



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Board of Public Education

*For the Two Fiscal Years Ended
June 30, 2014*

NOVEMBER 2014

LEGISLATIVE AUDIT
DIVISION

14-22A

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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) 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, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. 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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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

November 2014

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, 2014. Included in this report are two recommendations related to identified errors in transactions recorded on the state accounting records and spending Non-General Fund money first.

This report includes the board's financial schedules. The financial schedule presentation is intended to provide the legislative body with information necessary for decision-making purposes; it is not intended to conform to the financial reporting requirements established in generally accepted accounting principles (GAAP). The financial schedule presentation has not changed, but audit reporting standards have changed. Auditing standards require us to clearly communicate that the financial schedule presentation is not intended to, and does not, conform to GAAP reporting requirements. The Independent Auditor's Report on page A-1 contains language to this effect in the section titled "Adverse Opinions on U.S. Generally Accepted Accounting Principles." This section does not imply the amounts presented on the department's financial schedules are not fairly stated. Page A-1 also communicates the extent to which the user can rely on the information contained in the financial schedules in the section titled "Unmodified Opinions on Regulatory Basis of Accounting."

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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ELECTED, APPOINTED AND ADMINISTRATIVE OFFICIALS

Board of Public Education

Steve Bullock, Governor*
Denise Juneau, Superintendent of Public Instruction*
Clay Christian, Commissioner of Higher Education*

| | | <u>Term Expires</u> |
|--|----------|---------------------|
| Sharon Carroll, Chairperson | Ekalaka | 2019 |
| Paul Andersen, Vice Chairperson | Bozeman | 2020 |
| Bernard Olson | Lakeside | 2015 |
| Mary Jo Bremner | Browning | 2021 |
| John Edwards | Billings | 2016 |
| Lila Taylor | Busby | 2018 |
| Erin Williams | Missoula | 2017 |
| Greta Gustafson (Student Representative) | Cutbank | 2015 |

* ex officio members

Peter Donovan, Executive Director

Certification Standards and Practices Advisory Council

| | | <u>Term Expires</u> |
|------------------------------------|-------------|---------------------|
| Tammy Lacey, Chairperson | Great Falls | 2016 |
| Dr. Cindy O'Dell, Vice Chairperson | Bigfork | 2017 |
| JoDell Beeler | Billings | 2017 |
| Janice Bishop | Missoula | 2015 |
| Kelly Elder | Helena | 2015 |
| Don Reed | Lockwood | 2015 |
| Leanne Yenney | Bozeman | 2017 |

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

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



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Board of Public Education

For the Two Fiscal Years Ended June 30, 2014

NOVEMBER 2014

14-22A

REPORT SUMMARY

The Board of Public Education was created by the Montana Constitution to supervise, serve, maintain, and strengthen the public school system, which is comprised of more than 400 school districts and includes the Montana School for the Deaf and Blind.

Context

As part of providing supervision over the public school system, the Board of Public Education (board) is responsible for establishing policies for:

- ◆ School accreditation
- ◆ Teacher certification
- ◆ Teacher and administrator training
- ◆ State equalization aid
- ◆ Special education
- ◆ School bus standards
- ◆ Various other education related activities

The board is supported by General Fund appropriations and the yearly teacher license fee of \$6 collected and deposited by the Office of Public Instruction. The teacher license fee is used to support the activities of the board and the Certification Standards and Practices Advisory Council. The board had approximately \$283,000 and \$286,000 of expenditures in fiscal years 2013 and 2014, respectively.

We focused our audit effort on the review of travel and personal services expenditures. Throughout the audit, the board's control

systems were reviewed and we evaluated compliance with selected state laws and regulations.

