



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Montana School for the Deaf and Blind*

*For the Two Fiscal Years Ended  
June 30, 2016*

SEPTEMBER 2016

LEGISLATIVE AUDIT  
DIVISION

16-22B

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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.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. 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, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018. 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

Legislative Audit Division  
Room 160, State Capitol  
P.O. Box 201705  
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# LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

September 2016

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 for the two fiscal years ended June 30, 2016. The report contains one recommendation to the school related to internal controls over revenue activity. We issued unmodified opinions on each of the school's six financial schedules.

The school's written response to the audit is included on page C-1. We thank the superintendent and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver  
Legislative Auditor



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## ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

### Montana School for the Deaf and Blind

Donna Sorensen, Superintendent  
Kim Schwabe, Principal  
Donna Schmidt, Business Manager

### 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
Darlene Schottle, Vice Chairperson	Big Fork	2022
Paul Andersen	Bozeman	2020
Jesse Barnhart	Broadus	2018
Mary Jo Bremner	Browning	2021
Tammy Lacey	Great Falls	2023
Erin Williams	Missoula	2017
Molly DeMarco (Student Representative)	Great Falls	2017

\* ex officio members

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

Donna Sorensen, Superintendent  
Montana School for the Deaf and Blind  
3911 Central Avenue  
Great Falls, MT 59405-1697  
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e-mail: dsorensen@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, 2016

SEPTEMBER 2016

16-22B

REPORT SUMMARY

The Montana School for the Deaf and Blind promotes and provides free and comprehensive educational opportunities statewide for children ages birth to twenty-one who are deaf, hard of hearing, blind, low vision, and deaf-blind. The audit of the school focused on revenue transfers from other state agencies, personal services expenditures, and property held in trust activity. The report contains one recommendation related to internal controls over state trust land revenue transferred from the Department of Natural Resources and Conservation.

### Context

The Montana School for the Deaf and the Blind (MSDB) has developed two different ways to meet the educational needs of Montana's deaf and blind children of all ages. On the Great Falls campus, MSDB provides specialized instruction and an education for deaf and blind students with the goal to prepare students for independent, successful lives.

In addition, MSDB serves as a statewide resource center for parents of children with vision or hearing loss and for school districts that serve deaf and blind students. MSDB serves hundreds of students and families in communities across the state. Upon request, MSDB assists school districts, ensuring that services and programs for their deaf and blind students are appropriate.

MSDB collected total revenues of approximately \$520,000 and \$550,000 in fiscal years 2015 and 2016, respectively. We focused audit effort on transfers-in comprised of the school's permanent fund earnings from the Department of Natural Resources and Conservation and federal subawards from the Office of Public Instruction. These transfers comprised approximately 95.2 percent and 98.8 percent of total revenues in fiscal years 2015 and 2016, respectively.

MSDB expended approximately \$7 million in each fiscal year 2015 and 2016. We focused audit effort on personal services, which comprised 87.2 percent and 86.1 percent of total expenditures in fiscal years 2015 and 2016, respectively. We also completed audit work over property held in trust activity related to student accounts and compliance with state laws.

### Results

Our current audit report contains one recommendation related to internal controls over transfers-in revenue. We issued unmodified opinions on the financial schedules for each of the two fiscal years ended June 30, 2016.

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

For a complete copy of the report (16-22B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto: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](mailto:ladhotline@mt.gov).



# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the Montana School for the Deaf and Blind (MSDB) for the two fiscal years ended June 30, 2016. The objectives of the audit were:

1. To determine whether the financial schedules present fairly the results of operations and changes in fund equity and property held in trust of the school for each of the two fiscal years ended June 30, 2016, and June 30, 2015.
2. To obtain an understanding of MSDB's control systems to the extent necessary to support our audit of MSDB's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the school.
3. To determine whether MSDB complied with selected laws and regulations.

