weakness is one or more significant deficiencies that adversely affect management’s ability to fairly present its financial schedules.

Table 1 below summarizes the status of significant deficiencies and material weaknesses we identified during our audit.

Subject	Significant Deficiency	Material Weakness	Page
Fiscal Year-End Misstatements	Yes	No	3
Internal Controls	Yes	No	4

Areas of concern, if any, regarding compliance with laws and regulations and state accounting policy deemed not to have a significant effect on the successful operations of

the board's programs are not specifically included in this report, but have been discussed with management.

Background

Board of Public Education

The Board of Public Education 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 nonvoting member of the board. As of June 30, 2008, the board was comprised of four FTE.

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.

Certification Standards and Practices Advisory Council

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

The Certification Standards and Practices Advisory Council (CSPAC) was established by the Montana Legislature in 1987. Board members are appointed by the Board of Public Education and serve three year terms. The mission of the CSPAC is to study and to make recommendations to the Board of Public Education on certification issues concerning teachers, administrators, and specialists; professional standards and ethical conduct; the status and efficacy of approved teacher education programs in Montana; and policies related to the denial, suspension, and revocation of educator certification and the appeals process.

Chapter II – Findings and Recommendations

Fiscal Year-End Misstatements

The Board of Public Education recorded \$25,721 related to rent and payroll expenditures and prepaid expenses in the wrong fiscal year.

Section 17-1-102(4), MCA, states “all state agencies ...shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.” State accounting policies adopted by the Department of Administration are designed to implement the requirements of this law.

During the course of the audit we tested and found errors in transactions related to rent, payroll, and prepaid expenses. The following section describes three instances of accounting errors related to these transactions.

- ♦ The board was not billed for its fiscal year 2006-07 rent until June 2008. At that time the board properly recorded the \$8,250 as prior year rent expenditure on the accounting system, however the board did not properly accrue this expense in fiscal year 2006-07. This prior year expenditure appears on the fiscal year 2007-08 Schedule of Total Expenditures and Transfers-Out.
- ♦ The first payroll of fiscal year 2006-07 was incorrectly recorded because it was not split between fiscal year 2005-06 and fiscal year 2006-07. There was a correcting entry recorded to split the payroll between fiscal years as appropriate, but the original journals were not reversed. This resulted in salaries and benefits being overstated by \$9,567, the amount of the original journal.
- ♦ State policy defines prepaid expenses as: “prepayments for goods and services not yet received...” When the goods or services are received, the prepaid expense account is reduced and the amount is charged to the appropriate expenditure account. At fiscal year-end 2001-02, the board had a prepaid expense balance totaling \$7,904 on the state’s accounting records. The board did not properly reduce their prepaid expense account in the proper fiscal years when the goods or services were received until fiscal year 2007-08, when the error was identified by the Department of Administration.

These issues contributed to the Independent Auditor’s Report qualification on page A-3. Board management said that the accounting errors were the result of oversight. The board should expand its current fiscal year-end procedures to ensure all financial activity is properly recorded in the appropriate fiscal year. The board has fiscal year-end procedures that worked properly in fiscal year 2007-08.

RECOMMENDATION #1

We recommend that the board:

- A. *Record expenditures related to rent and payroll in the proper year according to state accounting law and policy.*
 - B. *Develop and implement controls to properly record expenditures at fiscal year-end.*
-

Internal Controls

The board has not fully implemented its internal control procedures in accordance with state accounting policy.

We identified errors that resulted in significant control deficiencies, as described in the prior section on accounting errors. These accounting errors may have been detected by board staff if monitoring and testing procedures for established internal controls had been in place.

State accounting policy outlines management's responsibility for establishing and maintaining agency internal controls to safeguard and account for the resources entrusted to them to carry out government programs. To assist agencies with the implementation process, the Department of Administration issued an Internal Control Guidebook. The guide includes an internal control evaluation and monitoring plan, which recommends agencies monitor and test internal controls and evaluate and report the results of its testing.

We found during the course of our audit that the board has documented its control procedures. However at the end of fiscal year 2007-08, the board had not established a plan to monitor and test its internal controls. In addition, no actual testing or monitoring has been completed. The board should develop and implement monitoring and testing procedures to comply with state policy.

