

# Legislative Audit Division

State of Montana



Report to the Legislature

November 2003

## Financial-Related Audit For the Two Fiscal Years Ended June 30, 2003

### The University of Montana (All Campuses)

We performed a financial-related audit of The University of Montana for the two fiscal years ended June 30, 2003. This audit covered all four campuses affiliated with The University of Montana: The University of Montana-Missoula; Montana Tech of The University of Montana; The University of Montana-Western; and The University of Montana-Helena College of Technology. This report contains two recommendations to the university concerning improving compliance with state laws related to:

- ▶ Recording financial activity in the proper subfund.
- ▶ Montana work-study program.

The financial audit of The University of Montana's consolidated financial statements for the fiscal year ended June 30, 2002, was issued in a separate report in January 2003 (02-10A). The financial statement audit for the fiscal year ended June 30, 2003, will be issued in December 2003 (03-10).

Direct comments/inquiries to:  
Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

03-12

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## FINANCIAL-RELATED AUDITS

Government Audit Standards issued by the United States General Accounting Office state financial-related audits may include an audit of internal controls over compliance with laws and regulations such as those over federal programs or audits of compliance with laws and regulations and allegations of fraud. Generally, financial-related audits are categorized into the following three areas: (1) determining if financial information is presented in accordance with established or stated criteria, (2) determining if the entity has adhered to specific financial-compliance requirements, or (3) determining if the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. 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, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
Phone (406) 444-3616

Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

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November 2003

The Legislative Audit Committee  
of the Montana State Legislature:

This is our report on the financial-related audit of The University of Montana (all campuses) for the two fiscal years ended June 30, 2003. We will issue a financial audit report each fiscal year covering the fiscal year's consolidated financial statements of the university and a financial-related audit report every other year. The fiscal year 2001-02 financial audit of The University of Montana's consolidated financial statements was issued in January 2003. The financial statement audit for fiscal year 2002-03 will be issued in December 2003.

This audit report includes recommendations related to improving compliance with the Montana work-study program law and recording financial activity in the proper subfund.

We thank the president and university staff for their assistance and cooperation during the audit.

Respectfully submitted,

*/s/ Scott A. Seacat*

Scott A. Seacat  
Legislative Auditor

# **Legislative Audit Division**

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**Financial-Related Audit**

**For the Two Fiscal Years Ended June 30, 2003**

## **The University of Montana (All Campuses)**

Members of the audit staff involved in this audit were Chris G. Darragh, Laurie H. Evans, Geri Hoffman, Amber Long, Laura L. Norris, and Sonia Powell.

## Table of Contents

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Appointed and Administrative Officials .....	ii
Report Summary .....	S-1
<b>Introduction.....</b>	<b>1</b>
Audit Objectives.....	1
Background .....	1
Introduction.....	2
The University of Montana-Missoula .....	5
Montana Tech of The University of Montana .....	5
The University of Montana-Western.....	5
The University of Montana-Helena College of Technology .....	5
Prior Audit Recommendations.....	6
<b>Findings and Recommendations.....</b>	<b>7</b>
Compliance With State Laws.....	7
Proper Fund Placement for the English Language Programs .....	7
Compliance With the Montana Work-Study Law .....	8
<b>University Response.....</b>	<b>A-1</b>
The University of Montana.....	A-3

## **Appointed and Administrative Officials**

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Linda McCullough, Superintendent of Public Instruction\*

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Lynn Morrison-Hamilton  
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Lynn Job, Director of Grants and Contracts

### **The University of Montana – Western**

Karl E. Ulrich, Interim Chancellor and University Executive Vice  
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## **Appointed and Administrative Officials**

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University Associate Vice President for Student Affairs

Susan D. Briggs, Vice Chancellor for Administration and Finance and  
University Associate Vice President

Virginia Dale, Director of Business Services

**The University of Montana –  
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Steven G. Hoyle, Dean/CEO

Richard L. Gray, Associate Dean for Academic Affairs

Cristobal Valdez, Assistant Dean for Student Services

Donnie J. Whitaker, Assistant Dean for Fiscal and Plant Operations

**The University of  
Montana (All Campuses)**

We performed a financial-related audit, as defined in generally accepted government auditing standards, of The University of Montana, (all campuses), for the two fiscal years ended June 30, 2003. Our audit, in compliance with these standards, included determining whether (1) financial information is presented in accordance with established or stated criteria, (2) the entity has adhered to specific financial-compliance requirements, and (3) the entity’s internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

Our report contains two recommendations related to improving compliance with the Montana work-study law and recording financial activity in accordance with state law.