Our audit effort focused on transfers-in revenue, personal services expenditures, and property held in trust activity. Transfers-in revenue is comprised of MSDB's permanent fund earnings from the Department of Natural Resources and Conservation and federal subawards from the Office of Public Instruction. Property Held in Trust activity included additions and reductions to student accounts that can be used throughout the year for student personal needs. Throughout the audit, we reviewed and tested the school's control systems and determined compliance with selected state laws.

## **Background**

MSDB is a state-supported, special purpose school, and an integral part of the Montana public education system. MSDB is governed by the Montana Board of Public Education. In accordance with its statutory mandates, MSDB serves two primary functions. First, by the use of specialized instruction and training, MSDB provides education for hearing and visually impaired children that is commensurate with the education provided to nondisabled children in local school districts.

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

MSDB is comprised of four programs: Administration, Education, General Services, and Student Services. These programs are presented on the Schedule of Total Expenditures & Transfers-out. Total authorized full-time equivalent (FTE) staff for the programs and activities was 88.6 during the audit period.

**Administration Program (5 FTE):** The Administration Program includes the school superintendent, business manager, benefit specialist, accounting technician, and executive secretary. This program ensures MSDB's compliance with all statutory mandates including fiduciary responsibility for the entire school.

**Education (49.9 FTE):** The Education Program is comprised of the principal, teachers, teachers' aides, interpreters, speech pathologist, school psychologist, guidance counselor, behavior counselor, orientation & mobility specialist, occupational therapist, physical therapist, and communications technician on the campus in Great Falls. These professionals assure that each child is given the specialized instruction and tools necessary for quality education despite their disability.

The Education program also includes the Outreach Program that provides services to children throughout the state in their home school districts. Specialized educational equipment is loaned to visually impaired children from the school's lending library to help the local school districts in providing the student with means necessary for success in the classroom. The outreach consultants provide home-based early intervention services for infants and toddlers. The program also provides consultation services to local pre-schools and Head Start programs.

**General Services (4 FTE):** The General Services Program includes the maintenance supervisor, maintenance workers, and custodians. This program is responsible for the upkeep and cleaning of all campus buildings and grounds.

**Student Services (29.7 FTE):** The Student Services Program provides children from across the state a place to live during the school year. The dean of students and his staff of cottage life attendants, nurses, and counselors care for the children while they are on campus. This program works with the Education program in planning and holding Family Learning Weekends and summer camps for the students and their families.

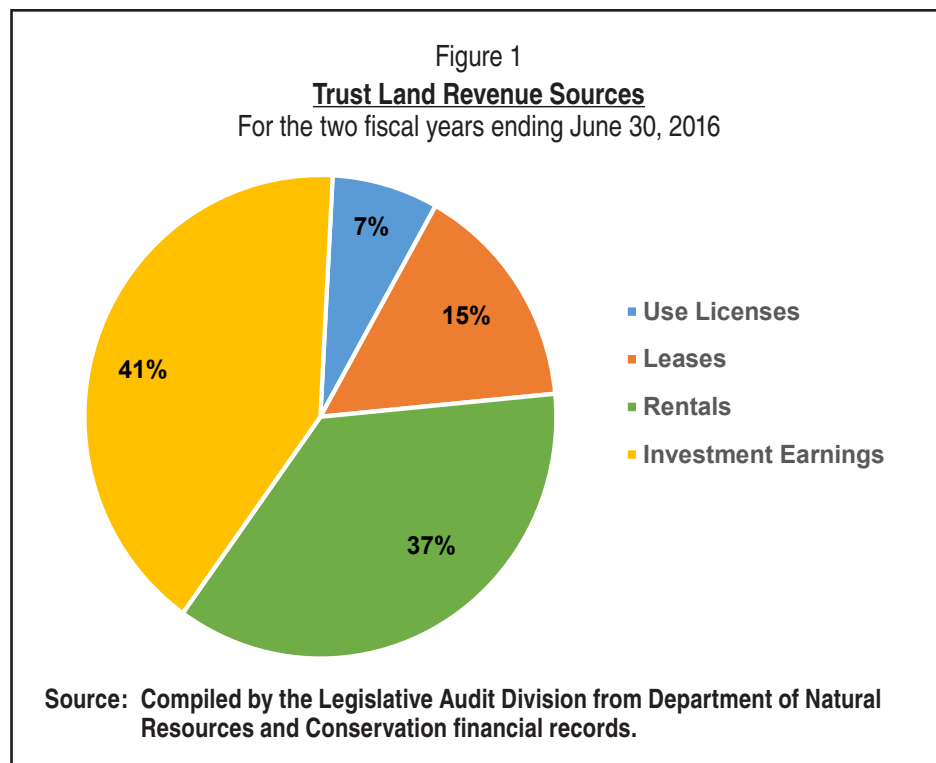
## Chapter II – Findings and Recommendations

