



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Board of Public Education

*For the Two Fiscal Years Ended
June 30, 2018*

MAY 2019

LEGISLATIVE AUDIT
DIVISION

18-22

**LEGISLATIVE AUDIT
COMMITTEE**

REPRESENTATIVES

KIM ABBOTT

Kim.Abbott@mtleg.gov

DAN BARTEL

Danbartel2@gmail.com

TOM BURNETT, VICE CHAIR

Burnett.tom@gmail.com

DENISE HAYMAN

Denise.Hayman@mtleg.gov

EMMA KERR-CARPENTER

KC@mtleg.gov

MATT REGIER

Matt.Regier@mtleg.gov

SENATORS

DEE BROWN

senatordee@yahoo.com

JASON ELLSWORTH

Jason.Ellsworth@mtleg.gov

JOHN ESP

Johnesp2001@yahoo.com

PAT FLOWERS

Pat.Flowers@mtleg.gov

TOM JACOBSON

Tom.Jacobson@mtleg.gov

MARY McNALLY, CHAIR

McNally4MTLeg@gmail.com

MEMBERS SERVE UNTIL A
MEMBER'S LEGISLATIVE TERM
OF OFFICE ENDS OR UNTIL A
SUCCESSOR IS APPOINTED,
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE
(STATEWIDE)
1-800-222-4446
(IN HELENA)
444-4446
LADHotline@mt.gov
www.montanafraud.gov

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

AUDIT STAFF

NATALIE H. GIBSON

DELSI OSMANSON

Reports can be found in electronic format at:
<https://leg.mt.gov/lad/audit-reports>

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

May 2019

The Legislative Audit Committee
of the Montana State Legislature:

The enclosed report documents the results of our financial-compliance audit of the Board of Public Education for the two fiscal years ended June 30, 2018. Included in this report are four recommendations related to expending General Fund money prior to nongeneral fund resources contrary to state law; the incorrect utilization of state special revenue fund resources; and internal control deficiencies over the monitoring of shared funds and travel expenditure reimbursements.

We issued unmodified opinions on the Schedules of Expenditures & Transfers-Out for each of the two fiscal years ended June 30, 2018. We issued modified opinions on the Schedules of Changes in Fund Equity for each of the two fiscal years ended June 30, 2018. This is discussed in further detail in the Independent Auditor's Report on page A-1. In addition, we identified a material weakness in internal control which is discussed in the 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* on page B-1.

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Elected, Appointed, and Administrative Officials.....	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Introduction.....	1
Background.....	1
Prior Audit Recommendation	2
CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	3
State Special Revenue Fund Activity.....	3
Expenditure of Nongeneral Fund Money First	3
Fund Utilization Contrary to State Law	4
Internal Controls Over the Shared Funds.....	5
Travel Reimbursements.....	6
INDEPENDENT AUDITOR’S REPORT AND BOARD FINANCIAL SCHEDULES	
Independent Auditor’s Report.....	A-1
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2018	A-4
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2017	A-5
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2018	A-6
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2017	A-7
Notes to the Financial Schedules	A-9
REPORT ON INTERNAL CONTROL AND COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	B-1
BOARD RESPONSE	
Montana Board of Public Education	C-1

ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

Board of Public Education

Steve Bullock, Governor*

Elsie Arntzen, Superintendent of Public Instruction*

Clayton Christian, Commissioner of Higher Education*

		<u>Term Expires</u>
Darlene Schottle, Chairperson	Bigfork	2022
Tammy Lacey, Vice Chairperson	Great Falls	2023
Jesse Barnhart	Broadus	2025
Mary Jo Bremner	Browning	2021
Anne Keith	Bozeman	2024
Madalyn Quinlan	Helena	2026
Scott Stearns	Missoula	2020
Paris Becker (Student Representative)	Fairfield	2019

* ex officio members

Peter Donovan, Executive Director

Kris Stockton, Administrative Specialist

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

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



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Montana Board of Public Education

For the Two Fiscal Years Ended June 30, 2018

MAY 2019

18-22

REPORT SUMMARY

The Board of Public Education is supported by General Fund appropriations and revenue received from teacher license fees recorded in the State Special Revenue Fund. In fiscal years 2017 and 2018, contrary to §17-2-108(1), MCA, the board spent General Fund money prior to utilizing nongeneral fund money which caused misstatements of \$8,651 and \$18,532, respectively, between the two funds. These misstatements resulted in modified opinions on two out of four of the board's financial schedules.

