

Legislative Audit Division

State of Montana



Report to the Legislature

November 2003

Financial Related Audit

For the Two Fiscal Years Ended June 30, 2003

Montana State University (All Campuses)

We performed a financial related audit of Montana State University for the two fiscal years ended June 30, 2003. This audit covered all four campuses affiliated with Montana State University: Montana State University-Bozeman, Montana State University-Billings, Montana State University-Northern at Havre and Great Falls, and Montana State University-Great Falls College of Technology.

This report contains nine recommendations to the university. Issues addressed in this report include:

- ▶ Monitoring grants and contracts
- ▶ Student financial aid
- ▶ State compliance

The financial audit of Montana State University's consolidated financial statements for the fiscal year ended June 30, 2002, was issued in a separate report in January 2003 (02-29). The financial statement audit for the fiscal year ended June 30, 2003, will be issued in a separate report in December 2003.

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

03-13

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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 fourth 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

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James Gillett, Financial-Compliance Audit

June 7, 2003

TO: Legislative Audit Committee Members

FROM: Tori Hunthausen, Deputy Legislative Auditor, Information Systems (IS) Audits

RE: IS Support Work on Montana State University and The University of Montana Banner Systems (03DP-06)

INTRODUCTION

In support of the financial and financial-related audits of Montana State University and The University of Montana, we conducted a limited scope information systems review focusing on selected Banner processing within the SCT Banner control environments. Although the SCT Banner software implemented by the universities is similar in baseline functionality, there is an important distinction between the controls that are delivered with the software and how the MSU and UM university staffs chose to implement or activate the controls.

We conducted the audit work according to generally accepted government auditing standards. We will not formally report the internal control weaknesses we identified; however, these details have been communicated to agency management.

A restricted distribution of an internal memorandum has been provided to LAD staff communicating existence and operation of controls.

BACKGROUND

Both Montana State University (MSU) and The University of Montana (UM) process their student information, financial aid, human resource, and financial data using BANNER software. Banner is a commercial software product developed, maintained and licensed by Systems and Computer Technology (SCT) Corporation. The following module functionality has been implemented by each of the universities.

Finance:

Includes accounts payable, purchasing & procurement, fixed assets, research accounting, general ledger and finance operations, and budget position and control.

Financial Aid:

Handles the daily processing activities of each of the financial aid offices. The system performs calculations to support financial aid budgeting; student needs analysis, and student financial aid benefit packaging.

Human Resource Management:

Includes information needed to administer the university's human resources, such as employment and compensation, position control and staffing, payroll processing and administration of benefits and leave.

Student Information System:

Maintains information related to individual students, such as scheduling, registration, calculating tuition and fees, and recording and monitoring grades.



AUDIT SCOPE AND METHODOLOGY

The primary consideration for setting scope and assessing risk is that SCT Banner is commercial off-the-shelf software. Banner is extensively used for educational institutions both within and outside the United States. Pervasive use and few known difficulties with a mature product are the primary reasons that risk is inherently low for Baseline (delivered) Banner functionality. However, because MSU and UM have modified baseline Banner to perform functions specific to their institutions, risk lies in software modifications. Our audit efforts focused accordingly. Our most recent Banner work performed at MSU was issued May 2001 (01DP-05). UM Banner work was issued May 2002 (02DP-05). Included in the audit scope were objectives to confirm the existence and reaffirm the operation of specific controls over select processes within specific modules.

Student Financial Aid Conclusion

Based on the control testing and updates we performed, we conclude that the identified controls have not significantly changed from the prior MSU and UM Banner audits, and prior audit assurances can be carried forward.

Financial aid testing included ensuring security procedures limit system access and input functions to appropriate individuals, and only authorized users have access to production data. Since student information originates at the US Department of Education (DOE), testing ensured the student records load process operates to ensure DOE records batches are completely transferred to university Banner load files and the data download processes operate to ensure student records information transfer is complete.