### Internal Control over State Trust Land Revenue

**The Montana School for the Deaf and Blind does not have controls in place to ensure state trust land revenue collected by another state agency is complete and accurate.**

The federal Enabling Act (Act) of 1889 granted to the state of Montana sections of land within the state for support of schools and education. The Act specifically granted land for the benefit of the Montana School for the Deaf and Blind (MSDB). Per Article X, Section 11, of the Montana Constitution, all lands of the state granted by congress shall be held in trust for the people, for the respective purposes for which they have been granted. The Department of Natural Resources and Conservation (DNRC) administers the separate land trust for MSDB.

DNRC collects the revenue generated from the trust land on behalf of MSDB and transfers the revenue collected to MSDB on a quarterly basis. This revenue totaled approximately \$311,000 and \$356,000 in fiscal years 2015 and 2016, respectively. Types of revenue include rentals, leases, use licenses for multiple purposes including recreation and commercial use, and investment earnings. The breakdown of revenue sources during the audit period can be seen in the figure below.



State accounting policy requires management to establish and maintain internal controls to ensure transactions are accurate. Additionally, state policy requires state agencies to perform monthly reconciliations of revenue collected by a third party to ensure the revenue is complete and accurate. During the audit, we determined MSDB did not have internal controls in place to perform a reconciliation of the trust land revenue received from DNRC, the third party.

By not completing a reconciliation over the revenue collected by DNRC, there is a risk that the trust land revenue received is not complete and accurate, and a misstatement in the revenue would not be identified in a timely manner. As a result, MSDB is not in compliance with state accounting policy. While state policy discusses a monthly reconciliation of revenue, it is reasonable that MSDB would complete quarterly reconciliations as revenue is received. Per discussion with MSDB staff, they were not aware of the requirement in state accounting policy and during the audit period, they did not receive documentation from DNRC to support the amount of revenue received. MSDB did not have an understanding during the audit period of the revenue-generating activity related to their trust land.

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**RECOMMENDATION #1**

*We recommend the Montana School for the Deaf and Blind comply with state accounting policy by:*

- A. *Working with the Department of Natural Resources and Conservation to gain an understanding of the revenue-generating activity related to their trust land, and*
  - B. *Developing internal controls to ensure revenue collected by the Department of Natural Resources and Conservation and remitted quarterly to the school is accurate and complete.*
-

# **Independent Auditor's Report and Department Financial Schedules**



## LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

## 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 & 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, 2016, and 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 school'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 school'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 school as of June 30, 2016, and June 30, 2015, 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 & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Montana School for the Deaf and Blind for each of the fiscal years ended June 30, 2016, and 2015, in conformity with the basis of accounting described in Note 1.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016, on our consideration of the Montana School for the Deaf and Blind's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the school's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

