A Report
to the
Montana
Legislature

Financial-Compliance Audit

Montana School for the Deaf and Blind

For the Two Fiscal Years Ended June 30, 2020

April 2021

Legislative Audit
Division

20-29

Legislative Audit Committee

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§5-13-202(2), MCA

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Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine 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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LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

April 2021

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana School for the Deaf and Blind for the two fiscal years ended June 30, 2020. Included in this report are two recommendations to the school. The first recommendation relates to improvements needed in internal controls related to inventory and segregation of duties. The second recommendation is related to GASB Statement No. 84, Fiduciary Activities implementation.

The school's written response to the audit recommendation is included in the audit report on page C-1. We thank the Interim Superintendent and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Table of Contents

Figures and Tables

Tables

Elected, Appointed, and Administrative Officials

Montana School for the Deaf and Blind

Paul Furthmyre, Interim Superintendent (effective March 2020)
Principal (through February 2020)

Donna Sorensen, Superintendent (through February 2020)

Julie Dee-Alt, Interim Principal (effective March 2020)

Donna Schmidt, Business Manager

Jim Kelly, Student Life Director

Carol Clayton-Bye, Outreach Director

Board of Public Education

		Term Expires
Darlene Schottle, Chairperson	Big Fork	2022
Tammy Lacey, Vice Chairperson	Great Falls	2023
Jane Lee Hamman	Clancy	2025
Susie Hedalen	Townsend	2028
Mary Heller	Havre	2027
Anne Keith	Missoula	2024
Madalyn Quinlan	Helena	2026
Paige Lepard, Student Representative	Great Falls	2021

Greg Gianforte, Governor*

Elsie Arntzen, Superintendent of Public Instruction*

Clay Christian, Commissioner of Higher Education*

* ex officio members

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

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Montana School for the Deaf and Blind
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Great Falls, MT 59405-1697
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Financial-Compliance Audit 20-29 April 2021

Montana Legislative Audit Division

Montana School for the Deaf and Blind

For the Two Fiscal Years Ended June 30, 2020

Background

The Montana School for the Deaf and Blind (MSDB) promotes and provides free and appropriate educational and social-emotional growth opportunities to all children who are deaf, hard of hearing, blind, visually impaired, and deaf-blind. Children from preschool through high school can attend the Great Falls campus as residential or day students, providing them with specialized instruction and education, with the goal of preparing them for independent, successful lives. MSDB also serves as a statewide resource center for families, school districts, and professionals, serving hundreds of students and families in communities across the state.

MSDB's expenditures are funded primarily by General Fund appropriations with some permanent fund earnings from the Department of Natural Resources and Conservation and federal subawards. MSDB spent approximately $7.7 and $8.3 million in fiscal years 2019 and 2020, respectively, of which more than 92 percent in each fiscal year was spent from the General Fund.

MSDB is governed by the Board of Public Education and is comprised of four programs: Administration Program, Education Program, General Services Program, and Student Services.

The Montana School for the Deaf and Blind had 43 campus and 749 outreach students in fiscal year 2019, and 33 campus and 795 outreach students in fiscal year 2020. Due to the COVID-19 pandemic in the last quarter of fiscal year 2020, the school provided instruction in an online format for the remainder of the school year. Our report contains two recommendations to the school. The first recommendation relates to improvements in internal controls related to inventory and segregation of duties. The second recommendation relates to accounting for fiduciary activities.

AUDITOR'S OPINION (page A-1): UNMODIFIED

Unmodified opinions mean the reader can rely on the information that is recorded on the state's accounting records and presented in the financial schedules.

For the full context of the school'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 school: 2
To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:
Fully Implemented: 1
Partially Implemented: 0
Not Implemented: 0

Recommendation #1 (page 7):

Internal Controls

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

A. Strengthening internal controls over inventory and completing a physical inventory annually.

B. Establishing proper segregation of duties over assets.

School's response: Concur

(continued on back)

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

leg.mt.gov/lad

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Recommendation #2 (page 8):
Accounting and Financial Reporting
We recommend that the Montana School for the Deaf and Blind record Student Accounts activity in a Custodial Fund.