Context

The Montana Board of Public Education (board) was created by the Montana Constitution in 1972 to supervise, serve, maintain, and strengthen the public school system. The board presides over more than 400 school districts and the Montana School for the Deaf and Blind. The board is responsible for school accreditation standards and teacher certification, as well as adopting policies for various other education-related activities.

The Office of Public Instruction (OPI) collects revenue for teacher license fees and the board uses this funding for its operations. In fiscal years 2017 and 2018, respectively, this revenue totaled approximately \$166,000 and \$159,000. The collection of these fees does not result in revenue for the board because the revenue is recognized by OPI. Instead, resources are provided to the board through direct entries to fund equity. Because the board has no revenue activity, the Schedules of Total Revenues & Transfers-In are not included in this report.

We focused our audit effort on testing transactions related to personal services and operating expenditures, concentrating on legal and travel expenditures. We reviewed the board's control systems and determined compliance

with selected state laws and regulations relating to the board's responsibilities, the certification of teaching and supervisory personnel, standards of accreditation, distribution of state aid, and policies for the operation of school buses.

Results

The prior audit report for the two fiscal years ended June 30, 2016, contained one recommendation relating to the implementation of controls over monitoring shared fund activity for completeness and accuracy. Our follow-up work resulted in a subsequent recommendation in the current audit report.

Three additional recommendations were made in the current audit report as well. The first recommendation relates to expending General Fund money prior to nongeneral fund resources contrary to state law and resulted in modified opinions on the Schedules of Changes in Fund Equity for each of the two fiscal years ended June 30, 2018. This noncompliance is also addressed in the Report on Internal Control Over Financial Reporting and on Compliance and

(continued on back)

Other Matters Based on an Audit of Financial Schedules Performed in Accordance with *Government Auditing Standards* on page B-1. The remaining two recommendations discuss the incorrect utilization of state special revenue fund resources and an internal control deficiency over travel expenditure reimbursements.

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (18-22) 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 <https://leg.mt.gov/lad/audit-reports>
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail LADHotline@mt.gov.

Chapter I – Introduction

Introduction

We completed a financial-compliance audit of the Board of Public Education (board) for the two fiscal years ended June 30, 2018. The objectives of the audit were to:

1. 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.
2. Determine whether the board complies with selected laws and regulations.
3. Determine the implementation status of the prior audit recommendation.
4. Determine whether the financial schedules present fairly, in all material respects, the results of operations and changes in fund equity of the board for each of the two years ending June 30, 2018, and 2017.

We addressed these objectives by focusing our audit efforts largely on personal services and operating expenditures. This included reviewing the board's internal control procedures, performing analytical procedures, and reviewing accounting transactions, primarily those related to legal and travel expenditures. We also reviewed and tested the board's compliance with state laws and policies relating to the board's responsibilities, the certification of teaching and supervisory personnel, standards of accreditation, distribution of state aid, and policies for the operation of school buses.

The board is supported by General Fund appropriations and teacher licensure fees. The Office of Public Instruction (OPI) collects the revenue for teacher license fees and the board uses this funding for its operations. The collection of these fees does not result in revenue for the board because the revenue is recognized by OPI. Instead, resources are provided to the board through direct entries to fund equity as shown on the Schedules of Changes in Fund Equity on pages A-5 and A-6. Because the board has no revenue activity, the Schedules of Total Revenues & Transfers-In are not included in this report.

Background

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 representative, selected annually by the Montana Association of Student Councils, also sits as a nonvoting member of the board. As of June 30, 2018, the board is authorized three 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.

Prior Audit Recommendation

The prior audit report for the two fiscal years ended June 30, 2016, contained one recommendation to the board pertaining to the implementation of internal controls over the funds shared with OPI. While the board made a concerted effort to implement the prior audit recommendation, additional measures need to be taken for the recommendation to be implemented. As such, we made another recommendation in this report, which begins on page 5.

