



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Montana Board of Public Education*

*For the Two Fiscal Years Ended  
June 30, 2020*

MAY 2021

LEGISLATIVE AUDIT  
DIVISION

20-22

## FINANCIAL-COMPLIANCE AUDITS

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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 and many 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, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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#### AUDIT STAFF

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JEANE CARSTENSEN-GARRETT    FLORA M. WASKE

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# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

May 2021

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 (board) for the two fiscal years ended June 30, 2020. Included in this report are three recommendations. All three issues relate to their State Special Revenue funding from teacher licensure fees. Two of the issues are noncompliance with state laws regarding the use of nonGeneral Fund money first and state law restrictions on the use of licensure fees. The third issue is a deficiency in the board's controls over licensure fees.

The Independent Auditor's Report is on page A-1 followed by the board's financial schedules and notes for the two years ended June 30, 2020. We issued an unmodified opinion on the board's financial schedules for fiscal year 2020 and a qualified opinion on the board's financial schedules for fiscal year 2019. The qualification of the 2019 financial schedules is due to the financial effects of noncompliance regarding the use of licensure fees in §20-4-109, MCA. This same issue is also identified as material noncompliance in our 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 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

**Administrative Officials**

McCall Flynn, Executive Director  
(effective January 2021)

Peter Donovan, Executive Director  
(through December 2020)

Kris Stockton, Administrative Specialist

			<u>Term Expires</u>
<b>Board of Public Education</b>	Darlene Schottle, Chairperson	Bigfork	2022
	Tammy Lacey, Vice Chairperson	Great Falls	2023
	Jane Lee Hamman	Clancy	2025
	Susie Hedalen	Townsend	2028
	Mary Heller	Havre	2027
	Anne Keith	Bozeman	2024
	Madalyn Quinlan	Helena	2026
	Paige Lepard (Student Representative)	Great Falls	2021
	Greg Gianforte, Governor*		
	Elsie Arntzen, Superintendent of Public Instruction*		
Clayton Christian, Commissioner of Higher Education*			

\* ex officio members

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

McCall Flynn, Executive Director  
Montana Board of Public Education  
P.O. Box 200601  
Helena, MT 59620-0601  
(406) 444-6900  
e-mail: MFlynn@mt.gov







## Montana Board of Public Education FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2020

### BACKGROUND

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. 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.

The Board of Public Education is supported by General Fund appropriations of \$155,808 and \$181,504 in fiscal years 2019 and 2020, respectively, and teacher licensure fees collected by OPI totaling \$156,019 and \$159,627 in fiscal years 2019 and 2020, respectively. All three audit findings in this report relate to the teacher licensure funding.

### **AUDITOR'S OPINION (Page A-1) – Fiscal Year 2020 Financial Schedules: UNMODIFIED**

This means you can rely on the information presented and the underlying financial records.

### **AUDITOR'S OPINION (Page A-1) – Fiscal Year 2019 Financial Schedules: QUALIFIED**

A qualified opinion means a reader can rely on the information presented and the underlying financial records except for a certain matter. We qualified our opinion due to the misstatements between State Special Revenue Fund and General Fund expenditures of \$61,821 caused by noncompliance with state law regarding the use of licensure funds.

For the full context of the board's financial activity, see the financial schedules and notes beginning on page A-4.

### **RECOMMENDATIONS:**

In this report, we issued the following recommendations:

To the board: 3

To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:

Fully Implemented: 1

Partially Implemented: 1

Not Implemented: 2

### **RECOMMENDATION #1 (page 4):**

#### ***State Compliance***

Comply with state law §20-4-109, MCA, regarding use of teacher licensure fees or seek legislation to allow the Board of Public Education to use fees for all their activities.

**Board response: Concur**

For the full report or more information, contact the Legislative Audit Division.

