



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana School for the Deaf and Blind

*For the Two Fiscal Years Ended
June 30, 2012*

DECEMBER 2012

LEGISLATIVE AUDIT
DIVISION

12-22A

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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) 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, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. 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

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

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

December 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana School for the Deaf and Blind (school) for the two fiscal years ended June 30, 2012. This report includes a recommendation related to noncompliance with state accounting policy dealing with revenue recognition. The school's response to the audit recommendation begins on page B-1.

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Montana School for the Deaf and Blind	B-1

APPOINTED AND ADMINISTRATIVE OFFICIALS

Montana School for the Deaf and Blind

Steve Gettel, Superintendent

Kim Schwabe, Principal

Bill Sykes, Business Manager (Through September 2012)

Donna Schmidt, Business Manager (As of October 2012)

Board of Public Education

Brian Schweitzer, Governor*

Denise Juneau, Superintendent of Public Instruction*

Clay Christian, Commissioner of Higher Education*

		<u>Term Expires</u>
Patty Myers, Chairperson	Great Falls	2014
Sharon Carroll, Vice Chairperson	Ekalaka	2019
Doug Cordier	Columbia Falls	2013
John Edwards	Billings	2016
Bernard Olson	Lakeside	2015
Charity Ratliff	Hardin	2013
Lila Taylor	Busby	2018
Erin Williams	Missoula	2017

* ex officio members

Pete Donovan, Executive Secretary

For additional information concerning the Montana School for the Deaf and Blind, contact:

Steve Gettel, Superintendent
Montana School for the Deaf and Blind
3911 Central Avenue
Great Falls, MT 59405-1697
Phone: (406) 771-6000
e-mail: sgettel@msdb.mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Montana School for the Deaf and Blind For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

12-22A

REPORT SUMMARY

The Montana School for the Deaf and Blind (school) provides services to sensory impaired infants, toddlers, and school aged children through their campus facility in Great Falls and their outreach program that works with individuals in school districts across the state.

Context

At the end of fiscal year 2011-12, the school was providing instruction for 61 hearing and visually impaired students through the Great Falls campus, as well as providing residential living and health services for 26 of those students. Through the school's outreach program, they were also providing consultation and technical assistance to the families, teachers, and administrators of more than 519 sensory impaired infants, toddlers, and school aged children across the state.

For fiscal year 2011-12, the school had approximately \$6.5 million of budgeted expenditures. In fiscal years 2010-11 and 2011-12, the school's foundation provided \$189,658 and \$182,358, respectively, in support of student activities and supply purchases.

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

Results

Our audit includes one audit recommendation. The school receives federal grant funding from the Office of Public Instruction for school nutrition and special education programs. The school improperly classified the monies as direct federal revenue instead of a transfer-in.

For a complete copy of the report (12-22A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at

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Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Montana School for the Deaf and Blind (school) for the two fiscal years ended June 30, 2012. The objectives of the audit were to:

1. Obtain an understanding of the school's control systems to the extent necessary to support our audit of the school's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the school.
2. Determine if the school complied with selected laws and regulations.
3. Determine if the financial schedules present fairly the results of operations of the school for each of the fiscal years ended June 30, 2012, and June 30, 2011.
4. Determine the implementation status of prior audit recommendations.

This report contains one recommendation to the school. In accordance with §5-13-307, MCA, we analyzed the cost of implementing the recommendation made in this report and believe it is not significant.

Background

The Montana School for the Deaf and Blind is a state-supported, special-purpose school and an integral part of the Montana public education system. In accordance with its statutory mandates, the school serves two primary functions. First, by the use of specialized instruction and training, the school provides an education for hearing and visually impaired children that is commensurate with the education provided to nondisabled children in local school districts. This education enables children being served by the school to become independent and self-sustaining citizens.

Second, the school serves as a consultative resource for parents of hearing and visually impaired children not yet enrolled in an educational program and for school districts where hearing and visually impaired children are receiving educational services. Upon request, the school outreach staff provide consultation and technical assistance to the families, teachers, and administrators of sensory impaired infants, toddlers, and school aged children across the state.

At the end of fiscal year 2011-12, the school was providing services to the following constituents:

- ♦ Educational placement for 26 visually and 35 hearing impaired students.
- ♦ Residential living and health services for 26 students who attend the school.