Banner processing determines financial aid amounts based on Cost of Education budgets developed by each university's financial aid office personnel. Satisfactory Academic Progress (SAP) policy limits students' eligibility for financial aid and Banner processing assists with monitoring SAP compliance requirements. We reviewed the cost of education budget details, database table objects and financial aid award processes to ensure consistency with respective cost of education rules. We obtained the current Satisfactory Academic Progress (SAP) processing logic and determined assignment of SAP to students operates according to management's description, and correctly determines SAP based on 2.0 GPA for undergraduate and graduate students. We also confirmed specific system generated reports are reasonably constructed to provide necessary information to process users.

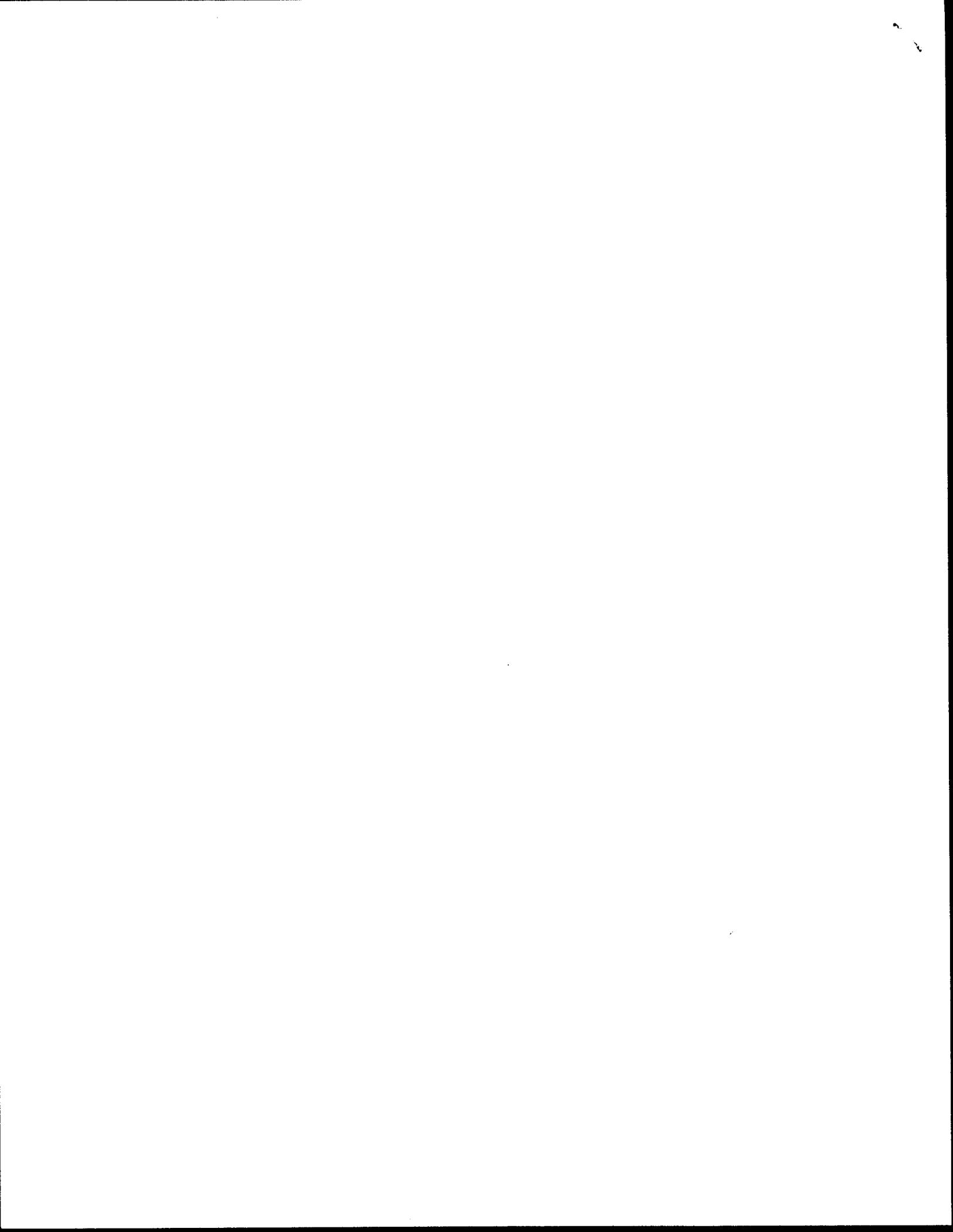
Banner Finance Conclusion

Based on the control testing and updates we performed, we conclude that the identified controls have not significantly changed from the prior MSU and UM Banner audits and prior audit assurances can be carried forward.