[leg.mt.gov/lad](http://leg.mt.gov/lad)

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(Helena)  
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(704) 430-3930

**RECOMMENDATION #2 (page 5):**

*State Compliance*

Comply with state law §17-2-109(1), MCA, by expending available State Special Revenue Fund cash prior to using General Fund appropriations.

**Board response: Concur**

**RECOMMENDATION #3 (page 6):**

*Internal Control*

Establish controls to ensure the completeness and accuracy of fees collected by the Office of Public Instruction.

**Board response: Concur**

**REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):**

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 1

Material Non-Compliance: 1

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

# Chapter I – Introduction and Background

## **Introduction**

We completed a financial-compliance audit of the Board of Public Education (board) for the two fiscal years ended June 30, 2020. 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 management and internal controls.
2. Determine whether the board complied with selected laws and regulations.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the financial schedules present fairly, in all material respects, the results of operations and changes in fund equity for the board for each of the two fiscal years ending June 30, 2020, and 2019.

Our audit efforts focused on material financial activity relating to legal services expenditures, personal services, direct entries to fund equity, and budget authority. We also completed analytical reviews of the financial activity and reviewed their note disclosures.

The board is supported by General Fund appropriations and teacher license 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-4 and A-5. Because the board has no revenue activity, the Schedules of Total Revenues and 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, 2020, 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, 2018, contained four recommendations to the board. We determined the board fully implemented one recommendation related to travel reimbursements, partially implemented one recommendation, and did not implement the other two recommendations. All three prior audit recommendations not fully implemented are included in this report as outlined below.

**Table 1**  
**Prior Audit Recommendations Not Fully Implemented**

Subject of Prior Recommendation	Implementation Status	Page #
Use of Licensure Funds	Not Implemented	3
Use of NonGeneral Fund Money First	Partially Implemented	4
Internal Controls related to Shared Funds	Not Implemented	5

**Source: Compiled by the Legislative Audit Division.**

## Chapter II – Findings and Recommendations

### State Special Revenue Fund Activity

The Board of Public Education (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's as specified in state law. All three recommendations, discussed below, pertain to activity in the board's SSRF.

### Fund Use Contrary to State Law

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#### **The board is not complying with state law regarding the use of teacher licensure funding.**

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During fiscal years 2019 and 2020, the board used funds designated in state law for the Certification Standards and Practices Advisory Council (CSPAC) for other board expenditures. Section 20-4-109, MCA, states that for every \$6 in licensure fees collected, \$4 shall be used for expenses arising from the activities of the CSPAC and \$2 shall be used to support the activities of both the CSPAC and the board.

In fiscal year 2019, the board expended \$138,254 of the \$4 funding stream, but estimated that only \$76,433 of the funds expended directly relate to CSPAC activity. Similarly, in fiscal year 2020, \$108,096 was expended and only \$79,031 was estimated to be directly related to CSPAC activity. An example of activity that was charged to the CSPAC funding contrary to state law is personal services costs for time spent preparing for general board meeting activity. As a result, the financial schedules and underlying accounting records are misstated as described in Table 2.

We qualified the opinion on the fiscal year 2019 financial schedules in our Independent Auditor's Report on page A-1 as a result of the \$61,821 misstatements. The board did not have enough General Fund budget authority for the full amount that should have been General Fund expenditures. We did not modify our opinion with respect to the fiscal year 2020 error because the error is not materially misleading when considered in combination

**Table 2**  
**Expenditure Over/(Understatements)**

	State Special Revenue Fund	General Fund
Fiscal Year 2019	\$61,821	\$(61,821)
Fiscal Year 2020	\$29,065	\$(29,065)

**Source: Compiled by the Legislative Audit Division.**

with the misstatement discussed in the following report section, as shown in Table 3 (see page 5). This issue is also reported as material noncompliance in our 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* beginning on page B-1.