- ♦ Educational evaluations for 22 students referred by their local school districts with placement recommended at the school for 6 of these students and audio logical assessments for 242 students and preschoolers.
- ♦ Consultation by school staff for behavior or transition plans of 17 students who attend school in local districts.
- ♦ Consultation services to local preschool and Headstart, local districts, and parents through the school's Outreach Program to 529 students in 102 school districts and communities across the state.
- ♦ Home-based early intervention services through the school's Family Advisor Program for 29 hearing or visually impaired infants and toddlers across the state.
- ♦ Functional Vision or Orientation Mobility evaluations for 75 students in local school districts across the state.
- ♦ Processing referrals for the Universal Newborn Hearing Screening and Children's Special Health Services Programs for 30 infants and toddlers with a suspected hearing loss.
- ♦ Professional development activities for 1,273 parents, school districts, and medical professionals across the state.
- ♦ Specialized educational equipment loaned to 27 visually impaired children in local school districts across the state.
- ♦ Family Learning Weekend and Summer Camp activities for 238 parents, siblings, and educators.

At the end of fiscal year 2011-12, the school was comprised of four programs with the following full-time equivalent staff: Administration, 5; General Services, 4; Student Services, 29.74; and Education, 49.87.

Prior Audit Recommendations

The prior audit for the two fiscal years ended June 30, 2010, contained three recommendations to the school. The school implemented all three recommendations.

Chapter II – Findings and Recommendations

Misclassification of Revenue

The school misclassified certain revenue as direct federal assistance.

The Office of Public Instruction (OPI) receives monies from the federal Department of Education and distributes the funds as grants to the school. State accounting policy requires the school to record receipt of the funds as a transfer-in. State accounting policy further requires that transfers-in equal transfers-out. OPI did not code their portion of the transactions as a transfer-out. Rather than seeking a correction, the school responded to the coding used by OPI and coded their side of the transaction as grant revenue to expedite the receipt of funds.

As a result, the Federal revenue reported on the Schedule of Revenues & Transfers-in is overstated by \$7,556 and \$18,914 for fiscal years 2010-11, and 2011-12, respectively. The Transfers-in amounts are equally understated for each respective fiscal year.

RECOMMENDATION #1

We recommend the school record all grants from other agencies in accordance with state accounting policy.

Independent Auditor's Report and School Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana School for the Deaf and Blind for each of the fiscal years ended June 30, 2012, and 2011. The information contained in these financial schedules is the responsibility of the school's management. 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. 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 opinions.

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 school'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 and property held in trust of the Montana School for the Deaf and Blind for each of the fiscal years ended June 30, 2012, and 2011, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

September 26, 2012

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
FUND BALANCE: July 1, 2011	\$ <u>(352,403)</u>	\$ <u>62,204</u>	\$ <u>91</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: July 1, 2011				\$ <u>26,715</u>
ADDITIONS				
Budgeted Revenues & Transfers-In	22,597	260,793	195,078	
Nonbudgeted Revenues & Transfers-In		34,553		
Direct Entries to Fund Balance	5,769,506			
Additions to Property Held in Trust				47,617
Total Additions	<u>5,792,103</u>	<u>295,346</u>	<u>195,078</u>	<u>47,617</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	5,927,143	284,311	195,078	
Nonbudgeted Expenditures & Transfers-Out		34,552		
Prior Year Expenditures & Transfers-Out Adjustments	(1,081)			
Reductions in Property Held in Trust				44,652
Total Reductions	<u>5,926,061</u>	<u>318,862</u>	<u>195,078</u>	<u>44,652</u>
FUND BALANCE: June 30, 2012	\$ <u>(486,362)</u>	\$ <u>38,687</u>	\$ <u>91</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: June 30, 2012				\$ <u>29,680</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.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
FUND BALANCE: July 1, 2010	\$ <u>(328,330)</u>	\$ <u>137,743</u>	\$ <u>91</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: July 1, 2010				\$ <u>24,352</u>
ADDITIONS				
Budgeted Revenues & Transfers-In	20,565	353,971	178,897	
Nonbudgeted Revenues & Transfers-In	1,018	68,695		
Prior Year Revenues & Transfers-In Adjustments		(1,110)		
Direct Entries to Fund Balance	5,851,460	(64,471)		
Additions to Property Held in Trust				52,234
Total Additions	<u>5,873,043</u>	<u>357,085</u>	<u>178,897</u>	<u>52,234</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	5,893,126	363,929	178,897	
Nonbudgeted Expenditures & Transfers-Out	(964)	68,695		
Prior Year Expenditures & Transfers-Out Adjustments	4,954			
Reductions in Property Held in Trust				49,871
Total Reductions	<u>5,897,116</u>	<u>432,624</u>	<u>178,897</u>	<u>49,871</u>
FUND BALANCE: June 30, 2011	\$ <u>(352,403)</u>	\$ <u>62,204</u>	\$ <u>91</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: June 30, 2011				\$ <u>26,715</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.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Charges for Services	\$ 5,719	\$ 15,580		\$ 21,299
Rentals, Leases and Royalties		3,626		3,626
Grants, Contracts, and Donations		34,553		34,552
Transfers-in		241,587	\$ 176,164	417,751
Miscellaneous	16,878			16,878
Federal			18,914	18,914
Total Revenues & Transfers-In	22,597	295,346	195,078	513,021
Less: Nonbudgeted Revenues & Transfers-In		34,553		34,552
Prior Year Revenues & Transfers-In Adjustments				0
Actual Budgeted Revenues & Transfers-In	22,597	260,793	195,078	478,468
Estimated Revenues & Transfers-In	27,149	283,299	194,060	504,508
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (4,552)	\$ (22,506)	\$ 1,018	\$ (26,040)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits		\$ (184)		\$ (184)
Charges for Services	\$ (1,430)	(2,562)		(3,992)
Rentals, Leases and Royalties		626		626
Transfers-in		(20,386)	\$ 9,253	(11,133)
Federal Indirect Cost Recoveries			(7,149)	(7,149)
Miscellaneous	(3,122)			(3,122)
Federal			(1,086)	(1,086)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (4,552)	\$ (22,506)	\$ 1,018	\$ (26,040)