There is an important distinction between the controls that are delivered with Banner and how university staff implement or activate controls. Banner "baseline" is the term for delivered Banner software functionality. Banner provides the framework for the user to develop a chart of accounts (COA) based on internal account types and fund types. Both MSU and UM use a common chart of accounts for reporting their financial data.

Financial testing included confirming university-developed interface accepts valid transactions for processing while invalid transactions are identified, captured and reported. We reviewed the programming code and determined the logic and references are consistent with intended purpose. We verified that access to change chart of accounts validation and rule operators is limited to appropriate staff. We confirmed that UM-developed programming operated to facilitate month-end reporting and roll-forward of rejected (unposted) transactions to the next accounting period.

Both universities are subject to a reporting change made by the governmental accounting standards board (GASB). We tested to ensure Banner contained the new tables, forms, and details required to operate and provide GASB 35 functionality.



Each university developed a State Interface Process to upload Banner financial information to the state's accounting system, SABHRS. Banner data is extracted via a custom built program that summarizes and translates finance activity to SABHRS format. We extracted the programming and determined the coding is consistent with MSU and UM purpose and process documentation.

MSU uses Banner Research Accounting to track and record grant proposal, award, budget, accounting & billing, and termination. The Inception to Date Report (ITD) provides budget, expenditure, revenue, and billing information to the grantee, and MSU staff. The report is university developed and is used to monitor financial activity over the life of the grant. To determine the Report selects and reports the appropriate information, we obtained the report program coding and confirmed the Banner database sources of the report contents are consistent MSU staff descriptions, documentation and intended report use.

Banner Human Resource

Based on the control testing and updates we performed, we conclude that the identified controls have not significantly changed from the prior MSU and UM audits and prior audit assurances can be carried forward.

UM: All four UM campus locations (Missoula, Butte, Dillon, and Helena) use the same database to record and process HR data. HR staff at each location is responsible for their campus payroll input and output monitoring and reconciliation. UM Missoula campus initiates HR processing for all campus locations. Payroll is processed through a series of user-initiated jobs and a Banner production log is generated to ensure each job is run in the proper sequence.

MSU: All four MSU campus locations (Bozeman, Billings, Great Falls, and Havre) use the same database to record and process HR data. HR staff at each location is responsible for their campus payroll input, for initiating processing, and monitoring and reconciling output. MSU has segmented its Banner database to differentiate between Bozeman and its outlying campuses; therefore, payroll-processing jobs are run against separate campus information rather than consolidated information.

Human Resource testing included confirming system access to critical HR forms restricts incompatible responsibilities and ensuring the process for adding employees, establishing a position, and time entry is controlled. We confirmed security over critical HR forms limits system access and input functions to appropriate individuals, and only authorized users have access to production data.

We identified the database tables used in paycheck calculations, containing current federal and state tax and retirement deduction rates. We validated the system tables contained the accurate rates consistent with Federal and State laws. To ensure controls exist over direct deposits processed by the university's Banner HR systems, we observed the validation controls over the direct deposit feed.

To ensure system changes to Banner baseline processing operate in a controlled environment, we determined the implementation process for system modifications to ensure testing and monitoring is performed in a test environment prior to implementing in production.



LEGISLATIVE AUDIT DIVISION

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Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

November 2003

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial related audit of Montana State University (all campuses) for the two fiscal years ended June 30, 2003. To accomplish the objectives we previously had in our biennial financial-compliance audit of the university, we will issue a financial audit each fiscal year covering the fiscal year's consolidated financial statements of the university and a financial related audit every other year. The financial audit of Montana State University's consolidated financial statements for the fiscal year ended June 30, 2002, was issued in a separate report in January 2003 (02-29). The financial audit for fiscal year 2002-03 will be issued in December 2003.