School's 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: 0
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 performed a financial-compliance audit of the Montana School for the Deaf and Blind (MSDB) for the two fiscal years ended June 30, 2020. The objectives of the audit were:

1. To determine whether the Montana School for the Deaf and Blind's financial schedules present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust for each of the two fiscal years ending June 30, 2020.
2. To obtain an understanding of the Montana School for the Deaf and Blind's control systems to the extent necessary to support our audit of the financial schedules and, if appropriate, make recommendations for improvements in management and internal controls.
3. To determine whether the Montana School for the Deaf and Blind complied with selected state laws and regulations.
4. To determine the implementation status of the prior audit recommendation.

To accomplish our objectives, our audit work focused primarily on salary and benefit expenditures, transfers-in revenues, accrual activity, direct entries to fund equity, and budget authority. We evaluated the associated control systems throughout the audit and performed analytical procedures. We reviewed the overall reasonableness of the financial schedules and notes. Additionally, we evaluated compliance with selected laws and regulations and reviewed the school's decisions related to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities.

Background

MSDB is a state-supported special purpose school and is an integral part of the Montana public education system. The Montana Board of Public Education is charged with the governance of MSDB. State funding is supplemented by funding provided by the Montana School for the Deaf and Blind Foundation. Historically, it has been difficult for MSDB to recruit staff for vacant positions at the school because of the special certifications that are needed to teach students who are visually and hearing impaired.

In accordance with its statutory mandates, MSDB serves two primary functions. First, MSDB provides education for hearing and visually impaired children that is commensurate with the education provided to nondisabled students in local school districts through the use of specialized instruction and training. Second, MSDB serves as a statewide resource center for parents of hearing and visually impaired children who are not yet enrolled in educational programs and for school districts in which hearing and visually impaired children are receiving educational services. MSDB's outreach staff will, upon request, provide consultation and technical assistance to the families, teachers, and administrators of sensory impaired infants, toddlers, and school-aged children across Montana.

MSDB serves students who reside on campus (Cottage Students), attend as day students, or who are in the school's Outreach Program.

Table 1

Montana School for the Deaf and Blind Student Registration for FY 2019 and FY 2020

	FY 2019	FY 2020
Day Students	30	20
Cottage Students	13	13
Outreach Students	749	795
Total	**792**	**828**

Source: Compiled by the Legislative Audit Division from information provided by MSDB.

The school's cottages offer a safe and comfortable home-like atmosphere where the children can study, relax, socialize, and be themselves. MSDB has a swimming pool and exercise rooms where the students can use equipment such as treadmills and weights. The school also has several after-school clubs and activities that students are able to participate in which include:

- Expressions of Silence – a signing and dancing performing group
- Flying Hooves Club – a performing group using American Sign Language (ASL) and Deaf View/Image Art (De'VIA).
- Gallaudet University Academic Bowl – an academic competition with other schools for the deaf.
- Visually Impaired Performers – a singing group of students who are blind or visually impaired.

MSDB maintains a small museum dedicated to the history of the school which also shows how education and equipment used to assist individuals who are deaf, hard of hearing, blind, visually impaired, and deaf-blind have changed and improved over the years.

MSDB is comprised of four programs: Administration, Education, General Services, and Student Services. These programs are presented on the Schedule of Total Expenditures and Transfers-Out.

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

Education Program (49.69 FTE): The Education Program is comprised of the principal, teachers, teachers' aides, interpreters, speech pathologist, school psychologist, guidance counselor, behavior counselor, orientation and mobility specialist, occupational therapist, physical therapist, American Sign Language teacher, and audiologist on the campus in Great Falls. These professionals assure that each child is given the specialized instruction and tools necessary for quality education.

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

General Services Program (3.57 FTE): The General Services Program includes maintenance workers and custodians. The program is responsible for the upkeep and cleaning of all campus buildings and grounds.

Student Services (25.21 FTE): The Student Services Program provides children from across the state a place to live during the school year. The Student Life Director and the Student Life Staff, including counselors, nurses, and house-parents, care for the children while they are on campus. This program works with the Education Program in planning and holding Family Learning Weekends and summer camps for the students and their families.