The listing below serves as a means of summarizing the recommendations contained in the report, the university’s response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the university ensure financial activity is recorded on the accounting records in the proper fund in accordance with state law. .... 8

Department Response: Concur. See page A-4

Recommendation #2

We recommend the university comply with state law related to the Montana work-study program. .... 8

Department Response: Concur. See page A-4

# Introduction

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## Audit Objectives

We performed a financial-related audit of The University of Montana (all campuses) for the two fiscal years ended June 30, 2003. The objectives of the audit were to:

1. Determine if the university complied with applicable laws and regulations.
2. Make recommendations for improvements in the internal and management controls of the university.
3. Determine the implementation status of prior audit recommendations in the financial-related audit for the fiscal year ended June 30, 2001.

The fiscal year 2002-03 consolidated financial statements of The University of Montana will be audited by our office and issued in a separate report in December 2003.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation. Other areas of concern deemed not to have a significant effect on the successful operation of university programs are not specifically included in the report, but have been discussed with management.

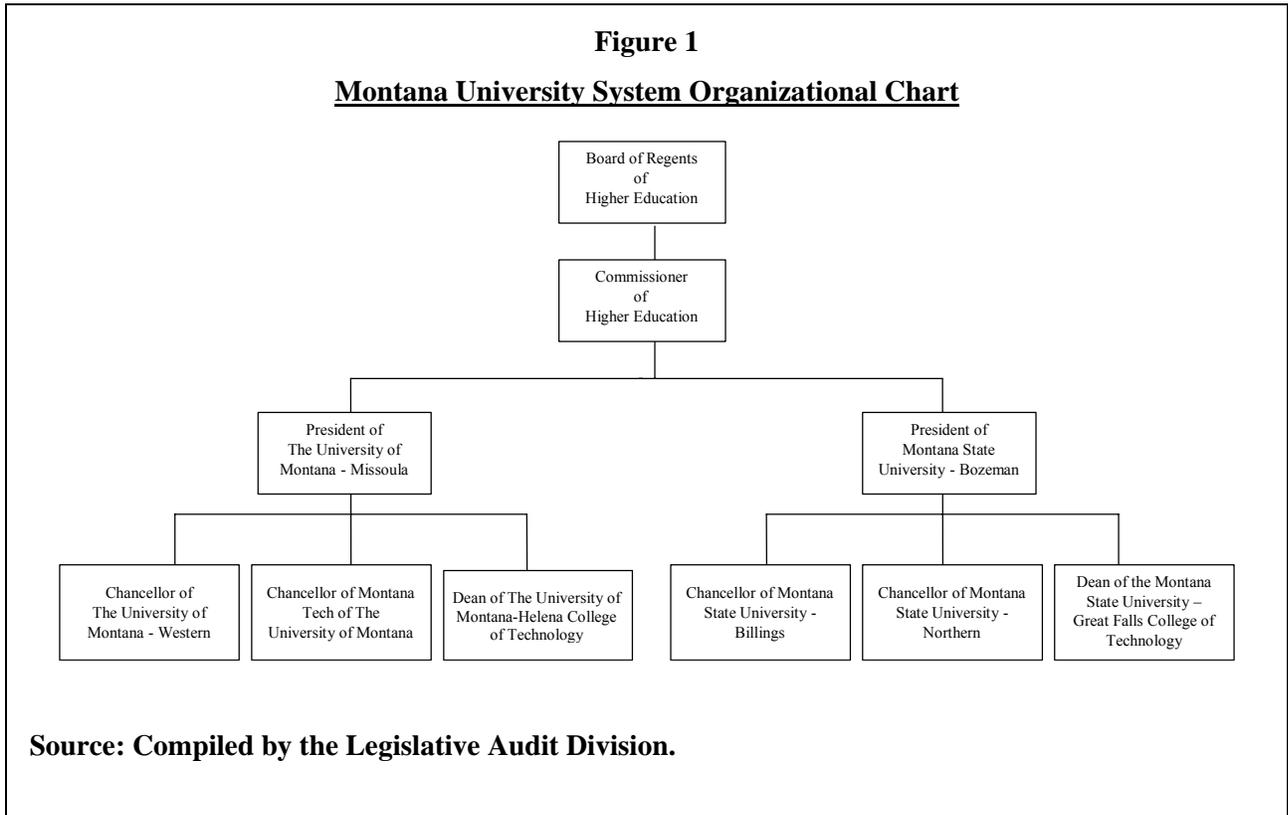
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## Background