Results

The current audit report contains two recommendations. We identified several transactions that were not recorded in accordance with state accounting policy. These errors are attributed to a lack of understanding of how to appropriately record the transactions. We determined that the board is spending General Fund money before appropriated Non-General Fund money contrary to state law. This is a prior audit recommendation that was not implemented by the board.

| Recommendation Concurrence | |
|--|---|
| Concur | 2 |
| Partially Concur | 0 |
| Do Not Concur | 0 |
| Source: Agency audit response included in final report. | |

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<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

Introduction

We performed a financial-compliance audit of the Board of Public Education (board) for the two fiscal years ended June 30, 2014. The objectives of the audit were to:

1. Determine whether the financial schedules present fairly, in all material respects, the results of operations and changes in fund equity for the board for each of the two fiscal years ending June 30, 2014, and 2013.
2. Obtain an understanding of the board's internal controls to the extent necessary to support our audit of the financial schedules and, if necessary, make recommendations for improvements in the management and internal controls.
3. Determine whether the board complies with selected laws and regulations.
4. Determine the implementation status of prior audit recommendations.

We addressed these objectives by focusing our audit effort on major activity of the board. This included analyzing personal service and travel expenditures between years, examining support for travel expenditures, and reviewing support for large transactions for reasonableness. Throughout the audit, we reviewed and tested the board's control systems and evaluated compliance with selected state laws and regulations.

The board is supported by General Fund appropriations and the yearly teacher license fee of \$6 collected and deposited into a shared account by the Office of Public Instruction. This funding does not result in revenue for the board because the revenue is already recognized by the Office of Public Instruction. Instead, resources are provided through direct entries to Fund Equity. Therefore, the Schedule of Revenues will not show any revenue activity. The fiscal year 2014 Schedule of Total Revenues is not included in the report because there were no revenues or revenue estimates. The fiscal year 2013 Schedule of Total Revenues has been included in the report as there was a revenue estimate established for that fiscal year.

Internal Controls

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #2 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement

of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 outlines the status of the material weakness we identified during this audit.

| Subject | Type of Deficiency | Page |
|--------------------|--------------------|------|
| Transaction Errors | Material Weakness | 3 |

Our consideration of internal control was not for the purpose of expressing an opinion on the effectiveness of internal controls. Therefore, material weaknesses or significant deficiencies may exist that were not identified

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, 2014, the board is authorized four full-time equivalent (FTE) staff, and employs two full-time and one part-time staff members. The board appoints a seven-member Certification Standards and Practices Advisory Council (CSPAC), authorized in §2-15-1522, MCA, for three year terms. CSPAC advises the board on certification issues concerning teachers, administrators, and specialists; professional standards and ethical conduct; and the status of approved teacher education programs in Montana.

Chapter II – Findings and Recommendations

Transaction Errors

The board did not follow state accounting policy when recording accounting transactions.

The Board of Public Education (board) employs three staff members. These staff members are charged with processing transactions on the Statewide Accounting, Budgeting, and Human Resources System (SABHRS). In fiscal years 2013 and 2014, several transactions were not recorded in accordance with state accounting policy:

- ♦ The board did not properly record capital lease transactions in fiscal year 2013. For fiscal year 2013, operating and debt service expenditures were understated by approximately \$800. The board identified the errors in fiscal year 2014 but did not fully correct the errors. The result in fiscal year 2014 is understated operating expenditures and overstated debt service expenditures of approximately \$800.
- ♦ The board recorded two unsupported transactions in the amount of \$875 to lease interest on SABHRS in order to balance capital lease accounts in fiscal year 2013. Unsupported legal fees in the amount of \$1,191 are also recorded on SABHRS in fiscal year 2014 to balance the board's operating budget. Transactions recorded on SABHRS are required to have adequate support per state accounting policy.
- ♦ Bookshelves and files cabinets purchased for \$5,425 in fiscal year 2013 were recorded as rent instead of supplies & materials as required by state accounting policy.

The board attributes the identified errors above to a lack of understanding of how to record these types of transactions in accordance with state accounting policy. The board contacted the Department of Administration State Financial Services Division for assistance with the above transactions. However, the transactions were not recorded in accordance with state accounting policy. Therefore, internal controls for recording nonroutine transactions are not sufficient to prevent and detect errors in a timely manner.