Chapter II – Findings and Recommendations

State Special Revenue Fund Activity

The Board of Public Education (board) is responsible for general supervision over the elementary and secondary schools in the state of Montana. The board is appropriated funding in both the General Fund and State Special Revenue Fund (SSRF) for its personal services and operating expenditures. The board's SSRF expenditures are funded from teacher licensure fees collected by the Office of Public Instruction (OPI) and deposited into the SSRF specified in state law. The first three recommendations, discussed below, pertain to activity in the board's SSRF.

Expenditure of Nongeneral Fund Money First

The board did not fully expend available appropriated SSRF resources prior to utilizing General Fund money.

Section 17-2-108(1), MCA, requires agencies to use appropriated nongeneral fund money, prior to using General Fund resources, whenever possible. In fiscal years 2017 and 2018, respectively, the board retained \$8,651 and \$18,532 in unspent, available SSRF resources that were not utilized prior to expending General Fund resources. This resulted in modified opinions on the Schedule of Changes in Fund Equity for both fiscal years 2017 and 2018.

The board's practice is to monitor the cash balances in the SSRF and when balances become low, they start charging expenditures to the General Fund to avoid having a negative cash balance in the SSRF. Board staff stated they did not realize it was allowable to subsequently move expenditures from the General Fund to the SSRF once additional revenues were received in the SSRF. Because we addressed the same issue in our 12-22B and 14-22A audit reports, the board is aware of the requirement to spend nongeneral fund money first, thus staff could have reached out to the Department of Administration's State Accounting Bureau for guidance. The board's procedures need to consider additional revenue received in the SSRF and, if necessary, move expenditures recorded in the General Fund to the SSRF in order to comply with state law and fully utilize its SSRF resources prior to General Fund resources.

RECOMMENDATION #1

We recommend the Board of Public Education comply with state law and expend available appropriated state special revenue fund resources prior to utilizing General Fund money.

Fund Utilization Contrary to State Law

The board is not complying with state law regarding the use of funding in its state special revenue fund account.

State accounting policy charges management with the responsibility for establishing and maintaining internal control policies and procedures, in part to ensure compliance with applicable laws and regulations. As previously stated, the board's operations are partially funded through teacher licensure fees collected by OPI and deposited into state special revenue fund accounts for the board's use. Section 20-4-109, MCA, states that for every \$6 licensure fee collected, \$4 shall be for the expenses of the Certification Standards and Practices Advisory Council (CSPAC) and \$2 shall be used to support the activities of both the CSPAC and the board. The board does not have procedures in place to allocate expenditures to the proper funding stream, resulting in each of the funding streams supporting operations of both the CSPAC and the board, contrary to state law.

In fiscal years 2017 and 2018, respectively, the board utilized \$120,147 and \$114,675 of the \$4 funding stream specifically designated for CSPAC-related activity, but because the board does not have procedures in place to identify and appropriately allocate the activity to the correct funding stream, we were unable to determine how much of those expenditures were improperly used for board activity.

Board staff stated that several years ago responsibilities related to the board and CSPAC were combined due to staff reductions, but procedures were not implemented to track CSPAC-specific activity, and the board did not seek a change in legislation to reflect the change in operations. While from an operating perspective combining responsibilities may be reasonable, by not having procedures in place to ensure only CSPAC-related expenditures are funded by the \$4 portion of the teacher licensure revenue stream, the board cannot demonstrate compliance with state law.

RECOMMENDATION #2

We recommend the Board of Public Education:

- A. *Implement procedures to ensure only Certification Standards and Practices Advisory Council expenditures are funded with the \$4 funding stream from teacher licensure revenues in accordance with state law, or*
 - B. *Seek a change in legislation to more accurately reflect the board's current operating procedures.*
-

Internal Controls Over the Shared Funds

The board does not have adequate procedures in place to monitor shared fund activity.

State accounting policy charges agency management with the responsibility for establishing and maintaining internal controls to safeguard assets and ensure the accuracy of financial information. During the prior audit, we determined the board did not have controls in place to ensure the teacher licensure fees recorded on the accounting records were complete and accurate. While OPI collects and deposits the fees into funds shared with the board, per state accounting policy, the responsibility for the accuracy and completeness of the activity lies with the board. In the prior audit, we recommended the board implement internal controls to monitor the activity in the shared funds. The board made a concerted effort to implement the prior audit recommendation, but we determined the designed procedures were not adequate and the prior audit recommendation was not implemented.