September 23, 2016

MONTANA SCHOOL FOR THE DEAF & BLIND  
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
FUND EQUITY: July 1, 2015	\$ (402,282)	\$ 86,419	\$ 91	\$ 0
PROPERTY HELD IN TRUST: July 1, 2015				\$ 23,865
ADDITIONS				
Budgeted Revenues & Transfers-In	3,689	358,969	189,757	
Direct Entries to Fund Equity	6,537,786			40,605
Additions to Property Held in Trust				40,605
Total Additions	6,541,475	358,969	189,757	
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	6,633,155	267,453	189,731	
Nonbudgeted Expenditures & Transfers-Out	(19,034)			
Prior Year Expenditures & Transfers-Out Adjustments	37			
Reductions in Property Held in Trust				38,882
Total Reductions	6,614,158	267,453	189,731	38,882
FUND EQUITY: June 30, 2016	\$ (474,965)	\$ 177,934	\$ 117	\$ 0
PROPERTY HELD IN TRUST: June 30, 2016				\$ 25,589

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 & BLIND  
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FUND EQUITY: July 1, 2014  
 PROPERTY HELD IN TRUST: July 1, 2014

**ADDITIONS**

Budgeted Revenues & Transfers-In  
 Nonbudgeted Revenues & Transfers-In  
 Direct Entries to Fund Equity  
 Additions to Property Held in Trust  
 Total Additions

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
	\$ (560,959)	\$ 82,740	\$ 91	\$ 0
				\$ 23,259
	19,049	315,451	185,936	
	2,250			
	6,644,066			45,514
				45,514
	6,665,366	315,451	185,936	

**REDUCTIONS**

Budgeted Expenditures & Transfers-Out  
 Nonbudgeted Expenditures & Transfers-Out  
 Prior Year Expenditures & Transfers-Out Adjustments  
 Reductions in Property Held in Trust  
 Total Reductions

	6,683,126	311,773	185,936	
	(6,166)			
	(170,272)			44,907
				44,907
	6,506,689	311,773	185,936	
	\$ (402,282)	\$ 86,419	\$ 91	\$ 0
				\$ 23,865

FUND EQUITY: June 30, 2015  
 PROPERTY HELD IN TRUST: June 30, 2015

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 & BLIND  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**TOTAL REVENUES & TRANSFERS-IN BY CLASS**

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
Charges for Services	\$	158		\$ 158
Rentals, Leases and Royalties		2,908		2,908
Transfers-in		355,903	189,757	545,660
Miscellaneous	\$ 3,689			3,689
Total Revenues & Transfers-In	3,689	358,969	189,757	552,415
Less: Nonbudgeted Revenues & Transfers-In				0
Prior Year Revenues & Transfers-In Adjustments				0
Actual Budgeted Revenues & Transfers-In	3,689	358,969	189,757	552,415
Estimated Revenues & Transfers-In	22,250	389,464	197,580	609,294
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (18,561)	\$ (30,495)	\$ (7,823)	\$ (56,879)

**BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS**

Licenses and Permits	\$	(184)		\$ (184)
Charges for Services		(15,422)		(21,172)
Rentals, Leases and Royalties	\$ (5,750)	(792)		(792)
Transfers-in		(14,097)	(674)	(14,771)
Federal Indirect Cost Recoveries			(7,149)	(7,149)
Miscellaneous	(12,811)			(12,811)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (18,561)	\$ (30,495)	\$ (7,823)	\$ (56,879)