The Board of Regents of Higher Education approved the current Montana University System structure in January 1994. The following chart illustrates the organization of the Montana University System.

## Introduction

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The University of Montana consists of four campuses:

- ▶ The University of Montana – Missoula (UofM-Missoula) located in Missoula.
- ▶ Montana Tech of The University of Montana (MT Tech of the UofM) located in Butte.
- ▶ The University of Montana – Western (UofM-Western) located in Dillon.
- ▶ The University of Montana – Helena College of Technology (HCOT) located in Helena.

All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of The University of Montana provide a diversity of undergraduate and

graduate academic and two-year vocational/technical programs to students.

The University of Montana reported actual employee FTE (full-time equivalent positions) of 3,129.35 for fiscal year 2002-03. Contract faculty positions were 945.26 FTE employees. The following table shows reported fiscal year 2002-03 FTE employees by campus and type.

**Table 1**  
**The University of Montana**  
**Full-Time Equivalent Employees**  
**Fiscal Year 2002-03**

Agency	Contract Faculty	Contract Administrative	Contract Professional	Classified	Graduate Assistants	Part-Time & Other*	Total
UofM - Missoula	707.57	112.14	116.50	1058.30	147.58	300.77	2442.86
UofM - Western	61.23	11.51	21.21	66.23		20.92	181.10
MT Tech of the UofM	132.13	7.41	67.48	107.11	22.36	40.16	376.65
UofM - HCOT	36.25	4.00	6.83	23.20		13.67	83.95
Bureau of Mines		1.00	18.03	11.40		1.58	32.01
Forestry Conservation Station	8.08	.24	1.99	2.17	.14	.16	12.78
Total	945.26	136.30	232.04	1268.41	170.08	377.26	3129.35

\*This category includes permanent part-time non-faculty, non-classified employees and temporary employees.

**Source: Office of Commissioner of Higher Education “MUS Operating Budgets 2003-2004” Schedule 18.**

The following table shows the student full-time equivalent (FTE) for FY 2002-03.