Subsequent to the previous audit, board staff started obtaining a monthly report from OPI outlining how much in teacher licensure fees was deposited. The board's procedures were to compare the OPI-provided report to its own report obtained from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) to determine if the activity matched. Unbeknownst to the board, the report provided by OPI was also a SABHRS report, resulting in the board comparing the same information.

Because the board did not implement procedures necessary to determine how much revenue should have been recorded by OPI, but instead was only confirming what was recorded on SABHRS, the board still has not implemented the prior audit recommendation. In order to obtain reasonable assurance the revenue recorded by

OPI was not materially misstated in fiscal years 2017 and 2018, we requested and received from OPI a list of licenses issued during fiscal years 2017 and 2018. We then calculated the amount of revenue that should have been recorded on SABHRS based on the number of licenses issued. Because significant differences existed between our calculation and the amount recorded, we also obtained the reconciliation OPI completes between the transactions posted to its licensing system, SABHRS, and its online payment processing vendor, which explained the differences in amounts we identified.

Through the audit work described above, we were able to obtain reasonable assurance the revenue recorded by OPI was not materially misstated in fiscal years 2017 and 2018. However, unless the board modifies its procedures to also consider information gathered through OPI's licensing system, the board will continue to be at risk of not receiving the full amount of resources to which it is entitled.

RECOMMENDATION #3

We recommend the Board of Public Education implement internal controls over its shared funds by continuing to work with the Office of Public Instruction to obtain information necessary to ensure activity recorded in the shared funds is complete and accurate.

Travel Reimbursements

Reimbursements for travel expenditures did not fully comply with state travel laws and policies.

In order for members of the board and the CSPAC to fulfill their statutory obligations, travel to quarterly meetings is usually necessary. Members are then reimbursed by the board staff for travel-related costs based on submitted documentation. As discussed previously, state accounting policy charges management with the responsibility for establishing and maintaining internal control policies and procedures, in part to ensure compliance with applicable laws and regulations. While the board has a control system in place over travel reimbursements, we identified instances where improvements to its documentation and processes are needed in order to fully demonstrate compliance with state travel laws and policies.

We completed a statistical sample over 62 out of 353 travel-related expenditure transactions, and found the following errors:

- ◆ Two instances where lodging was reimbursed at a rate higher than the rate allowed in state policy at the time of travel and no written justification supporting the allowance of the higher rates existed as required by state policy. Board staff stated they believed it was at an agency's discretion as to whether they would reimburse board members for a higher lodging rate.
- ◆ Two instances where, due to human error, reimbursements to board members for miles traveled were calculated incorrectly, resulting in the board members being undercompensated.
- ◆ One instance where the support for a meal reimbursement expenditure did not contain enough information, such as the beginning and ending time of the employee's travel status, to demonstrate compliance with state law. Board staff believed the available documentation adequately supported the transaction.

As mentioned, the board does have controls in place over travel reimbursements, but the errors discussed above emphasize a need for the board to improve its procedures and documentation to consistently demonstrate compliance with state travel laws and policies.

RECOMMENDATION #4

We recommend the Board of Public Education enhance its procedures to fully demonstrate compliance with state travel laws and policies.

Independent Auditor's Report and Board 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 and Schedules of Total Expenditures & Transfers-Out of the Board of Public Education for each of the fiscal years ended June 30, 2018, and 2017, 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 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, 2018, and June 30, 2017, or changes in financial position for the years then ended.

Basis for Qualified Opinions on Regulatory Basis of Accounting

Section 17-2-108(1), MCA, requires agencies to utilize appropriated nongeneral fund money first, prior to using general fund appropriations. In fiscal years 2017 and 2018, the board had \$8,651 and \$18,532, respectively, remaining in unrestricted state special revenue fund appropriations that were not utilized prior to general fund appropriations, which is contrary to state law. This resulted in material misstatements on the fiscal year 2017 and 2018 Schedules of Changes in Fund Equity, as summarized in the table below.