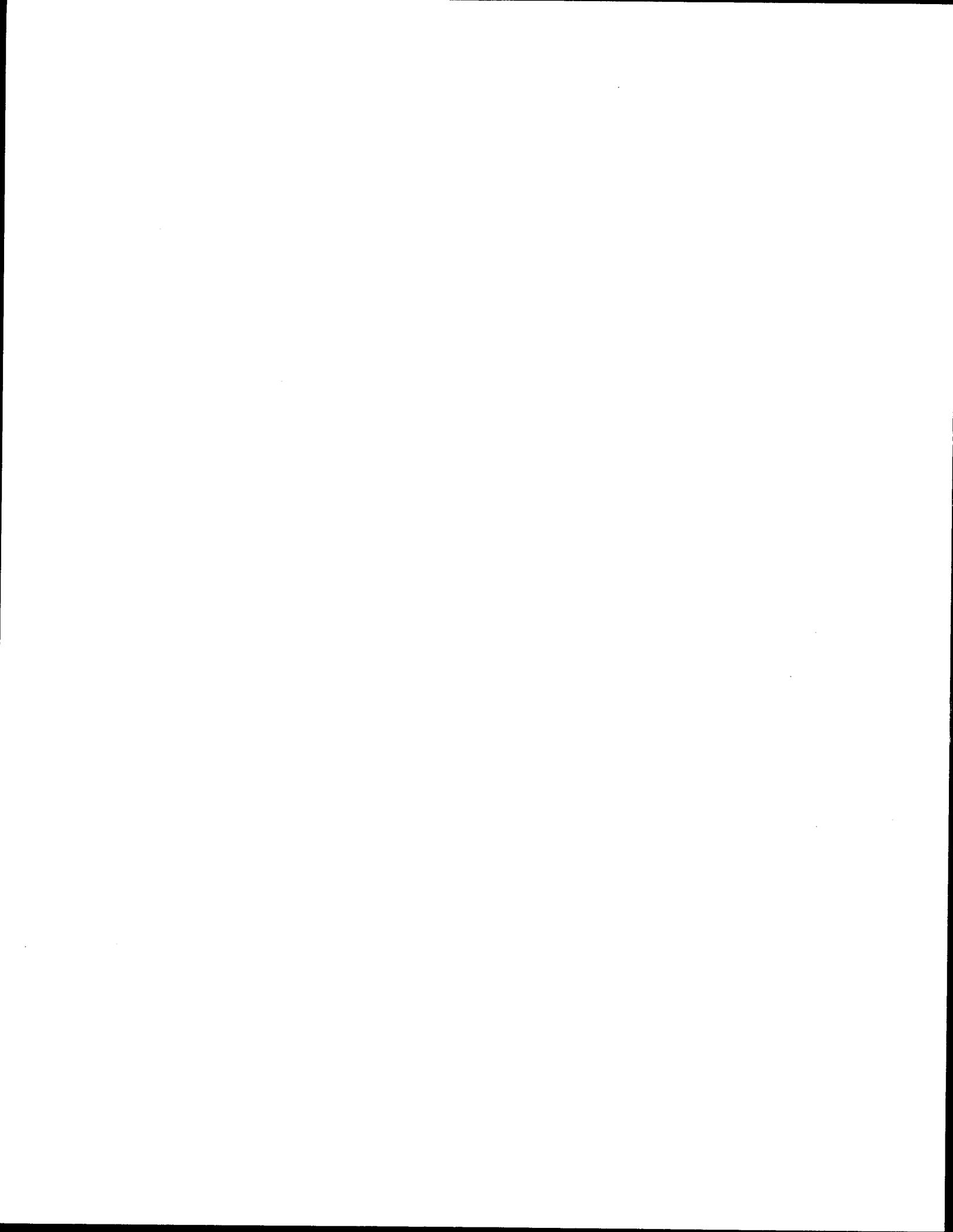
This report includes recommendations related to monitoring grants and contracts, financial aid, overtime, inventory, and compliance with state and federal regulations.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seecat".

Scott A. Seecat
Legislative Auditor



Legislative Audit Division

Financial Related Audit

For the Two Fiscal Years Ended June 30, 2003

Montana State University

Members of the audit staff involved in this audit were Hollie Koehler, Angela Lang, Jim Manning, Jennifer Solem, Jeff Tamblyn, and Joyce Weber.

