



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana School for the Deaf and Blind

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

MAY 2019

LEGISLATIVE AUDIT
DIVISION

18-29

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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. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

AUDIT STAFF

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

May 2019

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana School for the Deaf and Blind for the two fiscal years ended June 30, 2018. The report contains one recommendation to the school related to internal controls over accrual activity. We issued unmodified opinions on each of the school's financial schedules which means that the information presented within them can be relied upon.

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

Montana School for the Deaf and Blind

Donna Sorensen, Superintendent

Paul Furthmyre, Principal

Donna Schmidt, Business Manager

Jim Kelly, Student Life Director

Carol Clayton-Bye, Outreach Director

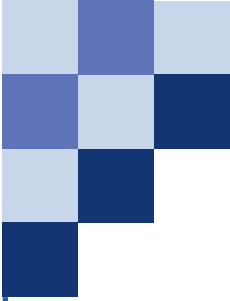
Board of Public Education

			<u>Term Expires</u>
Darlene Schottle, Chairperson	Big Fork		2022
Tammy Lacey, Vice Chairperson	Great Falls		2023
Jesse Barnhart	Broadus		2025
Mary Jo Bremner	Browning		2021
Anne Keith	Missoula		2024
Madalyn Quinlan	Helena		2026
Scott Stearns	Missoula		2020
Paris Becker, Student Representative	Great Falls		2019
Steve Bullock, 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 LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Montana School for the Deaf and Blind For the Two Fiscal Years Ended June 30, 2018

MAY 2019

18-29

REPORT SUMMARY

The Montana School for the Deaf and Blind provides comprehensive educational opportunities statewide for students who are deaf, hard of hearing, blind, visually impaired, and deafblind. In fiscal years 2017 and 2018, the school had approximately 29 day students and 19 residential students. The school also provided outreach services across the state impacting more than approximately 730 students.

Context

The Montana School for the Deaf and Blind (MSDB) meets the educational needs of Montana's deaf and blind children in two different capacities. Children from preschool through high school can attend the Great Falls campus as residential or day students. MSDB provides specialized instruction and an education for the students with the goal to prepare them for independent, successful lives.

MSDB also serves as a statewide resource center for families, school districts, and professionals serving students who are deaf, hard of hearing, blind, visually impaired, and deafblind. MSDB serves hundreds of students and families in communities across the state.

MSDB recorded total revenues of approximately \$490,000 and \$460,000 in fiscal years 2017 and 2018, respectively. The majority of these revenues are transfers-in, comprised of the school's permanent fund earnings from the Department of Natural Resources and Conservation and federal subawards from the Office of Public Instruction.

MSDB expended approximately \$7.3 million and \$6.8 million in fiscal years 2017 and 2018, respectively. The majority of these expenditures are for salaries and benefits paid to MSDB staff.

We focused our audit effort on the transfer-in revenue activity, salary and benefit expenditure activity, and accrual balances for each fiscal year. We followed up on the prior audit recommendation related to internal controls over the transfer-in revenue activity and determined compliance with selected laws and regulations.

Results

Our audit report contains one recommendation related to internal controls over accruals. We issued unmodified opinions on the financial schedules which means that the information presented within them can be relied upon.

There was one prior audit recommendation related to internal controls over transfers-in revenue. The school has fully implemented this recommendation.

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

For a complete copy of the report (18-29) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <https://leg.mt.gov/lad/audit-reports>
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Call toll-free 1-800-222-4446, or e-mail LADHotline@mt.gov.

Chapter I – Introduction

Audit Objectives

We performed a financial-compliance audit of the Montana School for the Deaf and Blind (MSDB) for the two fiscal years ended June 30, 2018. 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, 2018, and June 30, 2017.
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.

We addressed these objectives by focusing our audit effort on transfer-in revenues, salary and benefit expenditures, and accrual activity. Our audit work included analyzing the financial schedules and notes, examining the underlying financial activity, and testing selected control systems. We also determined compliance with selected state laws and regulations.