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 & BLIND  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>				
Charges for Services	\$	841		\$ 841
Rentals, Leases and Royalties		3,158		3,158
Transfers-in		311,452	185,936	497,387
Capital Asset Sale Proceeds	\$ 2,250			2,250
Miscellaneous	19,049			19,049
Total Revenues & Transfers-In	21,300	315,451	185,936	522,686
Less: Nonbudgeted Revenues & Transfers-In	2,250			2,250
Prior Year Revenues & Transfers-In Adjustments				0
Actual Budgeted Revenues & Transfers-In	19,049	315,451	185,936	520,436
Estimated Revenues & Transfers-In	22,719	331,464	192,409	546,592
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (3,670)</u>	<u>\$ (16,013)</u>	<u>\$ (6,473)</u>	<u>\$ (26,156)</u>
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>				
Licenses and Permits				
Charges for Services	\$	(184)		\$ (184)
Rentals, Leases and Royalties	(5,719)	(14,739)		(20,458)
Transfers-in		(542)		(542)
Federal Indirect Cost Recoveries		(548)	(171)	(720)
Miscellaneous	2,049		(6,302)	(6,302)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (3,670)</u>	<u>\$ (16,013)</u>	<u>\$ (6,473)</u>	<u>\$ (26,156)</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 & BLIND  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Administration Program	Education	General Services	Student Services	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT					
Personal Services					
Salaries	\$ 274,532	\$ 2,855,628	\$ 162,409	\$ 860,291	\$ 4,152,860
Employee Benefits	102,715	1,272,127	81,712	476,887	1,933,441
Total	<u>377,247</u>	<u>4,127,756</u>	<u>244,121</u>	<u>1,337,178</u>	<u>6,086,301</u>
Operating Expenses					
Other Services	73,337	6,803	51,283	9,662	141,084
Supplies & Materials	25,340	78,709	20,134	98,518	222,701
Communications	17,928	26,960	2,213	2,349	49,451
Travel	824	44,855		74,673	120,352
Rent	768	78,127		33,763	112,657
Utilities		16	141,290		141,306
Repair & Maintenance	379	2,892	53,012	(70)	56,212
Other Expenses	13,899	34,223	11,584	2,271	61,977
Total	<u>132,475</u>	<u>272,584</u>	<u>279,516</u>	<u>221,166</u>	<u>905,741</u>
Equipment & Intangible Assets					
Equipment		8,887	32,963		41,849
Total		<u>8,887</u>	<u>32,963</u>		<u>41,849</u>
Transfers-out					
Fund transfers			9,000		9,000
Total			<u>9,000</u>		<u>9,000</u>
Debt Service					
Loans			28,450		28,450
Total			<u>28,450</u>		<u>28,450</u>
Total Expenditures & Transfers-Out	\$ <u>509,722</u>	\$ <u>4,409,226</u>	\$ <u>594,050</u>	\$ <u>1,558,344</u>	\$ <u>7,071,342</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund	\$ 506,782	\$ 3,992,113	\$ 588,590	\$ 1,526,673	\$ 6,614,158
State Special Revenue Fund	2,940	259,053	5,460		267,453
Federal Special Revenue Fund		158,060		31,671	189,731
Total Expenditures & Transfers-Out	<u>509,722</u>	<u>4,409,226</u>	<u>594,050</u>	<u>1,558,344</u>	<u>7,071,342</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(1,523)	(11,611)	(1,523)	(4,378)	(19,034)
Prior Year Expenditures & Transfers-Out Adjustments		406		(369)	37
Actual Budgeted Expenditures & Transfers-Out	<u>511,245</u>	<u>4,420,431</u>	<u>595,573</u>	<u>1,563,091</u>	<u>7,090,339</u>
Budget Authority	<u>533,954</u>	<u>4,698,688</u>	<u>617,295</u>	<u>1,718,233</u>	<u>7,568,170</u>
Unspent Budget Authority	\$ <u>22,709</u>	\$ <u>278,257</u>	\$ <u>21,722</u>	\$ <u>155,142</u>	\$ <u>477,831</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund	\$ 22,709	\$ 257,163	\$ 21,722	\$ 155,142	\$ 456,737
State Special Revenue Fund		21,068			21,068
Federal Special Revenue Fund		26			26
Unspent Budget Authority	<u>\$ 22,709</u>	<u>\$ 278,257</u>	<u>\$ 21,722</u>	<u>\$ 155,142</u>	<u>\$ 477,831</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 & BLIND  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Administration Program	Education	General Services	Student Services	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT					
Personal Services					
Salaries	\$ 303,276	\$ 2,916,604	\$ 153,257	\$ 810,549	\$ 4,183,686
Employee Benefits	139,320	1,255,845	78,165	452,195	1,925,526
Total	<u>442,597</u>	<u>4,172,449</u>	<u>231,422</u>	<u>1,262,744</u>	<u>6,109,212</u>
Operating Expenses					
Other Services	50,114	9,579	39,511	8,188	107,392
Supplies & Materials	14,957	71,394	25,549	82,013	193,912
Communications	25,281	27,448	1,441	2,364	56,534
Travel	765	46,260	892	81,321	129,238
Rent	408	64,701	791	39,576	105,476
Utilities			139,968		139,968
Repair & Maintenance		2,169	36,360	3,811	42,340
Other Expenses	6,203	30,355	11,288	830	48,677
Total	<u>97,728</u>	<u>251,905</u>	<u>255,800</u>	<u>218,103</u>	<u>823,535</u>
Equipment & Intangible Assets					
Equipment	6,767				6,767
Total	<u>6,767</u>				<u>6,767</u>
Capital Outlay					
Other Improvements			27,433		27,433
Total			<u>27,433</u>		<u>27,433</u>
Transfers-out					
Fund transfers			9,000		9,000
Total			<u>9,000</u>		<u>9,000</u>
Debt Service					
Loans			28,450		28,450
Total			<u>28,450</u>		<u>28,450</u>
Total Expenditures & Transfers-Out	\$ <u>547,092</u>	\$ <u>4,424,354</u>	\$ <u>552,105</u>	\$ <u>1,480,846</u>	\$ <u>7,004,397</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund	\$ 547,092	\$ 3,952,974	\$ 552,105	\$ 1,454,518	\$ 6,506,689
State Special Revenue Fund		311,773			311,773
Federal Special Revenue Fund		159,607		26,329	185,936
Total Expenditures & Transfers-Out	547,092	4,424,354	552,105	1,480,846	7,004,397
Less: Nonbudgeted Expenditures & Transfers-Out	(475)	(4,091)	(244)	(1,356)	(6,166)
Prior Year Expenditures & Transfers-Out Adjustments	6,515	(163,016)	(827)	(12,943)	(170,272)
Actual Budgeted Expenditures & Transfers-Out	541,052	4,591,461	553,176	1,495,146	7,180,834
Budget Authority	544,336	4,698,634	564,581	1,528,585	7,336,136
Unspent Budget Authority	\$ <u>3,284</u>	\$ <u>107,173</u>	\$ <u>11,405</u>	\$ <u>33,439</u>	\$ <u>155,302</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund	\$ 344	\$ 91,666	\$ 11,405	\$ 33,268	\$ 136,683
State Special Revenue Fund	2,940	15,507			18,447
Federal Special Revenue Fund				171	171
Unspent Budget Authority	\$ <u>3,284</u>	\$ <u>107,173</u>	\$ <u>11,405</u>	\$ <u>33,439</u>	\$ <u>155,302</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, 2016