State accounting policy places the responsibility for establishing and maintaining sufficient internal controls on management. Therefore, the board should utilize professional resources when recording nonroutine transactions including consulting state accounting policy and seeking further assistance from the Department of Administration.

RECOMMENDATION #1

We recommend the board record transactions in accordance with state accounting policy and seek the assistance of the Department of Administration as necessary.

Expending Non-General Fund Money First

The board expended General Fund money before appropriated State Special Revenue Fund money.

The board has authority to expend from both the General Fund and State Special Revenue Fund (SSRF). Section 20-4-109, MCA, establishes a \$6 teacher license fee to be used in support of the Certification Standards and Practices Advisory Council and the board. The Office of Public Instruction collects this fee and records it in the SSRF.

Section 17-2-108, MCA, requires the board apply expenditures against appropriated Non-General Fund money whenever possible before using General Fund appropriations. We observed that the board expended General Fund money before appropriated Non-General Fund money during both fiscal years 2013 and 2014. As an example, the board allocates travel expenditures between General Fund and SSRF appropriations when the entire costs could be charged to the SSRF. Based on our audit, we estimate at least \$14,192 and \$857 in General Fund expenditures could have been charged to SSRF appropriations in fiscal years 2013 and 2014, respectively. Our two prior audit reports contained recommendations related to this issue.

The board attributes this noncompliance to lack of understanding of how to implement the prior audit recommendations and turnover in personnel.

RECOMMENDATION #2

We recommend the board comply with state law by spending appropriated Non-General Fund monies first.

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:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity for each of the fiscal years ended June 30, 2014 and 2013, Schedule of Total Revenues for the fiscal year ended June 30, 2013, and Schedules of Total Expenditures for each of the fiscal years ended June 30, 2014, and 2013, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

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

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

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

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

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

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the board as of June 30, 2014, and June 30, 2013, or changes in financial position for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity for each of the fiscal years ended June 30, 2014, and 2013, Schedule of Total Revenues for the fiscal year ended June 30, 2013, and Schedules of Total Expenditures for each of the fiscal years ended June 30, 2014, and 2013, present fairly, in all material respects, the results of operations and changes in fund equity of the Board of Public Education, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 24, 2014

BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| | <u>General Fund</u> | <u>State Special Revenue Fund</u> |
|--------------------------------------|--------------------------|---------------------------------------|
| FUND EQUITY: July 1, 2013 | \$ <u>(3,384)</u> | \$ <u>67,119</u> |
| ADDITIONS | | |
| Direct Entries to Fund Equity | <u>120,540</u> | <u>164,757</u> |
| Total Additions | <u>120,540</u> | <u>164,757</u> |
| REDUCTIONS | | |
| Budgeted Expenditures | 119,379 | 165,315 |
| Nonbudgeted Expenditures | (293) | |
| Prior Year Expenditurest Adjustments | <u>738</u> | <u>1,035</u> |
| Total Reductions | <u>119,824</u> | <u>166,350</u> |
| FUND EQUITY: June 30, 2014 | \$ <u><u>(2,668)</u></u> | \$ <u><u>65,526</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 CHANGES IN FUND EQUITY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | General Fund | State Special Revenue Fund |
|-------------------------------|--------------------------|-------------------------------|
| FUND EQUITY: July 1, 2012 | \$ <u>(308)</u> | \$ <u>53,799</u> |
| ADDITIONS | | |
| Direct Entries to Fund Equity | <u>128,292</u> | <u>165,215</u> |
| Total Additions | <u>128,292</u> | <u>165,215</u> |
| REDUCTIONS | | |
| Budgeted Expenditures | 131,737 | 152,412 |
| Nonbudgeted Expenditures | <u>(369)</u> | <u>(517)</u> |
| Total Reductions | <u>131,368</u> | <u>151,895</u> |
| FUND EQUITY: June 30, 2013 | \$ <u><u>(3,384)</u></u> | \$ <u><u>67,119</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.