Background

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

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

MSDB is comprised of four programs: Administration, Education, General Services, and Student Services. These programs are presented on the Schedule of Total Expenditures and Transfers-Out. Total authorized full-time equivalent (FTE) staff for the programs and activities was 84.96 at the end of the audit period.

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, ASL teacher, and audiologist on the campus in Great Falls. These professionals assure that each child is given the specialized instruction and tool 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 (26.70 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 houseparents, 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.

Prior Audit Recommendation

The prior audit report contained one recommendation related to internal controls over the transfers-in of revenues generated by federally granted land. The Department of Natural Resources and Conservation (DNRC) administers the land trust and collects

the revenue generated from the land trust on behalf of MSDB. The revenue generated is transferred to MSDB on a quarterly basis. The recommendation to MSDB was to comply with state accounting policy by working with DNRC to gain an understanding of the activity and to develop internal controls to ensure revenue collected and remitted by DNRC is accurate and complete.

We reviewed the quarterly transfers of revenue from DNRC that occurred during the audit period, inquired of management, and tested internal controls. Through our audit effort, we determined that MSDB has fully implemented this recommendation.

Chapter II – Findings and Recommendations

Internal Control Over Accruals

The Montana School for the Deaf and Blind does not have adequate controls in place to ensure that accruals are accounted for accurately and in compliance with state accounting policy.

The Montana School for the Deaf and Blind processed accruals in both fiscal years 2017 and 2018. The accruals were processed for various goods and services and for the amount of salaries and benefits for union employees with a contract that extends through fiscal year-end.

State accounting policy establishes valid obligation criteria for accruing expenditures. Valid obligations are those incurred but unpaid as of fiscal year-end. This includes goods ordered but not received and services of legally binding contracts that are not performed as of fiscal year-end. In both 2017 and 2018, expenditures were accrued for goods that were not ordered by fiscal year-end and for services without legally binding contracts. There were 7 items accrued in fiscal year 2017 and 11 items accrued in fiscal year 2018. Of these, 3 in fiscal year 2017 and 9 in fiscal year 2018 were not valid obligations. Such items range from copiers and printers to various services including those to resurface the swimming pool and redesign the website. As a result, approximately \$43,000 and \$24,000 in fiscal years 2017 and 2018, respectively, was erroneously accrued.

State accounting policy also requires that any services received before fiscal year-end for which payment will not be made by fiscal year-end be accrued. The school appropriately accrued salaries and benefits of union employees as their services were provided during the school year with final payments per contract occurring after fiscal year-end. However, the amounts were miscalculated resulting in expenditures that were under accrued by approximately \$11,000 and \$14,000 in fiscal years 2017 and 2018, respectively.

The school did not have adequate internal controls in place to ensure the accruals were processed correctly. School staff inappropriately used a date of July 16 to determine the existence of valid obligations rather than the required date of June 30. Additionally, there was no segregation of duties related to the calculation and processing of the salaries and benefits amounts. The staff member that performed the calculations also processed the journal entries without any review.

RECOMMENDATION #1

We recommend the Montana School for the Deaf and Blind develop internal controls to ensure accruals are accurate and recorded in compliance with state accounting policy.

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
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana School for the Deaf and Blind for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the 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, 2018, and June 30, 2017, or changes in financial position for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, presents fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Montana School for the Deaf and Blind for each of the fiscal years ended June 30, 2018, and 2017, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2019, 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 28, 2019

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
FUND EQUITY: July 1, 2017	\$ (484,004)	\$ 207,654	\$ 331	\$ 0
PROPERTY HELD IN TRUST: July 1, 2017				\$ 29,872
ADDITIONS				
Budgeted Revenues & Transfers-In	355	259,963	198,247	
Direct Entries to Fund Equity	6,228,905			
Additions to Property Held in Trust				36,793
Total Additions	6,229,260	259,963	198,247	36,793
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	6,266,624	379,968	198,247	
Nonbudgeted Expenditures & Transfers-Out	(13,226)			
Prior Year Expenditures & Transfers-Out Adjustments	(1,872)		(113)	
Reductions in Property Held in Trust				34,405
Total Reductions	6,251,527	379,968	198,134	34,405
FUND EQUITY: June 30, 2018	\$ (506,271)	\$ 87,650	\$ 444	\$ 0
PROPERTY HELD IN TRUST: June 30, 2018				\$ 32,260