Board staff stated that the operational makeup of the board no longer reflects the operational makeup of the board when this law took effect. Several years ago, responsibilities related to the board and CSPAC were combined due to staff reductions, and CSPAC activity has declined. This issue was in our prior audit in which we recommended the board seek legislation to reflect this change in operations. The board did not pursue legislation during the 2021 Legislature to address this recommendation, however they indicated they recognize that steps need to be taken to remedy this situation and will work in the interim to determine how to go about requesting a change to statute.

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***RECOMMENDATION #1***

*We recommend that the Board of Public Education:*

- A. *Comply with state law and use the \$4 funding stream from teacher licensure revenues only for Certification Standards and Practices Advisor Council expenditures, or*
  - B. *Seek a change in legislation to allow the Board to use all teacher licensure revenues for all Board activities, including the Certification Standards and Practices Advisor Council.*
- 

## **Expenditure of NonGeneral Fund Money First**

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**In fiscal year 2020, the board did not fully expend available appropriated SSRF resources prior to using available General Fund appropriations as required by state law.**

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Section 17-2-108(1), MCA, requires agencies to use appropriated nonGeneral Fund money, prior to using General Fund resources, whenever possible. At fiscal year-end 2020, the board had \$17,439 in unspent, available SSRF resources that should have been used instead of using General Fund appropriations. As a result, expenditures in State Special Revenue are understated and General Fund expenditures are overstated by \$17,439.

The net financial effect of the misstatement described above, and the other misstatement disclosed in Table 2 is shown in Table 3.

This issue was included in the prior audit report. In May of fiscal year 2019, in response to the prior audit recommendation, the board moved \$30,000 of expenditures from the General Fund to the SSRF to successfully comply with this law. Board personnel did not record a similar entry in fiscal year 2020 due to concerns of low cash availability in their SSRF to start out fiscal year 2021. Because the state law includes the caveat, “whenever possible,” it is permissible for the board to charge General Fund expenditures until cash is available in their SSRF. Because they did not move expenditures from the General Fund to the SSRF by the amount of available cash in their SSRF, they are not in compliance at fiscal year-end 2020 with state law regarding use of nonGeneral Fund money first. The board indicated they are spending SSRF first in fiscal year 2021.

**Table 3**  
**Net Expenditure Over/(Understatements)**  
**Fiscal Year 2020**

	State Special Revenue Fund	General Fund
Financial Effect from Table 2	\$29,065	\$(29,065)
Financial Effect from above	\$(17,439)	\$17,439
<b>Net Effect</b>	<b>\$11,626</b>	<b>\$(11,626)</b>

**Source: Compiled by the Legislative Audit Division.**

## **RECOMMENDATION #2**

*We recommend the Board of Public Education comply with state law §17-2-109(1), MCA, by expending available cash in the State Special Revenue Funds prior to using General Fund appropriations.*

## **Internal Controls Over Teacher Licensure Fees**

**The board does not have adequate controls over teacher license fees collected by OPI.**

State Accounting Policy places responsibility on management to establish internal control policies and procedures to safeguard agency assets and verify the accuracy and reliability of financial data. We found the board does not have controls in place to detect in a timely manner whether the amounts available to them from teacher license fees collected by OPI are complete and accurate. The amounts collected by OPI and available for the board for fiscal years 2019 and 2020 were \$156,019 and \$159,627, respectively.

This control issue has been included in the prior two audits of the board. Since the prior audit, the board planned on using licensure information from OPI to use as a control to determine whether OPI's collections were accurate and complete. However, OPI did not supply the information requested by the board. Because we classified this as significant deficiency it is included 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* starting on page B-1.

We reviewed OPI's reconciliations of information from their licensure system to amounts recorded on the state accounting system. From our review of this reconciliation and a trend analysis discussed below, we determined the amounts available for the board from OPI collections were materially accurate and complete. OPI officials indicated they will provide the board their reconciliation by the end of August each year.

As part of our audit procedures we also completed a 10-year historic trend analysis comparing the number of members of the Teachers' Retirement System to the amount received by the board from the licensure fees over the same period. Although this analysis is not as precise as licensure information from OPI, the board should consider an alternative control, such as trend analysis, if OPI does not provide the reconciliation to the board.