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BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL REVENUES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | <u>General Fund</u> | <u>Total</u> |
|---|---------------------|-----------------|
| TOTAL REVENUES BY CLASS | | |
| Total Revenues | 0 | 0 |
| Less: Nonbudgeted Revenues | | 0 |
| Prior Year Revenues Adjustments | | 0 |
| Actual Budgeted Revenues | 0 | 0 |
| Estimated Revenues | \$ 400 | \$ 400 |
| Budgeted Revenues Over (Under) Estimated | <u>\$ (400)</u> | <u>\$ (400)</u> |
| BUDGETED REVENUES OVER (UNDER) ESTIMATED BY CLASS | | |
| Taxes | \$ (400) | \$ (400) |
| Budgeted Revenues 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-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| | <u>K-12 Education</u> | <u>Total</u> |
|---|-----------------------|-------------------|
| PROGRAM (ORG) EXPENDITURES | | |
| Personal Services | | |
| Salaries | \$ 145,815 | \$ 145,815 |
| Other Compensation | 1,450 | 1,450 |
| Employee Benefits | 54,685 | 54,685 |
| Total | <u>201,951</u> | <u>201,951</u> |
| Operating Expenses | | |
| Other Services | 17,130 | 17,130 |
| Supplies & Materials | 6,083 | 6,083 |
| Communications | 6,514 | 6,514 |
| Travel | 29,536 | 29,536 |
| Rent | 15,004 | 15,004 |
| Other Expenses | 8,183 | 8,183 |
| Total | <u>82,450</u> | <u>82,450</u> |
| Debt Service | | |
| Capital Leases | 1,773 | 1,773 |
| Total | <u>1,773</u> | <u>1,773</u> |
| Total Expenditures | <u>\$ 286,174</u> | <u>\$ 286,174</u> |
| EXPENDITURES BY FUND | | |
| General Fund | \$ 119,824 | \$ 119,824 |
| State Special Revenue Fund | 166,350 | 166,350 |
| Total Expenditures | <u>286,174</u> | <u>286,174</u> |
| Less: Nonbudgeted Expenditures | (293) | (293) |
| Prior Year Expenditures Adjustments | 1,773 | 1,773 |
| Actual Budgeted Expenditures | <u>284,694</u> | <u>284,694</u> |
| Budget Authority | 387,948 | 387,948 |
| Unspent Budget Authority | <u>\$ 103,254</u> | <u>\$ 103,254</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | |
| General Fund | \$ 96,385 | \$ 96,385 |
| State Special Revenue Fund | 6,869 | 6,869 |
| Unspent Budget Authority | <u>\$ 103,254</u> | <u>\$ 103,254</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, 2013

| PROGRAM (ORG) EXPENDITURES | <u>K-12 Education</u> | <u>Total</u> |
|-------------------------------------|-----------------------|-------------------|
| Personal Services | | |
| Salaries | \$ 138,299 | \$ 138,299 |
| Other Compensation | 2,250 | 2,250 |
| Employee Benefits | 48,846 | 48,846 |
| Total | <u>189,396</u> | <u>189,396</u> |
| Operating Expenses | | |
| Other Services | 13,390 | 13,390 |
| Supplies & Materials | 13,484 | 13,484 |
| Communications | 9,687 | 9,687 |
| Travel | 30,445 | 30,445 |
| Rent | 21,123 | 21,123 |
| Repair & Maintenance | 110 | 110 |
| Other Expenses | 5,620 | 5,620 |
| Total | <u>93,858</u> | <u>93,858</u> |
| Debt Service | | |
| Capital Leases | <u>9</u> | <u>9</u> |
| Total | <u>9</u> | <u>9</u> |
| Total Expenditures | <u>\$ 283,263</u> | <u>\$ 283,263</u> |
| EXPENDITURES BY FUND | | |
| General Fund | \$ 131,368 | \$ 131,368 |
| State Special Revenue Fund | <u>151,895</u> | <u>151,895</u> |
| Total Expenditures | 283,263 | 283,263 |
| Less: Nonbudgeted Expenditures | (886) | (886) |
| Prior Year Expenditures Adjustments | | |
| Actual Budgeted Expenditures | <u>284,150</u> | <u>284,150</u> |
| Budget Authority | <u>410,355</u> | <u>410,355</u> |
| Unspent Budget Authority | <u>\$ 126,205</u> | <u>\$ 126,205</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | |
| General Fund | \$ 90,296 | \$ 90,296 |
| State Special Revenue Fund | <u>35,910</u> | <u>35,910</u> |
| Unspent Budget Authority | <u>\$ 126,205</u> | <u>\$ 126,205</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, 2014