Schedules of Changes in Fund Equity

Financial Schedule Line Item:	Over/(Under) Statements			
	General Fund		State Special Revenue Fund	
	FY17	FY18	FY17	FY18
Fund Equity, July 1				\$8,651
Direct Entries to Fund Equity	\$8,651	\$18,532		
Budgeted Expenditures and Transfers-Out	\$8,651	\$18,532	(\$8,651)	(\$18,532)
Total Reductions	\$8,651	\$18,532	(\$8,651)	(\$18,532)
Fund Equity, June 30			\$8,651	\$27,183

Qualified Opinions on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinions” paragraph, the Schedules of Changes in Fund Equity present fairly, in all material respects, the results of operations and changes in fund equity of the Board of Public Education for each of the fiscal years ended June 30, 2018, and 2017, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Total Expenditures & Transfers-Out, presents fairly, in all material respects, the results of operations of the Board of Public Education for each of the fiscal years ended June 30, 2018, and 2017, 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 March 11, 2019, on our consideration of the Board of Public Education’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 board’s internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 11, 2019

BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>State Special Revenue Fund</u>
FUND EQUITY: July 1, 2017	\$ <u>(321)</u>	\$ <u>88,228</u>
ADDITIONS		
Direct Entries to Fund Equity	<u>118,477</u>	<u>158,827</u>
Total Additions	<u>118,477</u>	<u>158,827</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	118,715	185,395
Nonbudgeted Expenditures & Transfers-Out		1,210
Prior Year Expenditures & Transfers-Out Adjustments		<u>1,428</u>
Total Reductions	<u>118,715</u>	<u>188,033</u>
FUND EQUITY: June 30, 2018	\$ <u><u>(559)</u></u>	\$ <u><u>59,022</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, 2017

	<u>General Fund</u>	<u>State Special Revenue Fund</u>
FUND EQUITY: July 1, 2016	\$ <u>(449)</u>	\$ <u>93,631</u>
ADDITIONS		
Direct Entries to Fund Equity	<u>155,202</u>	<u>166,204</u>
Total Additions	<u>155,202</u>	<u>166,204</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	155,442	170,318
Nonbudgeted Expenditures & Transfers-Out	<u>(368)</u>	<u>1,288</u>
Total Reductions	<u>155,074</u>	<u>171,606</u>
FUND EQUITY: June 30, 2017	\$ <u><u>(321)</u></u>	\$ <u><u>88,228</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 EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>K-12 EDUCATION</u>	<u>Total</u>
Personal Services		
Salaries	\$ 158,929	\$ 158,929
Other Compensation	950	950
Employee Benefits	61,463	61,463
Total	<u>221,342</u>	<u>221,342</u>
Operating Expenses		
Other Services	25,159	25,159
Supplies & Materials	5,851	5,851
Communications	8,205	8,205
Travel	19,509	19,509
Rent	17,550	17,550
Other Expenses	9,132	9,132
Total	<u>85,407</u>	<u>85,407</u>
Total Expenditures & Transfers-Out	<u>\$ 306,748</u>	<u>\$ 306,748</u>
 EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 118,715	\$ 118,715
State Special Revenue Fund	188,033	188,033
Total Expenditures & Transfers-Out	<u>306,748</u>	<u>306,748</u>
Less: Nonbudgeted Expenditures & Transfers-Out	1,210	1,210
Prior Year Expenditures & Transfers-Out Adjustments	1,428	1,428
Actual Budgeted Expenditures & Transfers-Out	<u>304,110</u>	<u>304,110</u>
Budget Authority	353,097	353,097
Unspent Budget Authority	<u>\$ 48,987</u>	<u>\$ 48,987</u>
 UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 18,096	\$ 18,096
State Special Revenue Fund	30,891	30,891
Unspent Budget Authority	<u>\$ 48,987</u>	<u>\$ 48,987</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 & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>K-12 EDUCATION</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 157,839	\$ 157,839
Other Compensation	1,100	1,100
Employee Benefits	65,406	65,406
Total	<u>224,345</u>	<u>224,345</u>
Operating Expenses		
Other Services	39,827	39,827
Supplies & Materials	7,423	7,423
Communications	8,280	8,280
Travel	22,646	22,646
Rent	18,632	18,632
Repair & Maintenance	447	447
Other Expenses	5,080	5,080
Total	<u>102,335</u>	<u>102,335</u>
Total Expenditures & Transfers-Out	<u>\$ 326,681</u>	<u>\$ 326,681</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 155,074	\$ 155,074
State Special Revenue Fund	171,606	171,606
Total Expenditures & Transfers-Out	<u>326,681</u>	<u>326,681</u>
Less: Nonbudgeted Expenditures & Transfers-Out	920	920
Prior Year Expenditures & Transfers-Out Adjustments		
Actual Budgeted Expenditures & Transfers-Out	<u>325,760</u>	<u>325,760</u>
Budget Authority	366,588	366,588
Unspent Budget Authority	<u>\$ 40,828</u>	<u>\$ 40,828</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 31,939	\$ 31,939
State Special Revenue Fund	8,889	8,889
Unspent Budget Authority	<u>\$ 40,828</u>	<u>\$ 40,828</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, 2018