RECOMMENDATION #2

We recommend the board implement procedures for monitoring and testing its internal control procedures.

Independent Auditor's Report and Board Financial Schedules

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

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, and Schedules of Total Expenditures and Transfers-Out of the Board of Public Education for each of the fiscal years ended June 30, 2008, and 2007. 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, these financial schedules are prepared on the basis of Montana state accounting policy, which is 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.

The board recorded its fiscal year 2006-07 rent expense in fiscal year 2007-08. As a result, rent expense for the board's Advisory Council program is understated in fiscal year 2006-07 and overstated in fiscal year 2007-08 by \$8,250 on the Schedule of Total Expenditures & Transfers-Out.

The fiscal year 2005-06 payroll should have been split between fiscal years 2005-06 and 2006-07 for the number of days in each fiscal year. The lump sum of the fiscal year-end 2005-06 payroll was recorded in fiscal year 2006-07 resulting in Salaries and Employee Benefits being overstated by \$7,321 and \$2,246, respectively, on the Schedule of Total Expenditures & Transfers-Out.

In fiscal year 2007-08 the board properly reduced previous year's prepaid expenses which should have been done several years before. This resulted in overstated ending fund balances in fiscal year 2006-07. The Ending Fund Balances on the fiscal year 2006-07 Schedule of Changes in Fund Balances were overstated by \$7,816 in the General Fund and by \$88 in the State Special Revenue Fund.

In our opinion, except for the effects of the matters discussed in the preceding three paragraphs, 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, 2008, and 2007, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 14, 2008

BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund
FUND BALANCE: July 1, 2007	\$ <u>7,842</u>	\$ <u>129,008</u>
ADDITIONS		
Nonbudgeted Revenues	294	
Direct Entries to Fund Balance	<u>198,484</u>	<u>169,445</u>
Total Additions	<u>198,778</u>	<u>169,445</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	210,287	169,346
Nonbudgeted Expenditures & Transfers-Out		375
Prior Year Expenditures & Transfers-Out Adjustments		<u>8,460</u>
Total Reductions	<u>210,287</u>	<u>178,181</u>
FUND BALANCE: June 30, 2008	\$ <u><u>(3,667)</u></u>	\$ <u><u>120,272</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-11.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund
FUND BALANCE: July 1, 2006	\$ <u>6,598</u>	\$ <u>150,369</u>
ADDITIONS		
Nonbudgeted Revenues	366	2,000
Direct Entries to Fund Balance	<u>175,910</u>	<u>167,345</u>
Total Additions	<u>176,276</u>	<u>169,345</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	175,198	189,136
Nonbudgeted Expenditures & Transfers-Out	<u>(166)</u>	<u>1,571</u>
Total Reductions	<u>175,032</u>	<u>190,707</u>
FUND BALANCE: June 30, 2007	\$ <u><u>7,842</u></u>	\$ <u><u>129,008</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-11.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL REVENUES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS		
Taxes	\$ 294	\$ 294
Total Revenues	<u>294</u>	<u>294</u>
Less: Nonbudgeted Revenues	294	294
Prior Year Revenues Adjustments		<u>0</u>
Actual Budgeted Revenues	<u>0</u>	<u>0</u>
Estimated Revenues	400	400
Budgeted Revenues Over (Under) Estimated	<u>\$ (400)</u>	<u>\$ (400)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS		
Taxes	\$ (400)	\$ (400)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (400)</u>	<u>\$ (400)</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.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL REVENUES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Taxes	\$ 366		\$ 366
Miscellaneous		\$ 2,000	2,000
Total Revenues	<u>366</u>	<u>2,000</u>	<u>2,366</u>
Less: Nonbudgeted Revenues	366	2,000	2,366
Prior Year Revenues Adjustments			0
Actual Budgeted Revenues	<u>0</u>	<u>0</u>	<u>0</u>
Estimated Revenues			0
Budgeted Revenues Over (Under) Estimated	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Budgeted Revenues 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-11.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>ADVISORY COUNCIL</u>	<u>K-12 EDUCATION</u>	<u>Total</u>
Personal Services			
Salaries		\$ 204,111	\$ 204,111
Other Compensation		1,300	1,300
Employee Benefits		65,010	65,010
Total		<u>270,421</u>	<u>270,421</u>
Operating Expenses			
Other Services		9,774	9,774
Supplies & Materials	\$ 210	7,608	7,818
Communications		3,927	3,927
Travel		39,302	39,302
Rent	8,250	12,476	20,726
Repair & Maintenance		2,370	2,370
Other Expenses		34,130	34,130
Total	<u>8,461</u>	<u>109,587</u>	<u>118,047</u>
Total Expenditures & Transfers-Out	<u>\$ 8,461</u>	<u>\$ 380,008</u>	<u>\$ 388,468</u>
 EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund		\$ 210,287	\$ 210,287
State Special Revenue Fund	\$ 8,460	169,721	178,181
Total Expenditures & Transfers-Out	8,460	380,008	388,468
Less: Nonbudgeted Expenditures & Transfers-Out		375	375
Prior Year Expenditures & Transfers-Out Adjustments	8,460		8,460
Actual Budgeted Expenditures & Transfers-Out	<u>0</u>	<u>379,633</u>	<u>379,633</u>
Budget Authority		391,314	391,314
Unspent Budget Authority	<u>\$ 0</u>	<u>\$ 11,681</u>	<u>\$ 11,681</u>
 UNSPENT BUDGET AUTHORITY BY FUND			
General Fund		\$ 2,601	\$ 2,601
State Special Revenue Fund	\$ 9,080	9,080	9,080
Unspent Budget Authority	<u>\$ 0</u>	<u>\$ 11,681</u>	<u>\$ 11,681</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.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>Administration</u>	<u>Advisory Council</u>	<u>Total</u>
Personal Services			
Salaries	\$ 115,483	\$ 87,793	\$ 203,276
Other Compensation	750	150	900
Employee Benefits	31,802	28,349	60,151
Total	<u>148,035</u>	<u>116,292</u>	<u>264,327</u>
Operating Expenses			
Other Services	7,068	9,922	16,990
Supplies & Materials	5,337	3,462	8,799
Communications	2,170	3,441	5,612
Travel	28,200	12,466	40,666
Rent	740	95	835
Repair & Maintenance		687	687
Other Expenses	22,187	5,585	27,772
Total	<u>65,702</u>	<u>35,658</u>	<u>101,360</u>
Transfers			
Accounting Entity Transfers	52		52
Total	<u>52</u>		<u>52</u>
Total Expenditures & Transfers-Out	<u>\$ 213,789</u>	<u>\$ 151,950</u>	<u>\$ 365,739</u>
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 175,032		\$ 175,032
State Special Revenue Fund	38,757	\$ 151,950	190,707
Total Expenditures & Transfers-Out	<u>213,789</u>	<u>151,950</u>	<u>365,739</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(166)	1,570	1,404
Prior Year Expenditures & Transfers-Out Adjustments			
Actual Budgeted Expenditures & Transfers-Out	<u>213,955</u>	<u>150,380</u>	<u>364,335</u>
Budget Authority	215,291	171,239	386,530
Unspent Budget Authority	<u>\$ 1,336</u>	<u>\$ 20,859</u>	<u>\$ 22,195</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 999		\$ 999
State Special Revenue Fund	337	\$ 20,859	21,196
Unspent Budget Authority	<u>\$ 1,336</u>	<u>\$ 20,859</u>	<u>\$ 22,195</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.

Board of Public Education
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2008

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 realizable, measurable, earned, 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.

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 legally restricted to expenditures for specific purposes. Board State Special Revenue Funds include the Certification Standards and Practices Advisory Council account and 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.

2. General Fund Balance

The board has authority to pay obligations from the statewide General Fund within its appropriation limits. The negative fund balance in the General Fund does not indicate overspent appropriation authority. The board expends cash or other assets from the statewide fund when it pays General Fund obligations. The board's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balance for the fiscal year ended June 30, 2008. The board's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balance for the fiscal year ended June 30, 2007. These balances reflect the results of the activity of 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.