COVID-19

In March 2020, MSDB suspended in-person instruction due to the COVID-19 pandemic and remained closed to in-person instruction through the end of the school year. Because of the pandemic, MSDB was responsible for providing the same quality education to hearing and visually impaired students in an online format as well as the support services that the students normally receive. Therapy staff developed individual lesson plans for students to do at home. Mental health staff provided online sessions with students in group and individual settings. MSDB's kitchen staff prepared bagged lunches for the Great Falls area students daily. The school's paraprofessionals assisted the teachers with online lessons, provided individual tutoring sessions, assisted teachers with creating learning packets for the younger students, and delivered the bagged lunches that the kitchen staff prepared.

In fiscal year 2020, MSDB received approximately $9,677 from the Coronavirus Relief Fund. Necessary expenditures incurred due to COVID-19, that were not accounted for in the budget, were reviewed by the Governor's office who determined the funding received by each state agency. MSDB used the funds to purchase iPads for students to use for distance learning, permissions for online teaching, and cleaning supplies. MSDB anticipates receiving approximately $24,400 from the Coronavirus Relief Fund in fiscal year 2021. MSDB also anticipates receiving approximately $10,000 from the Elementary and Secondary Schools Emergency Relief (ESSER-1) from the Office of Public Instruction (OPI) and $58,500 from the Governor's Emergency Education Relief (GEER) Fund in fiscal year 2021 for COVID-19 assistance.

Prior Audit Recommendation

The prior audit report contained one recommendation related to internal controls over accruals. We determined that MSDB has fully implemented this recommendation.

Chapter II – Findings and Recommendations

Asset Management

Montana School for the Deaf and Blind (MSDB) should enhance their internal controls over inventory management and segregation of duties.

Internal control is a process that is designed to provide management with reasonable assurance that their objectives related to financial accountability, operational efficiency, and compliance with state laws and regulations will be achieved. Deficiencies in internal controls increase the risk that management may not identify inappropriate or fraudulent transactions in a timely manner or be able to ensure that the financial schedules are free from material misstatement. During the audit, we identified several instances in which internal controls related to asset management could be enhanced to ensure that assets are properly accounted for and duties are properly segregated. These deficiencies are discussed in more detail below.

Inventory

State policy requires agencies to track and inventory equipment and sensitive items with a cost under the applicable capitalization limit, and states that a physical inventory should be taken each year as of June 30. MSDB does not have an internal control policy over inventory. Internal controls that are weak or insufficient can lead to theft of resources and operational inefficiency. In addition, state accounting policy charges management with the responsibility for establishing and maintaining agency internal controls.

MSDB uses a library management system to track the library's inventory. This system is also used to track non-library inventory. We obtained and reviewed the inventory list for the audit period and identified 1,810 out of 3,167 items had not been verified as part of the physical inventory since between 2013 and 2017. Additionally, 168 items listed did not have a location assigned. Table 2 shows a few examples of the adaptive technology we noted that were not verified as part of the physical inventory during the audit period.

Table 2

Examples of Adaptive Technology Items Not Physically Accounted for During the Audit Period

Item	Historical Cost
FM Teaching Transmitter	$ 799
Light-Touch Brailler	$ 790
Portable Magnifier	$2,390
Video Magnifier	$2,623

Source: Compiled by Legislative Audit Division from information provided by MSDB.

MSDB's education outreach consultants work out of their homes and MSDB has provided certain items for them to use in performing their duties. We interviewed four of the thirteen consultants and asked them to show us any equipment and sensitive items that they had in their possession which were the property of MSDB and made a list of those items. Through this interview process, we noted a total of 33 items that the consultants identified as MSDB property. Only three of the 33 items that the consultants showed us were included on the inventory list as many of the items were not tagged with a property number. Staff members indicated the items were not tagged because many of the items, when ordered, were delivered directly to the consultants. This is due to the consultants working throughout the state and not working on campus.

Without a complete and accurate list of inventory items, MSDB cannot be assured that all items are accounted for and safeguarded. Additionally, if any of the outreach consultants were to sever employment with the school, MSDB would not know if all items belonging to the school were returned by the employee.

