



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Board of Public Education

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

DECEMBER 2012

LEGISLATIVE AUDIT
DIVISION

12-22B

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§5-13-202(2), MCA

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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) licenses.

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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<http://leg.mt.gov/audit>

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 Board of Public Education (board) for the two fiscal years ended June 30, 2012. Included in this report is one issue related to the expenditure of nonGeneral Fund money first. The board's response to the audit recommendation begins on page B-1.

We thank the Executive Secretary and his staff for their assistance and cooperation 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*

Denise Juneau, Superintendent of Public Instruction*

Clay Christian, Commissioner of Higher Education*

Term Expires

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
Lila Taylor	Busby	2018
Erin Williams	Missoula	2017
Charity Ratliff (Student Representative)	Hardin	2013

* ex officio members

Pete Donovan, Executive Director

Certification Standards and Practices Advisory Council

Term Expires

Sharon Applegate, Chairperson	Kalispell	2014
Tammy Lacey, Vice Chairperson	Great Falls	2013
Janice Bishop	Missoula	2015
Patty Muir	Laurel	2014
Kelly Elder	Helena	2013
Dr. Cindy O'Dell	Bigfork	2014
Don Reed	Lockwood	2015

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

Peter Donovan, Executive Director
 Board of Public Education
 P.O. Box 200601
 Helena, MT 59620-0601
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Montana Board of Public Education

For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

12-22B

REPORT SUMMARY

As mandated by the Montana State Constitution, the Board of Public Education exercises general supervision over the public school system, which includes more than 400 school districts, and the Montana School for the Deaf and Blind.

Context

The Board of Public Education (board) is responsible for establishing policies for school accreditation, teacher certification, state equalization aid distribution, special education, school bus standards, and various other education-related activities. The board is funded by General Fund appropriations and a \$6 yearly teacher license fee collected by the Office of Public Instruction. The teacher license fee revenue funds the activities of the board and the Certification Standards and Practices Advisory Council (CSPAC).

The board had approximately \$411,500 of budgeted expenditures in fiscal year 2010-11 and \$396,000 in fiscal year 2011-12.

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

Results

Our audit includes one recommendation. This recommendation deals with the board expending General Fund appropriations when it had nonGeneral Fund monies available to pay obligations.

For a complete copy of the report (12-22B) 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 <http://leg.mt.gov/audit>

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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Montana Board of Public Education (board) for the two fiscal years ended June 30, 2012. The objectives of the audit were to:

1. Obtain an understanding of the board's control systems to the extent necessary to support our audit of the board's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the board.
2. Determine whether the board complied with selected laws and regulations.
3. Determine whether the financial schedules present fairly the results of operations of the board 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 office. In accordance with §5-13-307, MCA, we analyzed the cost of implementing the recommendation made in this report and deemed it insignificant.

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, 2012, the board is authorized four full-time equivalent (FTE) staff.

Certification Standards and Practices Advisory Council

There is a seven-member Certification Standards and Practices Advisory Council (CSPAC) authorized in §2-15-1522, MCA, which makes recommendations to the board. CSPAC members are appointed by the Board of Public Education and serve three year terms. The mission of CSPAC is to study 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. CSPAC makes recommendations, based on their research, to the Board of Public Education.

Prior Audit Recommendations

The prior audit for the two fiscal years ended June 30, 2010, contained two recommendations to the board. The board implemented one recommendation and partially implemented the other. The partially implemented recommendation relates to not spending nonGeneral Fund monies first and is discussed further on page 3 of this report.

Chapter II – Findings and Recommendations

Expending NonGeneral Fund Money First

The Board of Public Education used General Fund authority when State Special Revenue Fund authority was available.

The Board of Public Education (board) has both General Fund and State Special Revenue Fund appropriations. Section 17-2-108, MCA, requires, with limited exceptions, an office or entity of the executive, legislative, or judicial branch of state government to apply expenditures against appropriated nonGeneral Fund money whenever possible before using General Fund appropriations.