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.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes	\$ 1,018			\$ 1,018
Charges for Services	7,056		\$ 12,900	19,956
Rentals, Leases and Royalties		\$ 5,179		5,179
Grants, Contracts, and Donations		90,169		90,169
Transfers-in		326,208	158,441	484,649
Miscellaneous	13,509			13,509
Federal			7,556	7,556
Total Revenues & Transfers-In	21,583	421,556	178,897	622,036
Less: Nonbudgeted Revenues & Transfers-In	1,018	68,695		69,713
Prior Year Revenues & Transfers-In Adjustments		(1,110)		(1,110)
Actual Budgeted Revenues & Transfers-In	20,565	353,971	178,897	553,433
Estimated Revenues & Transfers-In	15,100	424,377	200,428	639,905
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 5,465	\$ (70,406)	\$ (21,531)	\$ (86,472)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits		\$ (289)		\$ (289)
Charges for Services	\$ (544)	(83,098)	\$ (1,846)	(85,488)
Rentals, Leases and Royalties		3,734		3,734
Transfers-in		9,247	(8,081)	1,166
Miscellaneous	6,009			6,009
Federal			(11,604)	(11,604)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 5,465	\$ (70,406)	\$ (21,531)	\$ (86,472)

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.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Administration Program	Education	General Services	Student Services	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT					
Personal Services					
Salaries	\$ 253,579	\$ 2,749,946	\$ 117,650	\$ 780,784	\$ 3,901,959
Hourly Wages		(886)			(886)
Employee Benefits	86,119	1,113,250	55,663	419,847	1,674,879
Total	<u>339,698</u>	<u>3,862,310</u>	<u>173,313</u>	<u>1,200,631</u>	<u>5,575,952</u>
Operating Expenses					
Other Services	66,480	7,749	34,495	7,218	115,942
Supplies & Materials	2,765	91,558	22,528	72,044	188,895
Communications	22,874	51,487	1,263	2,047	77,671
Travel	(214)	51,902		42,503	94,191
Rent		79,884	1,235	9,410	90,529
Utilities			113,195		113,195
Repair & Maintenance			56,216		56,216
Other Expenses	5,012	30,696	9,595	70	45,373
Total	<u>96,917</u>	<u>313,276</u>	<u>238,527</u>	<u>133,292</u>	<u>782,012</u>
Grants					
From Other Sources		15,161			15,161
Total		<u>15,161</u>			<u>15,161</u>
Transfers-out					
Fund transfers			11,300		11,300
Total			<u>11,300</u>		<u>11,300</u>
Debt Service					
Loans			55,578		55,578
Total			<u>55,578</u>		<u>55,578</u>
Total Expenditures & Transfers-Out	\$ <u>436,615</u>	\$ <u>4,190,747</u>	\$ <u>478,718</u>	\$ <u>1,333,923</u>	\$ <u>6,440,003</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund	\$ 432,388	\$ 3,704,428	\$ 478,718	\$ 1,310,528	\$ 5,926,062
State Special Revenue Fund	4,227	314,636			318,863
Federal Special Revenue Fund		171,683		23,395	195,078
Total Expenditures & Transfers-Out	<u>436,615</u>	<u>4,190,747</u>	<u>478,718</u>	<u>1,333,923</u>	<u>6,440,003</u>
Less: Nonbudgeted Expenditures & Transfers-Out		34,552			34,552
Prior Year Expenditures & Transfers-Out Adjustments	(1,096)	(1,941)	1,367	589	(1,081)
Actual Budgeted Expenditures & Transfers-Out	<u>437,711</u>	<u>4,158,136</u>	<u>477,351</u>	<u>1,333,334</u>	<u>6,406,532</u>
Budget Authority	451,981	4,233,924	498,770	1,359,573	6,544,248
Unspent Budget Authority	\$ <u>14,270</u>	\$ <u>75,788</u>	\$ <u>21,419</u>	\$ <u>26,239</u>	\$ <u>137,716</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund	\$ 14,270	\$ 18,772	\$ 13,869	\$ 26,239	\$ 73,150