Management stated that MSDB's inventory was previously accounted for on paper, and for the past eight years MSDB staff has been diligently working to accurately account for the school's inventory, but with such a small business office staff it has been a difficult endeavor. Complete and accurate annual physical inventory counts help to ensure that equipment and sensitive items are not being lost or stolen and are required of all state agencies per state policy.

Segregation of Duties

MSDB does not maintain proper segregation of duties related to asset management. State policy states that management should ensure adequate separation of authorization of transactions, recording of transactions, custody of assets, and periodic reconciliation of existing assets to recorded amounts. We determined that the accounting technician's responsibilities included ordering, receiving, documenting, assigning, inventory, and payment of invoices. Having one individual responsible for equipment and other sensitive items throughout the asset management cycle places personnel in a situation that could lead to theft, resource shortages, and operational inefficiency.

Management stated that assignments to segregate the duties for asset accountability and processing were given to staff, but due to not having a written internal control process in place, over time, one person assumed all roles. Management also stated that the accounting technician does not normally assist in receiving orders, but due to the COVID-19 pandemic the individual who would normally perform this task is working from home which necessitated the remaining Business Office staff to take over this task.

Recommendation #1

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

A. *Strengthening internal controls over inventory and completing a physical inventory annually.*

B. *Strengthening proper segregation of duties over assets.*

GASB 84 Implementation

MSDB's student accounts were improperly reported in a Private-Purpose Trust Fund during the implementation of GASB Statement No. 84, Fiduciary Activities.

GASB Statement No. 84 establishes standards of accounting and financial reporting for fiduciary activities. State agencies are required per §17-1-102, MCA, to record their financial activity in accordance with Generally Accepted Accounting Principles, which includes GASB Statement No. 84.

GASB Statement No. 84 describes fiduciary activities as assets held by an agency in a custodial capacity for the benefit of individuals and requires that fiduciary activities be reported in one of the following fund types:

- Pension (and other employee benefits) Trust Funds
- Investment Trust Funds
- Private-Purpose Trust Funds (PPTF)
- Custodial Funds

Prior to fiscal year 2020, the State of Montana was using agency funds to account for resources held in a purely custodial capacity. Custodial funds replaced the agency funds in fiscal year 2020 with the implementation of GASB Statement No. 84. As a result, all activity previously reported in agency funds was reevaluated to determine which fund type would be most appropriate for the activity. Fund activity that does not meet the new fiduciary activity criteria should be reported in the governmental funds, such as the State Special Revenue Fund (SSRF).

MSDB had one agency fund in fiscal year 2019 in which they accounted for Student Club Accounts and Student Accounts. The Student Club Accounts (Club) contain funds used for school clubs such as Expressions of Silence, the Flying Hooves Club, and Gallaudet University Academic Bowl. The Student Accounts contain funds that students can use for personal purchases. MSDB disperses these funds at the request of the student and, if needed, parental permission. MSDB consulted with the State Accounting Bureau (SAB) within the Department of Administration (DOA) to determine where the Club Accounts and Student Accounts should be reported. It was correctly determined that the Club Accounts are a governmental activity; these accounts were placed into a SSRF. MSDB and SAB determined that the Student Accounts met the criteria to be classified as a PPTF. We do not agree with the decision reached for Student Accounts. The activity in the Student Accounts meets the fiduciary activity criteria but it is not administered through a trust or trust equivalent arrangement which is a requirement in GASB Statement No. 84 to be considered a PPTF, therefore, this activity should be reported in a Custodial Fund. MSDB has concurred with our assessment. We consider this to be human error and not indicative of a weakness in internal controls at MSDB.

Due to the improper classification of the activity in the Student Accounts, the accounting records contain errors which flow to the fiscal year 2020 financial schedules and are summarized in Table 3 below.

Table 3
Student Accounts Over(Under)statements in FY 2020

	Private-Purpose Trust Fund	Custodial Fund
Nonbudgeted Revenue & Transfers-In	$8,621	($8,621)
Direct Entries to Fund Equity	$4,479	($4,479)
Nonbudgeted Expenditures & Transfers-Out	$11,566	($11,566)
Fund Equity	$1,534	($1,534)

Source: Compiled by the Legislative Audit Division from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS).