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***RECOMMENDATION #3***

*We recommend the Board of Public Education establish controls to ensure the completeness and accuracy of fees collected by the Office of Public Instruction.*

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



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



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

## 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, of the Board of Public Education for each of the fiscal years ended June 30, 2020, and 2019, 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, 2020, and June 30, 2019, or changes in financial position for the years then ended.

*Basis for Qualified Opinions on Regulatory Basis of Accounting*

Because of noncompliance with provision of §20-4-109, MCA, regarding the use of part of the funding from teacher licenses, fiscal year 2019 State Special Revenue Fund expenditures are overstated by \$61,821 and General Fund expenditures are understated by \$61,821. The board did not have enough General Fund budget authority for the full amount that should have been General Fund expenditures.

*Qualified Opinion on Regulatory Basis of Accounting*

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the Schedule of Changes in Fund Equity and Schedule of Expenditures for the fiscal year ended June 30, 2019, presents fairly, in all material respects, the results of operations and changes in fund equity of the Board of Public Education for the fiscal year ended June 30, 2019, in conformity with the basis of accounting described in Note 1.

*Unmodified Opinion on Regulatory Basis of Accounting*

In our opinion, the Schedule of Changes in Fund Equity and Schedule of Expenditures for the fiscal year ended June 30, 2020, presents fairly, in all material respects the results of operations and changes

in fund equity of the Board of Public Education for the fiscal years ended June 2020, 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 16, 2021, 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 16, 2021

BOARD OF PUBLIC EDUCATION  
SCHEDULE OF CHANGES IN FUND EQUITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund
FUND EQUITY: July 1, 2019	\$ <u>(9,379)</u>	\$ <u>4,710</u>
ADDITIONS		
Direct Entries to Fund Equity	174,883	156,019
Total Additions	<u>174,883</u>	<u>156,019</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	166,281	142,163
Nonbudgeted Expenditures & Transfers-Out	(41)	
Prior Year Expenditures & Transfers-Out Adjustments	<u>(218)</u>	
Total Reductions	<u>166,022</u>	<u>142,163</u>
FUND EQUITY: June 30, 2020	\$ <u><u>(517)</u></u>	\$ <u><u>18,566</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, 2019

	General Fund	State Special Revenue Fund
FUND EQUITY: July 1, 2018	\$ <u>(559)</u>	\$ <u>59,022</u>
ADDITIONS		
Direct Entries to Fund Equity	<u>121,287</u>	<u>159,627</u>
Total Additions	<u>121,287</u>	<u>159,627</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	130,526	213,939
Prior Year Expenditures & Transfers-Out Adjustments	<u>(419)</u>	<u></u>
Total Reductions	<u>130,107</u>	<u>213,939</u>
FUND EQUITY: June 30, 2019	\$ <u><u>(9,379)</u></u>	\$ <u><u>4,710</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  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	<u>K-12 Education</u>	<u>Total</u>
<b>PROGRAM (ORG) EXPENDITURES &amp; TRANSFERS-OUT</b>		
Personal Services		
Salaries	\$ 168,199	\$ 168,199
Other Compensation	2,100	2,100
Employee Benefits	69,148	69,148
Total	<u>239,447</u>	<u>239,447</u>
Operating Expenses		
Other Services	24,670	24,670
Supplies & Materials	4,050	4,050
Communications	9,611	9,611
Travel	11,269	11,269
Rent	16,800	16,800
Other Expenses	2,339	2,339
Total	<u>68,738</u>	<u>68,738</u>
Total Expenditures & Transfers-Out	<u>\$ 308,185</u>	<u>\$ 308,185</u>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>		
General Fund	\$ 166,022	\$ 166,022
State Special Revenue Fund	142,163	142,163
Total Expenditures & Transfers-Out	<u>308,185</u>	<u>308,185</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(41)	(41)
Prior Year Expenditures & Transfers-Out Adjustments	<u>(218)</u>	<u>(218)</u>
Actual Budgeted Expenditures & Transfers-Out	<u>308,445</u>	<u>308,445</u>
Budget Authority	<u>365,449</u>	<u>365,449</u>
Unspent Budget Authority	<u>\$ 57,004</u>	<u>\$ 57,004</u>
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>		
General Fund	\$ 15,223	\$ 15,223
State Special Revenue Fund	41,782	41,782
Unspent Budget Authority	<u>\$ 57,004</u>	<u>\$ 57,004</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.