## Introduction

**Table 2**  
**The University of Montana FTE Enrollments**

	<b>2002</b>	<b>2003</b>
	<b><u>Actual</u></b>	<b><u>Actual</u></b>
<b>THE UNIVERSITY OF MONTANA</b>		
<b>Missoula</b>		
Resident – College of Technology	765	839
Undergraduate Resident	6,736	6,928
Graduate Resident	<u>958</u>	<u>1,004</u>
<b>Total Residents</b>	<b><u>8,459</u></b>	<b><u>8,771</u></b>
Western Undergraduate Exchange Program – UM-Missoula	361	329
Western Undergraduate Exchange Program – College of Technology	6	8
Nonresident – College of Technology	32	39
Undergraduate Nonresident	2,233	2,130
Graduate Nonresident	<u>543</u>	<u>543</u>
<b>Total Nonresidents</b>	<b><u>3,175</u></b>	<b><u>3,049</u></b>
<b>TOTAL MISSOULA</b>	<b><u>11,634</u></b>	<b><u>11,820</u></b>
<b>Montana Tech</b>		
Resident – College of Technology	287	226
Undergraduate Resident	1,275	1,430
Graduate Resident	<u>59</u>	<u>60</u>
<b>Total Residents</b>	<b><u>1,621</u></b>	<b><u>1,716</u></b>
Western Undergraduate Exchange Program – UM Tech	145	117
Western Undergraduate Exchange Program – College of Technology	5	3
Nonresident – College of Technology	3	4
Undergraduate Nonresident	109	121
Graduate Nonresident	<u>20</u>	<u>23</u>
<b>Total Nonresidents</b>	<b><u>282</u></b>	<b><u>268</u></b>
<b>TOTAL TECH</b>	<b><u>1,903</u></b>	<b><u>1,984</u></b>
<b>Western</b>		
Undergraduate Resident	874	856
Western Undergraduate Exchange Program	102	104
Undergraduate Nonresident	<u>38</u>	<u>36</u>
<b>TOTAL WESTERN</b>	<b><u>1,014</u></b>	<b><u>996</u></b>
<b>Helena College of Technology</b>		
Resident	727	725
Western Undergraduate Exchange Program	6	7
Nonresident	<u>3</u>	<u>6</u>
<b>TOTAL HELENA COLLEGE OF TECHNOLOGY</b>	<b><u>736</u></b>	<b><u>738</u></b>
<b>Total UM Resident</b>	<b>11,681</b>	<b>12,068</b>
<b>Total UM Western Undergraduate Exchange Program</b>	<b>625</b>	<b>568</b>
<b>Total UM Nonresident</b>	<b><u>2,981</u></b>	<b><u>2,902</u></b>
<b>Total University of Montana</b>	<b><u>15,287</u></b>	<b><u>15,538</u></b>

Source: Office of Commissioner of Higher Education.

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### **The University of Montana- Missoula**

The UofM-Missoula was established in 1893 in Missoula as a comprehensive university. The campus offers four-year undergraduate programs along with masters and doctoral graduate programs. It includes professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System and operates the only law school in the system. Other schools include business administration, education, fine arts, forestry, pharmacy and allied health services, and journalism. In addition, the campus includes a two-year college of technology, which provides a broad range of technical and occupational education and training courses.

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### **Montana Tech of The University of Montana**

MT Tech of the UofM was established in 1893 in Butte as the Montana School of Mines. It provides a variety of four-year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs and majors. It also includes a college of technology, which provides core education courses and two-year degrees in various occupational and technical programs.

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### **The University of Montana- Western**

UofM-Western was established in 1893 in Dillon as the state's Normal School for Teacher Education. It provides both two-year and four-year undergraduate degree programs with a focus on elementary and secondary education. It also provides a four-year liberal arts degree with several emphases that complement the education programs.

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### **The University of Montana- Helena College of Technology**

UofM-HCOT was established in 1939 in Helena as a Vocational-Technical School. UofM-HCOT is a two-year institution of higher education and offers an Associate of Science Degree in General Studies for students who want to acquire a core of coursework transferable to baccalaureate programs throughout the state. In addition it offers a variety of other occupational, technical, and training specialties, including accounting, construction, computer, electronics and welding technologies, and practical nursing. UofM-HCOT is expanding its offerings as a higher education center by hosting and facilitating graduate level study in cooperation with the entire Montana University System.

## **Introduction**

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### **Prior Audit Recommendations**

Our office performed a prior financial-related audit of The University of Montana (all campuses) for the fiscal year ended June 30, 2001. The university concurred with and implemented all six recommendations contained in the report.

# Findings and Recommendations

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## Compliance With State Laws

During our audit, we found two instances where the university could improve compliance with state laws.

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## Proper Fund Placement for the English Language Institute's Programs

The English Language Institute (ELI), under the direction of The University of Montana – Missoula, Office of International Programs, provides an English language teaching program for international students. Also, foreign entities contract with the university to provide an intensive English language teaching field experience program coupled with cultural activities in order to improve communications skills in English language, language teaching methodology, and familiarity with the American culture. When the various programs were set up on the University's accounting system, they were accounted for in the designated subfund. However, the program revenue is restricted by a source external to the university and as such should be in the restricted subfund.