Recommendation #2

We recommend that the Montana School for the Deaf and Blind record Student Accounts activity in a Custodial Fund.

Independent Auditor's Report and School Financial Schedules

LEGISLATIVE AUDIT DIVISION

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 Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, for the Montana School for the Deaf and Blind, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

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

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

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

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

Adverse Opinions on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the school as of June 30, 2020, and June 30, 2019, or changes in financial position for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting
In our opinion, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Montana School for the Deaf and Blind in conformity with the basis of accounting described in Note 1.

Emphasis of Matter
As discussed in Note 1 – Basis of Presentation, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues & Transfers-In. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2021, on our consideration of the Montana School for the Deaf and Blind's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the school's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 9, 2021

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2019	$ (473,581)	$ 7,301	$ 9,216	$ 0
ADDITIONS				
Budgeted Revenues & Transfers-In	24	286,857	233,764	
Nonbudgeted Revenues & Transfers-In				8,621
Prior Year Revenues & Transfers-In Adjustments			35,600	
Direct Entries to Fund Equity	7,688,631	30,958		4,479
Total Additions	7,688,655	317,815	269,364	13,100
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	7,734,724	281,371	232,936	
Nonbudgeted Expenditures & Transfers-Out	(7,041)			11,566
Prior Year Expenditures & Transfers-Out Adjustments			35,600	
Total Reductions	7,727,683	281,371	268,536	11,566
FUND EQUITY: June 30, 2020	$ (512,609)	$ 43,745	$ 10,043	$ 1,534

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-11.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
FUND EQUITY: July 1, 2018	$ (506,271)	$ 87,650	$ 444	$ 0
PROPERTY HELD IN TRUST: July 1, 2018				$ 32,260
ADDITIONS				
Budgeted Revenues & Transfers-In	3,728	318,531	199,328	
Prior Year Revenues & Transfers-In Adjustments			6,250	
Direct Entries to Fund Equity	7,091,953			
Additions to Property Held in Trust				34,047
Total Additions	7,095,681	318,531	205,578	34,047
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	7,114,480	398,880	200,122	
Nonbudgeted Expenditures & Transfers-Out	(12,657)			
Prior Year Expenditures & Transfers-Out Adjustments	(38,832)		(3,316)	
Reductions in Property Held in Trust				30,870
Total Reductions	7,062,991	398,880	196,805	30,870
FUND EQUITY: June 30, 2019	$ (473,581)	$ 7,301	$ 9,216	$ 0
PROPERTY HELD IN TRUST: June 30, 2019				$ 35,437

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-11.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Rentals, Leases and Royalties		$ 5,486			$ 5,486
Grants, Contracts, and Donations		5,666	$ 58,517		64,183
Transfers-in		275,705	210,847		486,552
Miscellaneous	$ 24			$ 8,621	8,645
Total Revenues & Transfers-In	24	286,857	269,364	8,621	564,866
Less: Nonbudgeted Revenues & Transfers-In				8,621	8,621
Prior Year Revenues & Transfers-In Adjustments			35,600		35,600
Actual Budgeted Revenues & Transfers-In	$ 24	$ 286,857	$ 233,764	$ 0	$ 520,645

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-11.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Rentals, Leases and Royalties	$ 2,110	$ 4,432		$ 6,542
Transfers-in	46	314,099	$ 205,578	519,722
Miscellaneous	1,572			1,572
Total Revenues & Transfers-In	3,728	318,531	205,578	527,837
Less: Nonbudgeted Revenues & Transfers-In				0
Prior Year Revenues & Transfers-In Adjustments			6,250	6,250
Actual Budgeted Revenues & Transfers-In	3,728	318,531	199,328	521,587
Estimated Revenues & Transfers-In	24,361	319,184	137,559	481,104
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (20,633)	$ (653)	$ 61,769	$ 40,483