## 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, 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.

The school uses the full accrual basis accounting for its Fiduciary (Agency) fund category. Under the accrual basis, as defined by state accounting policy, the school records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

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.

### **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, Medicaid 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 OPI pass through grants from the U.S. Department of Education and U.S. Department of Agriculture.

### **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 funds tracks activity related to student accounts held in trust.

## **2. General Fund Equity Balance**

The negative fund equity 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 equity balances for each of the fiscal years ended June 30, 2015 and June 30, 2016.

## **3. Direct Entries to Fund Equity**

Direct entries to fund equity 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. A direct entry to fund equity in the General Fund primarily is the movement of cash resulting from the school paying its obligations.

## **4. Actual Budgeted Expenditures & Transfer-Out**

In the 2015 Schedule of Expenditures & Transfers-out Actual Budgeted Expenditures & Transfer-Out is overstated by \$166,242 due to an error on an accounting entry for the FY 2014 B Accrual for Salaries and Benefits. When the reversal of the FY 2014 B Accrual was done in FY 2015 it was incorrectly coded to 2015 instead of 2014 as it should have been done. As a result the Prior Year Expenditures is understated by \$166,242. Also, the Schedule of Changes in Fund Equity & Property Held in Trust records this error as an overstatement in the Budgeted Expenditures and Transfers-Out line and an understatement in the Prior Year Expenditures and Transfers-Out line. In the following fiscal years this error did not happen again.