State Special Revenue Fund		34,939	7,550		42,489
Federal Special Revenue Fund		22,077			22,077
Unspent Budget Authority	\$ <u>14,270</u>	\$ <u>75,788</u>	\$ <u>21,419</u>	\$ <u>26,239</u>	\$ <u>137,716</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.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration Program	Education	General Services	Student Services	Total
Personal Services					
Salaries	\$ 260,689	\$ 2,810,098	\$ 107,583	\$ 756,204	\$ 3,934,574
Hourly Wages		888			888
Employee Benefits	79,904	1,104,197	55,938	409,246	1,649,285
Total	<u>340,593</u>	<u>3,915,183</u>	<u>163,521</u>	<u>1,165,450</u>	<u>5,584,747</u>
Operating Expenses					
Other Services	42,920	7,197	43,247	5,813	99,177
Supplies & Materials	10,290	30,373	23,790	67,247	131,700
Communications	63,559	52,911	1,104	2,976	120,550
Travel	2,737	47,548		43,821	94,106
Rent		111,447	153	6,357	117,957
Utilities			193,483		193,483
Repair & Maintenance			72,927		72,927
Other Expenses	5,072	78,848	9,856	214	93,990
Total	<u>124,578</u>	<u>328,324</u>	<u>344,560</u>	<u>126,428</u>	<u>923,890</u>
Total Expenditures & Transfers-Out	<u>\$ 465,171</u>	<u>\$ 4,243,507</u>	<u>\$ 508,081</u>	<u>\$ 1,291,878</u>	<u>\$ 6,508,637</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund	\$ 460,849	\$ 3,653,782	\$ 508,081	\$ 1,274,404	\$ 5,897,116
State Special Revenue Fund	4,322	428,302			432,624
Federal Special Revenue Fund		161,423		17,474	178,897
Total Expenditures & Transfers-Out	<u>465,171</u>	<u>4,243,507</u>	<u>508,081</u>	<u>1,291,878</u>	<u>6,508,637</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(964)	68,695			67,731
Prior Year Expenditures & Transfers-Out Adjustments	4,954	1			4,955
Actual Budgeted Expenditures & Transfers-Out	<u>461,181</u>	<u>4,174,811</u>	<u>508,081</u>	<u>1,291,878</u>	<u>6,435,951</u>
Budget Authority	<u>463,269</u>	<u>4,240,910</u>	<u>518,148</u>	<u>1,299,447</u>	<u>6,521,774</u>
Unspent Budget Authority	<u>\$ 2,088</u>	<u>\$ 66,099</u>	<u>\$ 10,067</u>	<u>\$ 7,569</u>	<u>\$ 85,823</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund	\$ 2,088	\$ 17,025	\$ 10,067	\$ 5,883	\$ 35,063
State Special Revenue Fund		46,684			46,684
Federal Special Revenue Fund		2,390		1,686	4,076
Unspent Budget Authority	<u>\$ 2,088</u>	<u>\$ 66,099</u>	<u>\$ 10,067</u>	<u>\$ 7,569</u>	<u>\$ 85,823</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.

Montana School for the Deaf and Blind

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2012

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana School for the Deaf and Blind (school) 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 school 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 school 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 school 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 school 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.

The school uses the full accrual basis of accounting for its Fiduciary (Agency) fund category. Under the full accrual basis, as defined by state accounting policy, the school recognizes increases and decreases in property held in trust as soon as the underlying transaction or event occurs.