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.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FUND EQUITY: July 1, 2016	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund
PROPERTY HELD IN TRUST: July 1, 2016	\$ (474,965)	\$ 177,934	\$ 117	\$ 0
ADDITIONS				\$ 25,589
Budgeted Revenues & Transfers-In	1,936			
Direct Entries to Fund Equity	6,814,982	299,069	186,264	
Additions to Property Held in Trust				30,247
Total Additions	6,816,918	299,069	186,264	30,247
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	6,848,165	269,349	186,264	
Nonbudgeted Expenditures & Transfers-Out	(20,756)			
Prior Year Expenditures & Transfers-Out Adjustments	(1,453)		(214)	
Reductions in Property Held in Trust				25,963
Total Reductions	6,825,957	269,349	186,051	25,963
FUND EQUITY: June 30, 2017	\$ (484,004)	\$ 207,654	\$ 331	\$ 0
PROPERTY HELD IN TRUST: June 30, 2017				\$ 29,872

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.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
Charges for Services	\$	674		\$ 674
Rentals, Leases and Royalties		3,958		3,958
Transfers-in		255,332	198,247	453,578
Miscellaneous	\$ 355			355
Total Revenues & Transfers-In	355	259,963	198,247	458,565
Less: Nonbudgeted Revenues & Transfers-In				0
Prior Year Revenues & Transfers-In Adjustments				0
Actual Budgeted Revenues & Transfers-In	355	259,963	198,247	458,565
Estimated Revenues & Transfers-In	22,251	324,264	205,800	552,315
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (21,896)	\$ (64,301)	\$ (7,553)	\$ (93,750)
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	\$	(184)		\$ (184)
Charges for Services	\$ (5,750)	594		(5,156)
Rentals, Leases and Royalties		258		258
Transfers-in	(1)	(64,968)	(404)	(65,373)
Federal Indirect Cost Recoveries			(7,149)	(7,149)
Miscellaneous	(16,145)			(16,145)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (21,896)	\$ (64,301)	\$ (7,553)	\$ (93,750)