4. Reorganization

The 2003 Legislative Session amended section 20-4-109, MCA, (1)(b) to allow the Board of Public Education and the Certification Standards and Practices Advisory Council to utilize special revenue for activities in support of the constitutional and statutory duties of each. This legislation allowed the Board of Public Education, whose general funds are in an administration program (03) to facilitate the transfer of funds when needed. The Board submitted a reorganization plan to the Governor in 2008. This reorganization resulted in one program, K-12 Education (01) as reported on the Schedule of Total Expenditures & Transfers-Out for fiscal year 2008.

BOARD OF PUBLIC
EDUCATION

BOARD RESPONSE



Board of Public Education

B-3
PO Box 200601
Helena, Montana 59620-0601
(406) 444-6576
www.bpe.mt.gov

BOARD MEMBERS

APPOINTED MEMBERS:

Patty Myers – Chair
Great Falls

Angela McLean – Vice Chair
Anaconda

Kirk Miller, Ed.D.
Bozeman

Storrs Bishop
Ennis

Cal Gilbert
Great Falls

Sharon Carroll
Ekalaka

Bernie Olson
Lakeside

Katie Wood, Student Rep.
Laurel

EX OFFICIO MEMBERS:

Sheila Stearns, Ed.D.
Commissioner of
Higher Education

Linda McCulloch,
Superintendent of
Public Instruction

Brian Schweitzer, Governor

EXECUTIVE SECRETARY:

Steve Meloy

September 18, 2008

Tori Hunthausen, CPA
Legislative Auditor
Legislative Audit Division
P.O. Box 201705
Helena, MT 59620-1705

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SEP 18 2008

LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

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 Chris Darragh and David Brammer for their hard work and professionalism during this audit. The following is our response to the recommendations in the financial compliance audit.

Recommendation #1

We recommend that the board:

- A. Record expenditures related to rent and payroll in the proper year according to state accounting law and policy.**
- B. Develop and implement controls to properly record expenditures at fiscal year-end.**

BPE's Response: We concur.

- A.** The Board of Public Education did not pay rental disbursements directly to a vendor, but rather relied upon the Office of the Commissioner of Higher Education (OCHE) to pass costs on to the Board office. The OCHE did not bill the Board on a monthly basis in fiscal year 2007. After fiscal year-end the Board was billed, which contributed to the inappropriate assignment of rent expense in fiscal years 2007 and 2008. The Board will mitigate this accounting variability in the future by accepting billing statements for its space directly from the vendor on a monthly basis.

B. The Board, with significant statewide scope and effect responsibilities, relies upon only two staff persons to accomplish all state prescribed functions just the same as large agencies. We appreciate the recognition of the need for third party review of internal control processes on a timely and consistent basis. The Board has contacted the financial officer for the Montana School for the Deaf and Blind (MSDB) to create a symbiotic relationship to review its internal controls. It is anticipated that the MSDB financial officer will review on-site the Board's internal financial processes on a regular basis and specifically at fiscal year-end.

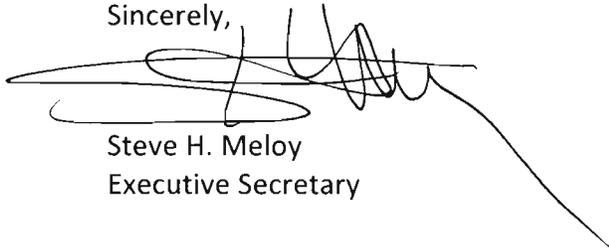
Recommendation #2

We recommend the board implement procedures for monitoring and testing its internal control procedures.

BPE's Response: We concur. The Board has developed a comprehensive set of internal controls which are documented. The Board's staff recognizes the wisdom of having a third party review of all its procedures for monitoring internal controls and has initiated a review process relationship with the accounting staff at the MSDB. The staff feels confident that the expertise granted from MSDB will compliment the newly gained experience of the Board's Administrative Assistant. In like manner, the Board will provide internal review support to MSDB.

Thank you for the opportunity to comment on the financial audit. We look forward to implementing these recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve H. Meloy', with a long horizontal flourish extending to the right.

Steve H. Meloy
Executive Secretary