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 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. 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.

3. OTO Funds for Legal Services

The Board of Public Education has One Time Only Funds equaling \$30,000 for each fiscal year, 2017 and 2018, to dedicate to legal services. The Board contracts with Agency Legal Services under the Montana Department of Justice to perform legal functions on behalf of the Board, such as handling licensure appeals, requests for educator license revocation, acting as the hearings officer for hearings, and other miscellaneous legal issues that arise. These OTO Funds are dedicated to its own subclass of 235H3.

4. Unspent Budget Authority

In FY 2017 the Board had unspent budget authority of \$8651.02 in the State Special Revenue Funds and \$31,939 in the General Fund. Cash balances in the State Special Revenue Funds are watched throughout the year and if the balances become low it is necessary to begin spending in the General Fund to allow cash balances to build up in the State Special Revenue Funds. This was the case in FY17 resulting in unspent budget authority in the State Special Revenue Funds. In FY 18, the Board had unrestricted unspent budget authority of \$18,531.66. As in FY17, cash balances became low and spending switched to the General Fund for personal services, resulting in the unspent budget authority in the State Special Revenue Funds. A portion of the unspent budget authority was due to OTO restricted funding in the State Special Revenue Funds that were not used as spending varies from year to year depending upon the Board's need for legal services. Unspent General Fund budget authority can also be attributed to OTO restricted funding for legal expenditures in both fiscal years, and budget reductions from HB 3 for FY2017.

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 and Schedules of Total Expenditures & Transfers-Out of the Board of Public Education for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules, and have issued our report thereon dated March 11, 2019. Our report includes qualified opinions on the Schedules of Changes in Fund Equity for each of the two fiscal years ended June 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the board'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 the board's internal control. Accordingly, we do not express an opinion on the effectiveness of the board'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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the board'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

- ◆ Section 17-2-108(1), MCA, requires agencies to utilize appropriated nongeneral fund money first, prior to using General Fund appropriations. In fiscal years 2017 and 2018, the board had \$8,651 and \$18,532, respectively, remaining in unrestricted State Special Revenue Fund appropriations that were not utilized prior to General Fund appropriations, which is contrary to state law, and resulted in qualified opinions on the Schedules of Changes in Fund Equity for each of the two fiscal years ended June 30, 2018.

Board of Public Education Response to Findings

The Board of Public Education's response to the findings identified in our audit are described on page C-1 of this report. The board'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 board'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 board'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

March 11, 2019

MONTANA BOARD OF
PUBLIC EDUCATION

BOARD RESPONSE



Board of Public Education

BOARD MEMBERS

APPOINTED MEMBERS:

May 22, 2019

Darlene Schottle - Chair
Big Fork

Tammy Lacey - Vice Chair
Great Falls

Madalyn Quinlan
Helena

Anne Keith
Bozeman

Jesse Barnhart
Broadus

Mary Jo Bremner
Browning

Scott Stearns
Missoula

Paris Becker, Student Rep.
Fairfield

EX OFFICIO MEMBERS:

Clayton Christian
Commissioner of
Higher Education

Elsie Arntzen,
Superintendent of
Public Instruction

Steve Bullock, Governor

EXECUTIVE DIRECTOR:

Pete Donovan

Angus Maciver
Legislative Auditor
Room 160, State Capitol Building
PO Box 201705
Helena, MT 59620

Dear Mr. Maciver:

Thank you and your audit team for the recently completed financial-compliance audit for the two fiscal years ended June 30, 2018. As the smallest agency in the state, the Board of Public Education very much appreciates the expertise and guidance that your staff provides to our agency to ensure full compliance with state law and current financial practices. Below is the Board's response to the final recommendations of our 2018 audit. Please let me know if you have any questions.