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-11.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Administration Program	Education	General Services	Student Services	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT					
Personal Services					
Salaries	$ 297,352	$ 3,489,498	$ 159,232	$ 1,023,646	$ 4,969,728
Employee Benefits	108,855	1,491,372	77,648	543,018	2,220,893
Total	406,207	4,980,870	236,880	1,566,664	7,190,620
Operating Expenses					
Other Services	102,823	6,795	67,067	7,834	184,520
Supplies & Materials	38,409	82,820	19,852	68,487	209,568
Communications	5,407	23,108	1,353	1,118	30,986
Travel	3,662	43,328		46,703	93,693
Rent	730	77,970		36,450	115,150
Utilities			135,521		135,521
Repair & Maintenance	459	34,168	42,142	1,297	78,067
Other Expenses	7,564	59,841	11,649	1,366	80,420
Total	159,054	328,031	277,584	163,255	927,924
Transfers-out					
Fund transfers			142,161		142,161
Total			142,161		142,161
Debt Service					
Loans			28,450		28,450
Total			28,450		28,450
Total Expenditures & Transfers-Out	$ 565,261	$ 5,308,901	$ 685,075	$ 1,729,919	$ 8,289,156
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund	$ 561,965	$ 4,772,518	$ 685,075	$ 1,708,124	$ 7,727,683
State Special Revenue Fund	3,296	278,075			281,371
Federal Special Revenue Fund		246,742		21,794	268,536
Private Purpose Trust Fund		11,566			11,566
Total Expenditures & Transfers-Out	565,261	5,308,901	685,075	1,729,919	8,289,156
Less: Nonbudgeted Expenditures & Transfers-Out	(493)	7,060	(282)	(1,760)	4,525
Prior Year Expenditures & Transfers-Out Adjustments		35,600			35,600
Actual Budgeted Expenditures & Transfers-Out	565,754	5,266,242	685,357	1,731,679	8,249,031
Budget Authority	590,616	5,290,949	687,745	1,799,242	8,368,552
Unspent Budget Authority	$ 24,862	$ 24,708	$ 2,388	$ 67,563	$ 119,521
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund	$ 24,862	$ 1,783	$ 2,388	$ 29	$ 29,062
State Special Revenue Fund		11,534			11,534
Federal Special Revenue Fund		11,391		67,534	78,925
Unspent Budget Authority	$ 24,862	$ 24,708	$ 2,388	$ 67,563	$ 119,521

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-11.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Administration Program	Education	General Services	Student Services	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT					
Personal Services					
Salaries	$ 309,148	$ 3,344,556	$ 147,146	$ 917,723	$ 4,718,573
Employee Benefits	117,518	1,449,091	65,275	479,298	2,111,182
Total	426,666	4,793,647	212,421	1,397,021	6,829,755
Operating Expenses					
Other Services	75,460	7,208	67,251	11,015	160,934
Supplies & Materials	4,649	43,037	20,113	95,837	163,636
Communications	11,159	26,014	1,295	1,098	39,566
Travel	1,572	56,549		48,537	106,658
Rent	777	78,095	75	33,554	112,501
Utilities			135,072		135,072
Repair & Maintenance	89	7,195	19,378	124	26,786
Other Expenses	5,749	28,178	11,672	8,967	54,566
Total	99,455	246,275	254,856	199,133	799,719
Equipment & Intangible Assets					
Equipment	(83)	(166)			(248)
Total	(83)	(166)			(248)
Transfers-out					
Fund transfers			1,000		1,000
Total			1,000		1,000
Debt Service					
Loans			28,450		28,450
Total			28,450		28,450
Total Expenditures & Transfers-Out	$ 526,039	$ 5,039,756	$ 496,727	$ 1,596,154	$ 7,658,676
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund	$ 523,052	$ 4,504,486	$ 496,727	$ 1,538,726	$ 7,062,991
State Special Revenue Fund	2,987	365,893		30,000	398,880
Federal Special Revenue Fund		169,377		27,429	196,805
Total Expenditures & Transfers-Out	526,039	5,039,756	496,727	1,596,154	7,658,676
Less: Nonbudgeted Expenditures & Transfers-Out	(886)	(8,354)	(506)	(2,911)	(12,657)
Prior Year Expenditures & Transfers-Out Adjustments	(14,510)	(5,270)	(22,369)		(42,148)
Actual Budgeted Expenditures & Transfers-Out	541,434	5,053,380	519,602	1,599,065	7,713,482
Budget Authority	544,823	5,124,807	662,336	1,599,203	7,931,169
Unspent Budget Authority	$ 3,389	$ 71,427	$ 142,734	$ 138	$ 217,687
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund	$ 3,389	$ 18,837	$ 142,734	$ 102	$ 165,061
State Special Revenue Fund		11,534			11,534
Federal Special Revenue Fund		41,056		36	41,092
Unspent Budget Authority	$ 3,389	$ 71,427	$ 142,734	$ 138	$ 217,687

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-11.