This is a continued recommendation from the prior audit, which the board partially implemented. In fiscal year 2010-11, the board only had \$327 of remaining State Special Revenue Fund authority. For fiscal year 2011-12, however, the board did not use \$7,877 of remaining appropriation in the State Special Revenue Fund, choosing to use its General Fund appropriation instead. In fiscal year 2011-12, board management experienced one-hundred percent turnover during the period of July 2011 through October 2011, which contributed to the board's noncompliance. Current management noted they were aware of the statute, but did not fully understand all the implications of it. Management further noted had they fully understood the requirements, some terminated employee payout expenditures could have been moved from the General Fund to the State Special Revenue Fund.

RECOMMENDATION #1

We recommend the board spend available nonGeneral Fund monies first, as required by state law.

Independent Auditor's Report and Board 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, Schedules of Total Revenues, and Schedules of Total Expenditures of the Montana Board of Public Education (board) for each of the fiscal years ended June 30, 2012, and 2011. The information contained in these financial schedules is the responsibility of the board'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 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 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

BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund
FUND BALANCE: July 1, 2011	\$ <u>(2,334)</u>	\$ <u>62,526</u>
ADDITIONS		
Direct Entries to Fund Balance	<u>217,771</u>	<u>171,258</u>
Total Additions	<u>217,771</u>	<u>171,258</u>
REDUCTIONS		
Budgeted Expenditures	215,803	180,043
Nonbudgeted Expenditures	<u>(58)</u>	<u>(58)</u>
Total Reductions	<u>215,745</u>	<u>179,985</u>
FUND BALANCE: June 30, 2012	\$ <u><u>(308)</u></u>	\$ <u><u>53,799</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 CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund
FUND BALANCE: July 1, 2010	\$ <u>(5,091)</u>	\$ <u>81,998</u>
ADDITIONS		
Nonbudgeted Revenues	331	
Direct Entries to Fund Balance	<u>228,577</u>	<u>169,630</u>
Total Additions	<u>228,908</u>	<u>169,630</u>
REDUCTIONS		
Budgeted Expenditures	226,180	185,305
Nonbudgeted Expenditures	<u>(29)</u>	<u>3,796</u>
Total Reductions	<u>226,151</u>	<u>189,101</u>
FUND BALANCE: June 30, 2011	\$ <u><u>(2,334)</u></u>	\$ <u><u>62,526</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
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund
TOTAL REVENUES BY CLASS	
Total Revenues	\$ 0
Actual Budgeted Revenues	0
Estimated Revenues	\$ 400
Budgeted Revenues Over (Under) Estimated	\$ (400)
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS	
Taxes	\$ (400)
Budgeted Revenues Over (Under) Estimated	\$ (400)

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund
TOTAL REVENUES BY CLASS	
Taxes	\$ 331
Total Revenues	331
Less: Nonbudgeted Revenues	331
Actual Budgeted Revenues	0
Estimated Revenues	400
Budgeted Revenues Over (Under) Estimated	\$ (400)
 BUDGETED REVENUES OVER (UNDER) ESTIMATED BY CLASS	
Taxes	\$ (400)
Budgeted Revenues Over (Under) Estimated	\$ (400)