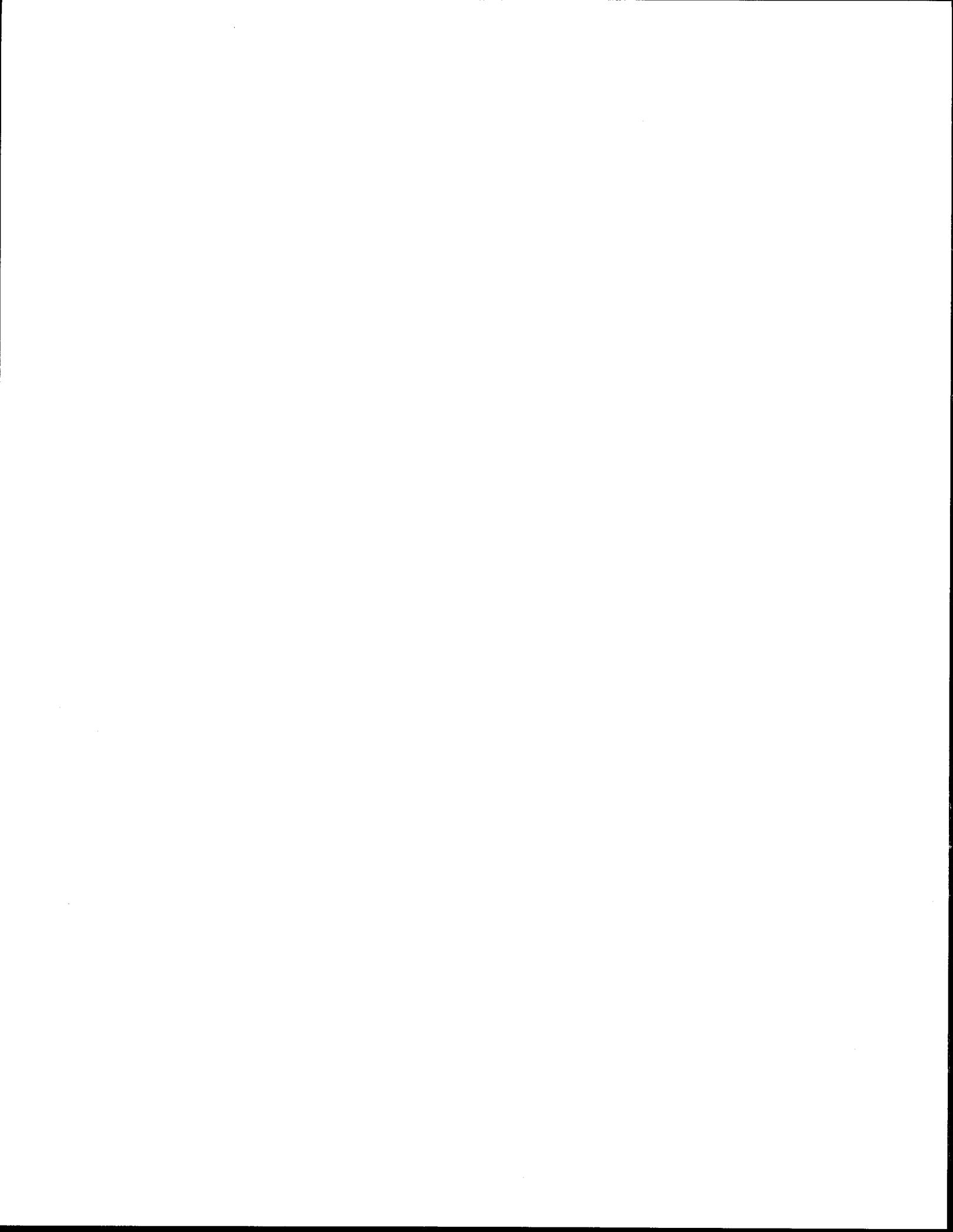


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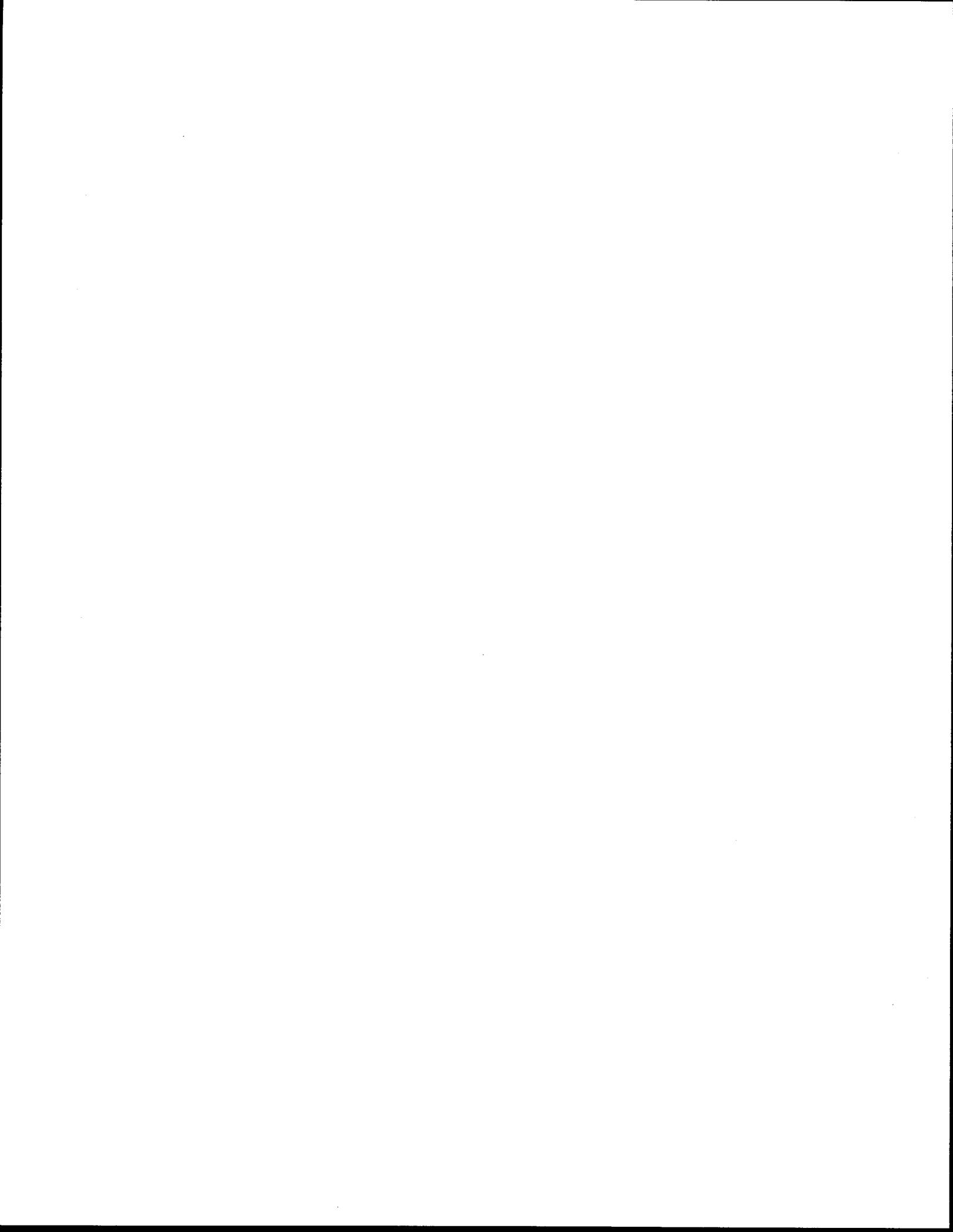
Montana State University – Northern

Alex Capdeville, Chancellor
Cheri Gimeno, Provost and Senior Vice Chancellor
Chuck Jensen, Vice Chancellor of Finance & Administration/Student Affairs
Carrie Molitor, Controller

Appointed and Administrative Officials

**Montana State University –
Great Falls College of
Technology**

Mary Moe, Dean
Mary Ellen Baukol, Assistant Dean for Business and Finance
Ed Binkley, Controller



Introduction

Audit Objectives

We performed a financial related audit of Montana State University (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 state and federal 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.