Montana School for the Deaf and Blind
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2020

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana School for the Deaf and the Blind (school) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue). In applying the modified accrual basis, the school records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the 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 school to record the cost of employees' annual and sick leave when used or paid.

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

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

Basis of Presentation

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

On June 16, 2020, the Legislative Audit Committee approved changes to the Regulatory Basis Special Purpose Framework for Agency Financial Schedules. The Committee voted to exclude property held in trust activity from the Schedule of Changes in Fund Equity beginning in fiscal year 2020. This change was necessary to facilitate implementation of GASB Statement No. 84-Fiduciary Activities at the agency financial schedule level. In FY20 the Schedule of Changes in Fund Equity no longer reports property held in trust line items and does not contain property held in trust in its name. Additionally, the Committee voted to exclude revenue estimate activity from the Schedule of Total Revenues and Transfers-In effective for the 2020 audit cycle, which includes the financial schedules for fiscal years 2019 and 2020

The school uses the following funds:

Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund. This is mainly personal services expenditures and operating expenses.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. The school's State Special Revenue Funds include School Trust Interest Income, Medicaid reimbursements for medical services provided, such as tube feedings, Student Club Accounts and Donations made directly to the school.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The school's Federal Special Revenue Funds include OPI pass through grants from the U.S. Department of Education and U.S. Department of Agriculture.

Fiduciary Fund Category

- **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal clearing account activity but these must have a zero balance at fiscal year-end. The school's agency funds include student accounts. This was only applicable in fiscal year 2019 due to the implementation of GASB 84.
- **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment fund where the principal and income benefit individuals, private organizations, or other governments. School private-purpose trust funds include student accounts. In fiscal year 2021 and forward the activity for the student accounts will be accounted for in a Custodial Fund to better align with the requirements in GASB 84.

2. General Fund Equity Balance

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

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Foundation

A foundation was created by the Montana Board of Public Education and incorporated under MCA 20-8-111, the responsibility of the foundation is to receive, hold, manage, use, and dispose of real and personal property given to the school, the board or the state of Montana on behalf of the school by purchase, gift, devise, and bequest or as otherwise acquired. The proceeds, interest and income thereof are to be used for the benefit of the school.

The Montana School for the Deaf and Blind Foundation is a component unit of the State of Montana. The Foundation's activity doesn't exceed the state's threshold for inclusion in the state's basic financial statements. The foundation activity is not reflected on the accompanying financial schedules. The foundations financial statements report revenue of $416,415.26 and expenditures of $346,244 in fiscal year 2019. In fiscal year 2020 the revenue reported was $233,596 and expenditures reported were $193,069.

The Montana School for the Deaf and the Blind Foundation benefits students across the state by holding Family Learning Weekends, weeklong Summer Camps, and Games for the Visually Impaired on the school campus. The Foundation also assists campus children by funding senior trips, field trips, holiday parties, the prom, and the yearbook. The Foundation also helps the school buy special adaptive equipment for the students to advance their education, it pays for the school's accreditation, and provides professional development for the staff.

5. Related Party Transactions

The Business Manager and the Benefits Specialist for the school perform administrative and bookkeeping duties for the foundation. In addition, the foundation receives on campus office space free of charge.

The school's foundation, which is a nonprofit organization outside of state government, is governed by a board of directors that yearly approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. The school's Business Manager is the person who initially approves those expenses to be paid by the foundation based on its budget. During the year the school's Business Manager submits the approved requests to the foundation bookkeeper (the school's Benefits Specialist). The bookkeeper prepares checks and submits them to a board member to be signed and for their review/approval of the underlying invoice and expenses. The bookkeeper is also charged with the preparation of deposit documents for processing into the foundation's bank account.