Recommendation #1:

The Board concurs and will ensure all State Special Revenue Funds are used first according to state law and will have spent all State Special Funds at the end of Fiscal Year 2019.

Recommendation #2:

Concur. The Board works to follow state law in all instances. State law requires State Special Funds to be used prior to General Fund, and the Advisory Council fund is proportionately larger than the General Fund for personal services, even though the majority of Board staff time is spent on Board related issues.

Over the past several biennia, there has been a gradual shift in Legislative funding to the Board of Public Education, that has resulted in the Legislature replacing General Fund expenditures with State Special Revenue Fund expenditures. 20-4-109, MCA, does not reflect the present operations of the Board, and the Board would run out of personal services funding from the General Fund if all Board related time was allocated to only the General Fund. Board staff will bring this

RECEIVED
MAY 23 2019
LEGISLATIVE AUDIT DIV.

matter to the Board for consideration and discussion of a request for a legislative change to 20-4-109, MCA, for the 2021 Legislative Session to ensure state statute accurately reflects the current funding for operation of the Board of Public Education and the Certification Standards and Practices Advisory Council.

Recommendation #3:

Concur. At the conclusion of the 2016 audit, the Board and OPI implemented a process the Board believed would resolve the previous audit recommendation. The board received a monthly report from OPI and compared this report to the revenue report in SABHRS. The Board did not realize that the monthly report OPI sends was also generated from SABHRS. The Board believed that this new process resolved the prior audit recommendation. Based upon the 2018 audit recommendations, the Board now understands there is a necessary additional step in the process to ensure compliance with state statute.

With the assistance of Ms. Osmanson, it has been discovered there is a reconciliation report the OPI can access at the end of each fiscal year, that will be forwarded to the Board with the number of licenses issued by OPI to be compared to the dollar amount OPI deposited for that fiscal year. This reconciliation report will allow the Board to reasonably know the OPI revenue deposits for the number of OPI issued licenses is correct. This process will begin at the 2019 Fiscal Year End.

Recommendation #4:

Concur. Board staff work tirelessly to stay in compliance with state travel policy and procedure. The recommendation related to travel is a very small portion of all the travel expenses processed by board staff and these few instances do not indicate an overall problem with travel expense reimbursements. Hotel reservations and hotel rate charges are a constant issue for board staff to deal with and sometimes mistakes occur, but the Board staff has made it clear to Board/CSPAC members that any hotel charges over the allowable state rate will only be reimbursed at the allowable per diem rate.

Additionally, Board members have occasionally traveled alternate routes between their homes and Board meetings due to road construction. Board members travel to and from Board meetings have always been reimbursed at the number of miles for individual trips.

Due to the 2018 audit recommendation, board staff has created a mileage chart between Helena and individual board member cities/towns, with a standard mileage charge and have already begun using this chart for compliance with state law. Procedures related to travel have been written and are being used by board staff for processing travel expenses. The Board staff will make a presentation to all Board and Certification Standards and Practices Advisory Council members at the July 10, 2019, Board/CSPAC Joint Meeting to ensure all members are aware of current state reimbursement rates for mileage, meals and hotels.

Please let me know if you require any additional information or follow up from the Board of Public Education in order to comply in full with the recommendations of the 2018 audit.

Sincerely,

A handwritten signature in black ink that reads "Pete Donovan". The signature is written in a cursive style with a large initial "P".

Pete Donovan
Executive Director
Board of Public Education

Cc: Delsi Osmanson, Financial-Compliance Senior Auditor
Cindy Jorgenson, Deputy Legislative Auditor