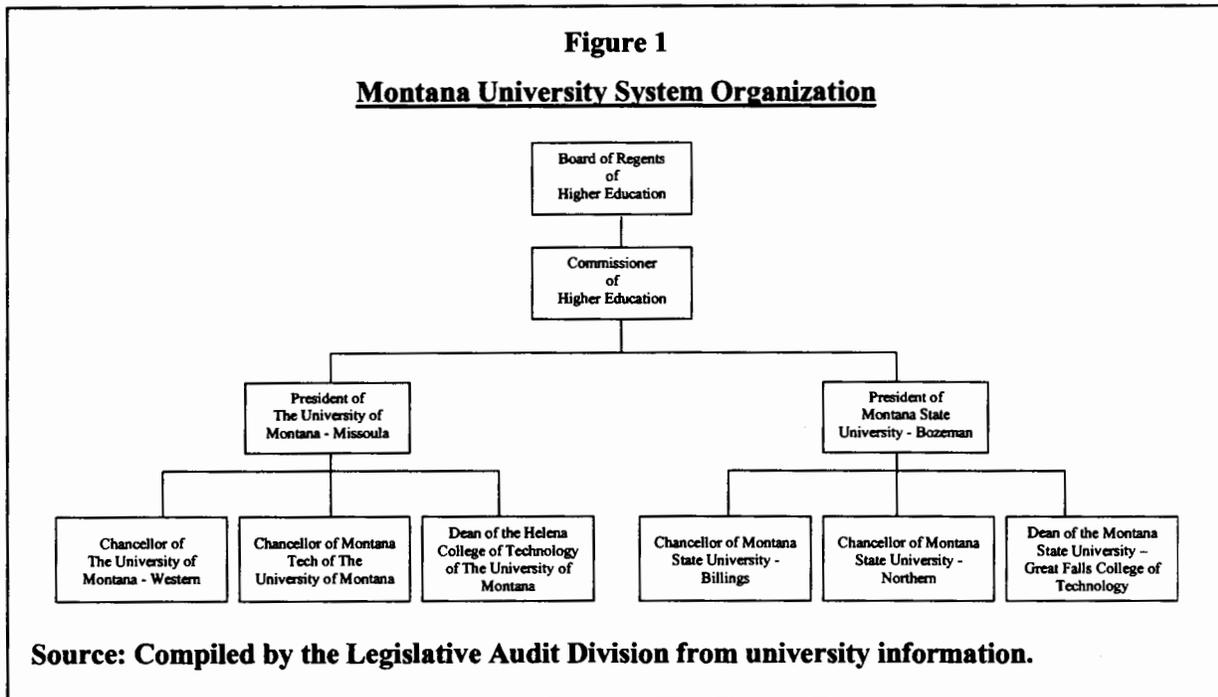
The fiscal year 2002-03 consolidated financial statements of Montana State University will be audited by our office and a separate report will be issued in December 2003.

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.

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



Montana State University consists of four campuses:

- ▶ Montana State University – Bozeman (MSU-Bozeman)
- ▶ Montana State University – Billings (MSU-Billings)
- ▶ Montana State University-Northern at Havre and Great Falls (MSU-Northern)
- ▶ Montana State University- Great Falls College of Technology (MSU GF-COT)

All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of Montana State University provide undergraduate and graduate academic and two-year vocational-technical programs to students.

Introduction

Montana State University reported employee FTE (full-time equivalent positions) of 3,894.13 for fiscal year 2003. Of these positions, contract faculty positions were 1,215.93 FTE. The following table shows reported fiscal year 2003 FTE employees by campus and type.

Table 1
Montana State University
Full-Time Equivalent Employees
Fiscal Year 2003

Agency	Contract Faculty	Contract Administrative	Contract Professional	Classified	Graduate Assistants	Part-Time & Other	Total
MSU – Bozeman	683.29	47.47	280.20	968.21	184.72	380.79	2544.68
MSU – Billings	192.83	26.74	59.44	206.03	9.78	55.29	550.11
MSU - Northern	93.02	6.75	50.50	84.35	.66	40.40	275.68
MSU - College of Tech, Great Falls	62.30	3.00	12.80	41.75		1.65	121.50
Agricultural Experiment Station	85.41	.63	40.09	82.72	10.68	14.08	233.61
Extension Service	94.19	1.00	8.07	37.97		18.84	160.07
Fire Services Training School	4.89			3.49		0.10	8.48
Total	1215.93	85.59	451.10	1424.52	205.84	511.15	3894.13

Source: Office of Commissioner of Higher Education "MUS Operating Budgets 2002-2003"
Schedule CHE 113.