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 school 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. The school's State Special Revenue Funds include School Trust Interest Income and Donations made directly to the school.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The school's Federal Special Revenue Funds include U.S. Department of Education and U.S. Department of Agriculture grants.

Fiduciary Fund Category

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal clearing account activity but these must have a zero balance at fiscal year-end. The school's Agency Fund tracks activity related to student accounts held in trust.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The school has authority to pay obligations from the statewide General Fund within its appropriation limits. The school expends cash or other assets from the statewide fund when it pays General Fund obligations. The school's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2011, and June 30, 2012.

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 which are shared by separate agencies. In the General fund, direct entries are primarily the movement of cash resulting from the school paying its obligations. In the State Special Revenue Fund, the direct entry in fiscal year 2011 reflects the movement of cash from the school to the Long-Range Building Program for carpet and linoleum work.

4. Nonbudgeted Expenditures & Transfers-out and Nonbudgeted Revenue & Transfers-in

The Schedules of Expenditures & Transfers-out, the Schedules of Revenues & Transfers-in, and the Schedules of Changes in Fund Balances & Property Held in Trust contain Nonbudgeted Expenditures & Transfers-out and Nonbudgeted Revenues & Transfers-in. Part of the amounts relate to donation revenues received directly by the school that are then transferred out to the Foundation. The amount for this portion of each nonbudgeted activity is \$51,508 and \$15,161, for fiscal years 2011 and 2012, respectively. The remainder of the nonbudgeted amounts is comprised of Universal Administration Service Corporation (USAC) internet service fee refunds. The nonbudgeted amounts related to USAC refunds are \$17,187 and \$19,392 for fiscal years 2011 and 2012, respectively.

5. Revenue Estimate Under Budget

The Schedule of Revenues and Transfers-in reflects under estimated Charges for Services revenue in the State Special Revenue fund in the amount of \$83,098 for fiscal year 2011. This revenue estimate was input into the accounting records to show anticipated receipts of tuition from out-of-state students. However, the school does not currently have any out-of-state enrollees.

6. Foundation

A foundation was created by the Montana Board of Public Education and incorporated under §20-8-111, MCA. The responsibility of the foundation is to receive, hold, manage, use, and dispose of real and personal property given to the school, the board, or the state of Montana on behalf of the school by purchase, gift, devise, bequest, or as otherwise acquired. The proceeds, interest, and income thereof are to be used for the benefit of the school. The foundation activity is not reflected on the accompanying financial schedules. The foundation's audited financial statements report expenditures of \$189,658 and \$182,358 in support of the school during fiscal years 2011 and 2012, respectively.

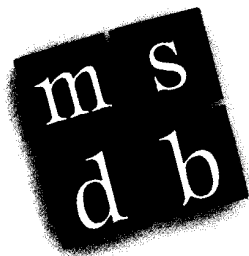
7. Related Party Transactions

The business manager and a human resource officer for the school perform administrative and bookkeeping duties for the foundation. In addition, the foundation receives on campus office space free of charge.

The school's foundation, which is a nonprofit organization outside of state government, is governed by a board of directors that yearly approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. The school's business manager is the person who initially approves those expenses to be paid by the foundation based on its budget. The business manager submits the approved request to the foundation's bookkeeper, who is also a school human resource officer. The bookkeeper prepares checks and submits them to a board member to be signed and for their review/approval of the underlying invoice and expenses. The bookkeeper is also charged with preparation of deposit documents for processing into the foundation's bank account.

MONTANA SCHOOL FOR
THE DEAF AND BLIND

SCHOOL RESPONSE



MONTANA SCHOOL *for the* Deaf & Blind

giving kids the building blocks to independence

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November 26, 2012

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LEGISLATIVE AUDIT DIV.

Tori Hunthausen
Legislative Auditor
Room 160 – State Capitol Building
P O Box 201705
Helena, MT 59620-1705

Re: Agency response to financial compliance audit recommendation

Dear Ms Hunthausen,

Listed below is the school's response to the audit recommendation contained in the financial-compliance audit report for the two fiscal years ended June 30, 2012.

Recommendation #1:

We recommend the school record all grants from other agencies in accordance with state accounting policy.

Response: Concur

The school will comply with state accounting policy and record the receipt of federal OPI grant funds as transfers-in. If the transfer-out agency does not code their side correctly, the school will seek a correction.

We wish to express our appreciation to your staff, Anthony Cacace, Chris Darragh, John Fine and Jennifer Erdahl for their professionalism in conducting the school's audit, my staff tells me they were a pleasure to work with.

Sincerely,

Donna E. Schmidt, Business Manager