## **5. Foundation**

A foundation was created by the Montana Board of Public Education and incorporated under MCA 20-8-111. 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 foundations' audited financial statements report expenditures of \$202,359 & \$174,448 in support of the school during fiscal years 2015 and 2016, respectively.

## **6. Related Party Transactions**

The business manager and the benefits specialist 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 the school's benefits specialist. 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 the preparation of deposit documents for processing into the foundation's bank account.



# **Report on Internal Control and Compliance**



# LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity & 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, 2016, and 2015, and the related notes to the financial schedules, and have issued our report thereon dated September 23, 2016.

### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial schedules, we considered the Montana School for the Deaf and Blind's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of Montana School for the Deaf and Blind's internal control. Accordingly, we do not express an opinion on the effectiveness of Montana School for the Deaf and Blind's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of 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 a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be a significant deficiency. See the finding and recommendation starting on page 3 for a description of this significant deficiency.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Montana School for the Deaf and Blind's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### *Montana School for the Deaf and Blind Response to Findings*

The Montana School for the Deaf and Blind's response to the finding identified in our audit is described on page C-1 of this report. The school's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

### *Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the school's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the school's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

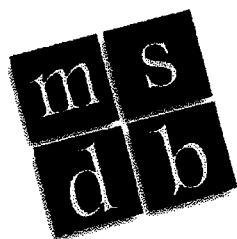
Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

September 23, 2016

MONTANA SCHOOL FOR  
THE DEAF AND BLIND

SCHOOL RESPONSE





MONTANA  
SCHOOL *for the*  
Deaf & Blind

*giving kids the building blocks to independence*

3911 CENTRAL AVENUE  
Great Falls, Montana 59405  
406.771.6000 V/TTY  
406.771.6164 FAX  
[www.msdb.mt.gov](http://www.msdb.mt.gov)

September 26, 2016

Angus Maciver, Legislative Auditor  
Office of the Legislative Auditor  
State Capitol Building, Room 160  
PO BOX 201705  
Helena, MT 59620-1705

**RECEIVED**

**SEP 28 2016**

**LEGISLATIVE AUDIT DIV.**

Dear Mr. Maciver:

I would like to take this opportunity to thank the Legislative Audit staff for their assistance and work performed at the Montana School for the Deaf and the Blind (MSDB) for the two fiscal years ending June 30, 2016. Our staff considered it a pleasure to work with the Legislative Audit staff and we hope they found the experience professional and enjoyable.

We have review your Financial Compliance Audit completed for the two fiscal years ending June 30, 2016 and provide the following response:

Recommendation #1

*We recommend the Montana School for the Deaf and the Blind (MSDB) comply with state accounting policy by:*

- 1. Working with the Department of Natural Resources and Conservation to gain an understanding of the revenue-generating activity related to their trust land, and*
- 2. Developing internal controls to ensure revenue collected by the Department of Natural Resources and Conservation and remitted quarterly to the school is accurate and complete.*

We concur with this recommendation. We have begun addressing this recommendation by contacting the Department of Natural Resources and Conservation to learn how to establish this internal control for our accounting processes. Our Business Manager can now print reports to reconcile our revenue being sent to MSDB. In addition, we will monitor Department of Natural Resources and Conservation board minutes to note any possible significant changes in revenue. We will also seek to develop a working relationship with the Trust Accountant and the various boards involved (mineral board, etc).

Thank you and your staff of professional auditors for your hard work and careful examination during this audit. We always look upon the audit process as an opportunity to improve our operations and performance.

Wishing you peace,

A handwritten signature in cursive script that reads "Donna E Sorensen".

Donna E Sorensen, Superintendent  
Montana School for the Deaf and the Blind

A handwritten signature in cursive script that reads "Donna Schmidt".

Donna Schmidt, Business Manager  
Montana School for the Deaf and the Blind