BOARD OF PUBLIC EDUCATION  
SCHEDULE OF TOTAL EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>K-12 Education</u>	<u>Total</u>
<b>PROGRAM (ORG) EXPENDITURES &amp; TRANSFERS-OUT</b>		
Personal Services		
Salaries	\$ 160,883	\$ 160,883
Other Compensation	1,650	1,650
Employee Benefits	<u>68,665</u>	<u>68,665</u>
Total	<u>231,198</u>	<u>231,198</u>
Operating Expenses		
Other Services	45,570	45,570
Supplies & Materials	7,523	7,523
Communications	9,582	9,582
Travel	19,655	19,655
Rent	16,800	16,800
Repair & Maintenance	5,863	5,863
Other Expenses	<u>7,856</u>	<u>7,856</u>
Total	<u>112,848</u>	<u>112,848</u>
Total Expenditures & Transfers-Out	<u>\$ 344,046</u>	<u>\$ 344,046</u>
<b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>		
General Fund	\$ 130,107	\$ 130,107
State Special Revenue Fund	<u>213,939</u>	<u>213,939</u>
Total Expenditures & Transfers-Out	<u>344,046</u>	<u>344,046</u>
Less: Nonbudgeted Expenditures & Transfers-Out		
Prior Year Expenditures & Transfers-Out Adjustments	<u>(419)</u>	<u>(419)</u>
Actual Budgeted Expenditures & Transfers-Out	<u>344,465</u>	<u>344,465</u>
Budget Authority	<u>377,143</u>	<u>377,143</u>
Unspent Budget Authority	<u>\$ 32,678</u>	<u>\$ 32,678</u>
<b>UNSPENT BUDGET AUTHORITY BY FUND</b>		
General Fund	\$ 25,282	\$ 25,282
State Special Revenue Fund	<u>7,395</u>	<u>7,395</u>
Unspent Budget Authority	<u>\$ 32,678</u>	<u>\$ 32,678</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, 2020

## **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 (SSRF) 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 SSRF 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 SSRF, 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 had One Time Only (OTO) Funds equaling \$30,000 for FY19 restricted to legal fees. 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, assistance writing administrative rules, and other miscellaneous legal issues that arise. The Board did not receive any OTO funding for Legal Expenditures for the 2021 Biennium, therefore, FY20 does not reflect any OTO for legal fees.

## **4. Unspent Budget Authority**

The Board had One Time Only (OTO), restricted, appropriation for FY19 of \$30,000 for legal expenses in the SSRF. The Board spent a total of \$22,635 in legal fees in FY19 resulting in a balance of \$7365 unspent OTO budget authority in the SSRF. The Board spent all its authority in the SSRF for operations in FY19. The General Fund had \$25,282 unspent authority due to using all SSRF for operational spending. A cash balance of \$5,216 in the combined SSRF was available to begin FY20 so General Fund had to be used first. Spending had switched to the SSRF when COVID-19 hit forcing all Board and Council meetings to be virtual. This created a significant cost savings that resulted in \$41,782 of unspent budget authority in SSRF. It should be noted that the remaining cash in the SSRF was not enough to spend the full budget authority in the SSRF. The General Fund had a remaining balance of \$15,223 unspent budget authority, savings mostly related to COVID-19.