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.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Rentals, Leases and Royalties	\$	3,233		\$ 3,233
Transfers-in		295,836	186,264	482,100
Miscellaneous	\$ 1,936			1,936
Total Revenues & Transfers-In	<u>1,936</u>	<u>299,069</u>	<u>186,264</u>	<u>487,270</u>
Less: Nonbudgeted Revenues & Transfers-In				0
Prior Year Revenues & Transfers-In Adjustments				0
Actual Budgeted Revenues & Transfers-In	<u>1,936</u>	<u>299,069</u>	<u>186,264</u>	<u>487,270</u>
Estimated Revenues & Transfers-In	22,250	289,464	197,856	509,570
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(20,314)</u>	<u>9,605</u>	<u>(11,592)</u>	<u>(22,300)</u>
	\$			\$
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	\$	(184)		\$ (184)
Charges for Services	(5,750)	(15,580)		(21,330)
Rentals, Leases and Royalties		(467)		(467)
Transfers-in		25,836	(4,443)	21,393
Federal Indirect Cost Recoveries			(7,149)	(7,149)
Miscellaneous	(14,564)			(14,564)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(20,314)</u>	<u>9,605</u>	<u>(11,592)</u>	<u>(22,300)</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.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration Program	Education	General Services	Student Services	Total
Personal Services					
Salaries	\$ 285,044	\$ 2,972,320	\$ 111,831	\$ 787,822	\$ 4,157,018
Employee Benefits	101,802	1,247,128	52,443	402,100	1,803,472
Total	<u>386,846</u>	<u>4,219,448</u>	<u>164,274</u>	<u>1,189,922</u>	<u>5,960,490</u>
Operating Expenses					
Other Services	71,706	23,286	55,386	9,521	159,899
Supplies & Materials	5,707	62,570	16,949	92,045	177,271
Communications	10,454	24,802	1,090	1,467	37,812
Travel	647	38,865		51,622	91,134
Rent	1,148	73,864	400	33,815	109,228
Utilities			137,729		137,729
Repair & Maintenance	15	4,053	44,445	1,076	49,589
Other Expenses	11,251	24,554	12,550	1,124	49,479
Total	<u>100,927</u>	<u>251,994</u>	<u>268,549</u>	<u>190,671</u>	<u>812,141</u>
Equipment & Intangible Assets					
Equipment	3,335	7,316	6,400	2,496	19,547
Total	<u>3,335</u>	<u>7,316</u>	<u>6,400</u>	<u>2,496</u>	<u>19,547</u>
Transfers-out					
Fund transfers			9,000		9,000
Total			<u>9,000</u>		<u>9,000</u>
Debt Service					
Loans			28,450		28,450
Total			<u>28,450</u>		<u>28,450</u>
Total Expenditures & Transfers-Out	\$ <u>491,108</u>	\$ <u>4,478,758</u>	\$ <u>476,674</u>	\$ <u>1,383,089</u>	\$ <u>6,829,629</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund	\$ 488,273	\$ 3,966,663	\$ 476,661	\$ 1,319,930	\$ 6,251,527
State Special Revenue Fund	2,835	347,120	13	30,000	379,968
Federal Special Revenue Fund		164,975		33,159	198,134
Total Expenditures & Transfers-Out	491,108	4,478,758	476,674	1,383,089	6,829,629
Less: Nonbudgeted Expenditures & Transfers-Out	(1,570)	(12,953)	5,615	(4,318)	(13,226)
Prior Year Expenditures & Transfers-Out Adjustments		112,227	47	(114,259)	(1,985)
Actual Budgeted Expenditures & Transfers-Out	492,678	4,379,483	471,012	1,501,666	6,844,839
Budget Authority	549,120	4,647,088	493,403	1,664,003	7,353,615
Unspent Budget Authority	\$ <u>56,442</u>	\$ <u>267,605</u>	\$ <u>22,391</u>	\$ <u>162,338</u>	\$ <u>508,776</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund	\$ 56,442	\$ 249,233	\$ 22,391	\$ 162,338	\$ 490,404
State Special Revenue Fund		18,372			18,372
Unspent Budget Authority	\$ <u>56,442</u>	\$ <u>267,605</u>	\$ <u>22,391</u>	\$ <u>162,338</u>	\$ <u>508,776</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.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Administration Program	Education	General Services	Student Services	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT					
Personal Services					
Salaries	\$ 278,552	\$ 2,819,066	\$ 176,117	\$ 943,909	\$ 4,217,644
Employee Benefits	108,414	1,294,737	82,659	519,475	2,005,285
Total	<u>386,966</u>	<u>4,113,804</u>	<u>258,776</u>	<u>1,463,383</u>	<u>6,222,929</u>
Operating Expenses					
Other Services	100,249	51,967	51,169	7,722	211,106
Supplies & Materials	21,796	102,705	18,202	85,209	227,912
Communications	13,197	26,707	1,975	1,627	43,506
Travel	3,571	43,348		59,787	106,706
Rent	720	82,485		35,784	118,990
Utilities			144,867		144,867
Repair & Maintenance	343	3,805	85,107	2,000	91,255
Other Expenses	20,101	42,002	11,904	2,629	76,636
Total	<u>159,976</u>	<u>353,020</u>	<u>313,225</u>	<u>194,758</u>	<u>1,020,979</u>
Transfers-out					
Fund transfers			9,000		9,000
Total			<u>9,000</u>		<u>9,000</u>
Debt Service					
Loans			28,449		28,449
Total			<u>28,449</u>		<u>28,449</u>
Total Expenditures & Transfers-Out	<u>\$ 546,942</u>	<u>\$ 4,466,823</u>	<u>\$ 609,450</u>	<u>\$ 1,658,141</u>	<u>\$ 7,281,357</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund	\$ 544,002	\$ 4,041,806	\$ 609,450	\$ 1,630,699	\$ 6,825,957
State Special Revenue Fund	2,940	266,409			269,349
Federal Special Revenue Fund		158,608		27,442	186,051
Total Expenditures & Transfers-Out	<u>546,942</u>	<u>4,466,823</u>	<u>609,450</u>	<u>1,658,141</u>	<u>7,281,357</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(1,453)	(13,075)	(1,661)	(4,566)	(20,756)
Prior Year Expenditures & Transfers-Out Adjustments	(228)	172	(426)	(1,185)	(1,666)
Actual Budgeted Expenditures & Transfers-Out	<u>548,623</u>	<u>4,479,726</u>	<u>611,538</u>	<u>1,663,892</u>	<u>7,303,779</u>
Budget Authority	566,196	4,796,976	616,308	1,760,971	7,740,451
Unspent Budget Authority	<u>\$ 17,574</u>	<u>\$ 317,250</u>	<u>\$ 4,770</u>	<u>\$ 97,079</u>	<u>\$ 436,672</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund	\$ 17,574	\$ 293,190	\$ 4,770	\$ 97,079	\$ 412,613
State Special Revenue Fund		24,060			24,060
Unspent Budget Authority	<u>\$ 17,574</u>	<u>\$ 317,250</u>	<u>\$ 4,770</u>	<u>\$ 97,079</u>	<u>\$ 436,672</u>