1. Summary of Significant Accounting Policies

Basis of Accounting

The Board of Public Education (Board) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category General and State Special Revenue. In applying the modified accrual basis, the Board records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the Board to record the cost of employees' annual and sick leave when used or paid.

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

Basis of Presentation

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

The Board uses the following funds:

Governmental Fund Category

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

2. General Fund Equity Balance

The negative fund equity 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 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 equity balances for each of the fiscal years ended June 30, 2013, and June 30, 2014.

3. Direct Entries to Fund Equity

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

4. Capital Lease

The Board entered into a capital lease for the use of a photocopier during fiscal year 2009. Payments for the lease continued through calendar year 2012 where upon conclusion of the lease the Board purchased the copier for a fair market value of \$1704.26 on 11/28/2012.

BOARD OF PUBLIC
EDUCATION

BOARD RESPONSE

State of Montana



Board of Public Education

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October 30, 2014

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

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Ekalaka

Paul Andersen-Vice Chair
Bozeman

Bernie Olson
Lakeside

Erin Williams
Missoula

Lila Taylor
Busby

Mary Jo Bremner
Browning

John Edwards
Billings

Greta Gustafson, Student Rep.
Cut Bank

EX OFFICIO MEMBERS:

Clayton Christian
Commissioner of
Higher Education

Denise Juneau,
Superintendent of
Public Instruction

Steve Bullock, Governor

EXECUTIVE DIRECTOR:

Pete Donovan

Tori Hunthausen
Legislative Auditor
Legislative Audit Division
State Capitol Building, Room 160
Helena MT 59620

The purpose of this letter is to provide comments by the Board of Public Education (BPE) concerning the Legislative Audit Division's financial compliance audit. We thank the legislative Audit Division and specifically Shandell VanDonsel for her 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 record transactions in accordance with state accounting policy and seek the assistance of the Department of Administration as necessary.

BPE's Response:

We concur.

The staff for the Board of Public Education contains 3 individuals. The staff tries very hard to stay abreast of all required state accounting policy and regularly attends accounting and budget trainings held by the Department of Administration in order to maintain current knowledge. When accounting transactions occur which are "out of the norm", the Board staff regularly contacts State Accounting for assistance in performing these transactions, and will continue to do so in compliance with this recommendation.

Recommendation #2:

We recommend the board comply with state law by spending appropriated Non-General Fund monies first.

BPE's Response:

We concur.

The Non-General Fund monies the Board receives are not deposited in one lump sum at the beginning of each fiscal year, but come in continuously throughout the year

with the bulk of the money deposited in June of each year as teachers reach the deadline of June 30th to renew their licenses. This continual deposit of funds makes it difficult to spend Non-General Funds first when they are being deposited throughout the year. However to be in compliance with this recommendation the Board is currently paying all operating expenses using Non-General Fund money first and will continue to spend Non-General Fund money until the appropriation is met before using General Fund money. The Board will continue this process going forward each fiscal year.

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

Sincerely,



Peter Donovan

Executive Director

Board of Public Education