## **5. Relationship with Montana School for the Deaf and the Blind**

Per §20-8-101 MCA, the Board serves as the school board for the Montana School for the Deaf and the Blind (MSDB). The Board oversees the Superintendent of the MSDB, performs yearly evaluations of the Superintendent, and oversees the operations of the MSDB. The MSDB Superintendent reports at each of the six regularly scheduled

Board meetings, as well as monthly committee meetings with the MSDB Committee of the Board.

## **6. General Fund Equity Balance (negative balances)**

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The Board has authority to pay obligations from the statewide General Fund within its appropriation limits. The Board expends cash or other assets from the statewide fund when it pays General Fund obligations. The Board's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2019 and June 30, 2020.



# 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  
William Soller

## 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 of the Board of Public Education for each of the fiscal years ended June 30, 2020, and 2019, and the related notes to the financial schedules, and have issued our report thereon dated March 16, 2021. Our report includes a qualified opinion on the Financial Schedules for the fiscal year ended June 30, 2019.

### *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 statements 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 the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. We did identify certain deficiencies in internal control, described below, that we consider to be a significant deficiency.

As discussed in finding #3 on page 5, the board does not have adequate controls in place to detect on a timely basis if teacher licensure funding collected by the Office of Public Instruction are complete and accurate.

*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 instance of noncompliance is described below:

As discussed in finding #1 on page 3, §20-4-109, MCA, requires that for every \$6 teaching certificate fee collected by the Office of Public Instruction, \$4 be used for expenses related to the Certification Standards and Practices Advisory Council. During fiscal year 2019 and 2020, the board used approximately \$61,821 and \$29,065, respectively, from this funding source contrary to this requirement in state law.

*Board of Public Education Response to Findings*

The board'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

MONTANA BOARD OF  
PUBLIC EDUCATION

BOARD RESPONSE



State of Montana



# Board of Public Education

PO Box 200601  
Helena, Montana 59620-0601  
(406) 444-6576  
www.bpe.mt.gov

## BOARD MEMBERS

### APPOINTED MEMBERS:

Darlene Schottle - Chair  
Big Fork

Tammy Lacey - Vice Chair  
Great Falls

Madalyn Quinlan  
Helena

Anne Keith  
Bozeman

Susie Hedalen  
Townsend

Jane Lee Hamman  
Clancy

Mary Heller  
Havre

Paige Lepard, Student Rep.  
Great Falls

### EX OFFICIO MEMBERS:

Clayton Christian,  
Commissioner of  
Higher Education

Elsie Arntzen,  
Superintendent of  
Public Instruction

Greg Gianforte,  
Governor

### EXECUTIVE DIRECTOR:

McCall Flynn

May 3, 2021

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, 2020. 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 2020 audit. Please let me know if you have any questions.

### Recommendation #1:

Concur. The Board works to follow state law in all instances. State law requires State Special Revenue 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 were allocated to only the General Fund. Board staff will bring this matter to the Board for consideration and discussion of a request for a legislative change to 20-4-109, MCA, for the 2023 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.

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MAY 03 2021

LEGISLATIVE AUDIT DIV.

**Recommendation #2:**

Concur. The Board has complied with spending State Special Revenue Funds (SSRF) first in FY2021 and will continue to ensure the SSRF are spent first in the future.

**Recommendation #3:**

Concur. Since the completion of this audit, the Board has received reports from the Office of Public Instruction (OPI) that indicate the licensure fees collected by OPI are being accurately deposited in the State Special Revenue Fund for the Board. The Board and OPI have worked together and have created a schedule for the OPI to send reconciliation reports to the Board for analysis after the completion of each fiscal year end.

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 2020 audit.

Sincerely,

A handwritten signature in black ink, appearing to read 'McCall Flynn', with a long horizontal flourish extending to the right.

McCall Flynn  
Executive Director  
Board of Public Education

Cc: Jeane Carstensen-Garrett, Financial Compliance Audit Manager  
Cindy Jorgenson, Deputy Legislative Auditor