6. Implementation of GASB 84-Fiduciary Activities

In Fiscal Year 2020, the State of Montana implemented GASB 84 – Fiduciary Activities which had implications to the presentation of the Schools financial schedules as it related to the Schools Student Accounts. Through consultation with the Department of Administration these funds were reviewed and determined that the accounts needed to be split out since some of the student accounts were actually club accounts that did not meet the criteria to be Private Purpose Trust Fund. The student accounts were moved into a Private Purpose Trust Fund, and the club accounts were moved to a State Special Revenue Fund.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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 Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, for the Montana School for the Deaf and Blind, and the related notes to the financial schedules, and have issued our report thereon dated February 9, 2021.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we did identify certain deficiencies in internal control that we consider to be significant deficiencies. As described in Recommendation #1, on page 7, the Montana School for the Deaf and Blind can enhance internal controls related to ensuring inventory is properly accounted for and proper segregation of duties exist related to asset management.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school'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 on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Montana School for the Deaf and Blind's Response to Findings

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

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 9, 2021

Montana School for the Deaf and Blind

School Response

MONTANA
SCHOOL *for the*
Deaf & Blind

giving kids the building blocks to independence

3911 CENTRAL AVENUE
Great Falls, Montana 59405
406.771.6000 V/TTY
406.771.6164 FAX
www.msdb.mt.gov

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LEGISLATIVE AUDIT DIV.

March 26, 2021

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

Dear Mr. Maciver:

We would like to take this opportunity to thank the Legislative Audit staff for their assistance and work performed at the Montana School for the Deaf and the Blind (MSDB) for the two fiscal years ending June 30, 2020. It was a pleasure to work with the Legislative Audit staff and we hope they found the experience professional and enjoyable.

Recommendation #1

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

A. Stengthening internal controls over inventory and completing a physical inventory annually.
B. Strengthening proper segregation of duties over assets.

Agency Response

We concur with this recommendation.

Corrective Action Plan

A. MSDB will make the following internal control corrections and completing a physical inventory annually and implement them for the 2021 fiscal year end, and each year hereafter:
    a) Inventory will be taken two times a year. In the fall after staff and students return to school. And in the spring before staff and students take their summer break. For Fiscal year 2021 this will be done before June 30, 2021.
    b) Inventory lists from the Follett Asset Tracking Module will be printed and distributed in the fall and spring to each MSDB Administrator which includes the Principal, Outreach Director, Student Life Director, and the Business Manager.
    c) The Administrator, or his/her designee, will go into each room in his/her area and physically verify the assets are at that location. If they are not, they will work with the person assigned to the room to research and locate the asset. The Outreach Director will do this either in person or over a Zoom Meeting since the Outreach staff do not work at the Great Falls location.

d) Any missing items will be reported to the Superintendent and the Business Manager for further action, if necessary.

B. MSDB will make the following segregation of duties over assets:
   a) Assets will be ordered by the Accounting Technician.
   b) When assets are received the Executive Secretary, Benefits Technician or the Business Manager will open the packages and verify the correct number and items were received.
   c) Then the assets will be recorded in the Follett Asset Tracking Module by the Accounting Technician, and assigned a bar code tag.
   d) When the asset(s) is/are assigned to a room/person this will be done in the Follett Asset Tracking Module by the Network Manager, if the item is tech related, or by a school secretary if it is not tech related.
   e) Physical inventory will be done by an Administrator or his/her designee.
   f) The Business Manager will oversee this process to verify that one person will be not be tasked with all of the duties to record, track and inventory assets.

Recommendation #2

We recommend that the Montana School for the Deaf and Blind record Student Accounts activity in a Custodial Fund.

Agency Response

We concur with this recommendation.

Corrective Action Plan

The Student Account activity was moved to a Custodial Fund (07074) from a Private Purpose Trust Fund (08610) in fiscal year 2021, due to fiscal year 2020 closure.

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

Sincerely,

Paul Furthmyre

Paul Furthmyre, Interim Superintendent
Montana School for the Deaf and the Blind

DESchmidt

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