Since fiscal year 2000, the ELI international programs had revenue and expenses of \$1,242,842 and \$1,275,890, respectively. Ending fund balance at June 30, 2003, for the summer programs was \$27,197. The program income, which is the difference between revenue and expenses, from the ELI international programs should continue to be recorded in the designated subfund and made available for budgeting by the Board of Regents.

The ELI director requested the activity to be placed in a designated subfund instead of a restricted subfund. The accountants at the Business Services Office review the departments' requests to establish funds for new activity on campus. If the accountants have questions, or need more information, they are required to contact the department. When this program was established as a designated subfund, an accountant at Business Services did not have or request all the information needed to determine proper fund placement.

## Findings and Recommendations

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### **Recommendation #1**

**We recommend the university ensure financial activity is recorded on the accounting records in the proper fund in accordance with state law.**

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### **Compliance With the Montana Work-Study Law**

The University of Montana-Helena College of Technology (HCOT) distributes Montana work-study funds to students requesting financial assistance. Section 20-25-703, MCA, requires that no less than 70 percent of the funds allocated to the state work-study program be used to provide job opportunities for students with demonstrated financial need. The remainder of the funds allocated to this program may be used to provide job opportunities on a basis other than financial need.

In fiscal year 2001-02, the HCOT did not distribute the Montana work-study funds in accordance with the percentages outlined in state law. The HCOT received a total of \$16,953 from the Office of Commissioner of Higher Education. The HCOT distributed 66 percent or \$11,171 to students on a basis other than financial need. They distributed 34 percent or \$5,782 to students on a financial need basis. When making the allocation and distribution, the HCOT financial aid director was not aware of the requirements outlined in state law. In fiscal year 2002-03, the HCOT allocated the funds to students in accordance with state law.

### **Recommendation #2**

**We recommend the university comply with state law related to the Montana work-study program.**

# University Response

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The University of  
**Montana**

Office of the President  
The University of Montana  
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Office: (406) 243-2311  
FAX: (406) 243-2797

3 November 2003

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LEGISLATIVE AUDIT DIV.

Mr. Scott A. Seacat  
Legislative Auditor  
Legislative Audit Division  
Room 135 State Capitol  
P. O. Box 201705  
Helena, MT 59620-1705

Dear Mr. Seacat:

We compliment the Legislative Audit staff for the cooperation and effort to assure a timely completion of The University of Montana's Financial Related Audit for the two fiscal years ended 30 June 2003. Through the dedication of both the University's and the Legislative Audit Division's staffs, we have made many improvements in the past few years. The audit provides recognition of the outcome of this good work.

We appreciate the cooperative efforts made by the audit team and thank those involved for their assistance. We remain committed to improving our controls and reliable financial reporting for The University of Montana.

Sincerely,

George M. Dennison,  
President

c: R. Durringer, Vice President for Administration and Finance  
S. Stearns, Commissioner of Higher Education

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LEGISLATIVE AUDIT DIV.

# The University of Montana

Response to Legislative Audit Division

Financial Related Audit

For Fiscal Years Ended 30 June 2003

November 2003

## RECOMMENDATION #1

**WE RECOMMEND THE UNIVERSITY ENSURE FINANCIAL ACTIVITY IS RECORDED ON THE ACCOUNTING RECORDS IN THE PROPER FUND IN ACCORDANCE WITH STATE LAW.**

**The University concurs with the recommendation.** The University will review and revise our process and procedures associated with the establishment of designated fund accounts. Business Services personnel, in consultation with Grant and Contract Accounting, will complete these revisions and implement the new procedures by 31 December 2003.

## RECOMMENDATION #2

**WE RECOMMEND THE UNIVERSITY COMPLY WITH STATE LAW RELATED TO THE MONTANA WORK-STUDY PROGRAM.**

**The University concurs with the recommendation.** University personnel will document the applicable state law pertaining to State work-study allocation in their procedures manual by 31 December 2003.