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

Montana School of the Deaf and Blind

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2018

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) fund category. Under the accrual basis, as defined by state accounting policy, the school records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

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

Basis of Presentation

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

The school uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are

legally restricted to expenditures for specific state program purposes. The school's State Special Revenue Funds include School Trust Interest Income, Medicaid and Donations made directly to the school.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The school's Federal Special Revenue Funds include OPI pass through grants from the U.S. Department of Education and U.S. Department of Agriculture.

Fiduciary Fund Category

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal clearing account activity but these must have a zero balance at fiscal year-end. The school's agency funds track activity related to the student accounts held in trust.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The school has authority to pay obligations from the statewide General Fund within its appropriation limits. The school expends cash or other assets from the statewide fund when it pays General Fund obligations. The school's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2017 and June 30, 2018.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Direct entries to fund equity in the General fund primarily is the movement of cash resulting from the school paying its obligations.

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 foundation activity is not reflected on the accompanying financial schedules. The foundation's financial statement report expenditure of \$152,962 & \$197,048 in support of the school during fiscal years 2017 and 2018, respectively.

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.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana School for the Deaf and Blind for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules, and have issued our report thereon dated February 28, 2019.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be a significant deficiency.

The school did not have adequate internal controls to ensure that accruals were accounted for accurately and in accordance with state accounting policy. See page 5 of this audit report for the recommendation related to this deficiency.

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 finding 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,

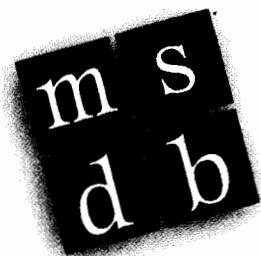
/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 28, 2019

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
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April 24, 2019

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

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APR 29 2019
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

I would like to take this opportunity to thank the Legislative Audit staff for their assistance and work performed at the Montana School for the Deaf and the Blind (MSDB) for the two fiscal years ending June 30, 2018. 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 develop internal controls to ensure accruals are accurate and recorded in compliance with state accounting policy.

Agency Response

We concur with this recommendation.

Corrective Action Plan

MSDB will make the following internal control corrections and implement them for the 2019 fiscal year end:

1. MSDB will implement an earlier cut-off date for fiscal year purchase orders, requiring all programs to submit requests for expenditure of funds to their direct supervisor by the second Friday in May, instead of mid-June as in previous years.
2. The program supervisors will have until the third Friday in May to submit the PO's to the Business office.
3. The Business Office will issue all fiscal year purchase orders by May 31 of the fiscal year.
4. Any purchase orders approved in June will be approved by both the Business Manager and the Superintendent.
5. The A and B Accruals will be prepared and signed by the Agency Accounting Technician. The Accounting Technician will verify all A-Accruals have a written contract signed by both the vendor and MSDB's Business Manager.

6. The A and B Accruals will be reviewed for compliance, correct mathematical formulas, and approved & signed by the Business Manager.

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,



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



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