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	K-12 Education
PROGRAM (ORG) EXPENDITURES	
Personal Services	
Salaries	\$ 199,540
Other Compensation	1,750
Employee Benefits	111,700
Total	<u>312,990</u>
Operating Expenses	
Other Services	11,710
Supplies & Materials	15,001
Communications	9,289
Travel	25,307
Rent	10,223
Repair & Maintenance	993
Other Expenses	8,435
Total	<u>80,958</u>
Debt Service	
Capital Leases	1,782
Total	<u>1,782</u>
Total Expenditures	<u>\$ 395,730</u>
EXPENDITURES BY FUND	
General Fund	\$ 215,745
State Special Revenue Fund	179,985
Total Expenditures	<u>395,730</u>
Less: Nonbudgeted Expenditures	<u>(115)</u>
Actual Budgeted Expenditures	395,845
Budget Authority	404,584
Unspent Budget Authority	<u>\$ 8,739</u>
UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	\$ 862
State Special Revenue Fund	7,877
Unspent Budget Authority	<u>\$ 8,739</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
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	K-12 Education
PROGRAM (ORG) EXPENDITURES	
Personal Services	
Salaries	\$ 239,830
Other Compensation	2,650
Employee Benefits	77,622
Total	<u>320,103</u>
Operating Expenses	
Other Services	12,770
Supplies & Materials	3,535
Communications	3,393
Travel	29,375
Rent	13,707
Repair & Maintenance	159
Other Expenses	30,429
Total	<u>93,368</u>
Debt Service	
Capital Leases	1,782
Total	<u>1,782</u>
Total Expenditures	<u>\$ 415,252</u>
EXPENDITURES BY FUND	
General Fund	\$ 226,151
State Special Revenue Fund	189,101
Total Expenditures	<u>415,252</u>
Less: Nonbudgeted Expenditures	<u>3,767</u>
Actual Budgeted Expenditures	411,485
Budget Authority	<u>419,953</u>
Unspent Budget Authority	<u>\$ 8,468</u>
UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	\$ 8,141
State Special Revenue Fund	327
Unspent Budget Authority	<u>\$ 8,468</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 Board of Public Education

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2012

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 categories of 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 board 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 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. State Special Revenue Funds also include the Montana Commission of Teachers, which is privately funded through the National Commission on Teachers, and the Student Leadership account, which is funded through a grant from the National Association of State Boards of Education.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The board has authority to pay obligations from the statewide General Fund within its appropriation limits. The board expends cash or other assets from this 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 balances for each of the two fiscal years ended June 30, 2012.

3. Direct Entries to Fund Balance

Direct entries to fund balances, 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 Fund, 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.

4. Capital Lease

The board entered into a capital lease for the use of a photocopier during fiscal year 2009. Payments for the lease continue through calendar year 2012. Upon conclusion of the lease, the board has the option to purchase the machine for the fair market value of \$1,476.

MONTANA BOARD OF
PUBLIC EDUCATION

BOARD RESPONSE



Board of Public Education

November 28, 2012

Tori Hunthausen, CPA
Legislative Audit Division
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Great Falls

Sharon Carroll - Vice Chair
Ekalaka

Erin Williams
Missoula

Lila Taylor
Busby

Bernie Olson
Lakeside

John Edwards
Billings

Doug Cordier
Columbia Falls

Charity Ratliff, Student Rep.
Hardin

EX OFFICIO MEMBERS:

Clayton Christian
Commissioner of
Higher Education

Denise Juneau,
Superintendent of
Public Instruction

Brian Schweitzer, Governor

EXECUTIVE DIRECTOR:

Pete Donovan

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 Anthony Cacase 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 board spend available non-General Fund monies first, as required by state law.

BPE's Response: We concur.

The Board of Public Education supported legislation in 2003 to provide more flexibility in funding for meeting its constitutional responsibilities. In addition the Certification Standards and Practices Advisory Council (CSPAC) found that inflationary increases were stretching its operational needs beyond what its earmarked special revenue (\$4.00) would support. To avoid asking the Legislature to increase teacher fees, we suggested broadening the use of the Research Fund to help make CSPAC whole and to support the Board's activities.

Had we been aware of §17-2-108 MCA we may have had second thoughts about supporting the 2003 Legislation as we feel a strong fiduciary responsibility to maintain an adequate cash reserve in the Research Fund created by a \$2.00 fee for each teacher's annual licensure. Though we concur, we are very concerned that utilization of Special Revenue first will diminish the General Fund support for the constitutionally provided for Board of Public Education and secondly will draw down the cash balance in the \$2.00 fund.

Thank you for the opportunity to comment on the financial audit. We will implement this recommendation.

Sincerely,

A handwritten signature in blue ink that reads "Pete Donovan".

Peter Donovan
Executive Director