Introduction

The following table shows actual student full-time equivalent (FTE) for fiscal year 2003.

MSU-Bozeman		
Resident:	Undergraduate	7,442.67
	Graduate	<u>641.62</u>
	Total Residents	8,084.29
Non-Resident:	Undergraduate	1,898.84
	Western Undergraduate Exchange	453.58
	Graduate	<u>237.76</u>
	Total Non-Residents	2,590.17
Grand Total MSU-Bozeman		10,674.46
MSU-Billings		
Resident:	Undergraduate	2,864.35
	Graduate	<u>262.15</u>
	Total Residents	3,126.50
Non-Resident:	Undergraduate	80.52
	Western Undergraduate Exchange	145.96
	Graduate	<u>29.21</u>
	Total Non-Residents	255.69
Grand Total MSU-Billings		3,382.19
College of Technology-Billings		
Resident:	Undergraduate	551.50
	Graduate	<u>0.00</u>
	Total Residents	551.50
Non-Resident:	Undergraduate	12.67
	Western Undergraduate Exchange	15.43
	Graduate	<u>0.00</u>
	Total Non-Residents	28.10
Grand Total COT- Billings		579.60
MSU-Northern		
Resident:	Undergraduate	1,230.77
	Graduate	<u>123.96</u>
	Total Residents	1,354.73
Non-Resident:	Undergraduate	43.30
	Western Undergraduate Exchange	6.20
	Graduate	<u>1.71</u>
	Total Non-Residents	91.21
Grand Total MSU-Northern		1,445.94
MSU-College of Technology-Great Falls		
Resident:	Undergraduate	1,040.36
	Graduate	<u>0.00</u>
	Total Residents	1,040.36
Non-Resident:	Undergraduate	12.54
	Western Undergraduate Exchange	0.20
	Graduate	<u>0.00</u>
	Total Non-Residents	12.74
Grand Total MSU-COT-Great Falls		1,053.10
MSU TOTALS - ALL CAMPUSES		
Resident:	Undergraduate	13,129.65
	Graduate	<u>1,027.73</u>
	Total Residents	14,157.38
Non-Resident:	Undergraduate	2,047.86
	Western Undergraduate Exchange	661.37
	Graduate	<u>268.68</u>
	Total Non-Residents	2,977.91
Grand Total MSU Student FTE		17,135.28

University System Current Funds include appropriated moneys consisting of state General Fund, millage, tuition and fees, and interest earnings. Current Funds also include designated, auxiliary and restricted activity which is not appropriated. Allocations of the Montana University System state General Fund and millage appropriations to Montana State University are based upon the anticipated number of resident students and the cost of educating students. Personnel from the Commissioner of Higher Education's office indicate the General Fund support per resident student is based on a university system analysis of faculty salaries in states with similar per capita income, the academic program offerings of the university, the necessary support expenditures and the proportion of the cost of education to be paid by resident students. The commissioner's office indicated in fiscal year 2003, resident students paid tuition and fees which amounted to 37 percent of the anticipated cost of education.

Montana State University- Bozeman

MSU-Bozeman campus was founded in February 1893 as the Agricultural College of the State of Montana. The university is a land-grant institution, authorized by the Morrill Act of 1862, and receives part of its support from land-grant income. The campus offers four-year undergraduate programs along with master's and doctoral graduate programs. It includes the colleges of Agriculture, Arts and Architecture, Business, Education, Health and Human Development, Engineering, Letters and Science, Nursing, and Graduate Studies. Also included as part of the Bozeman campus are the Extension Service, the Agricultural Experiment Stations, and the Fire Services Training School which have facilities located in or near cities or towns throughout Montana.

Montana State University- Billings

MSU-Billings, established in 1927, consists of five colleges: the College of Arts and Sciences; the College of Business; the College of Education and Human Services; the College of Technology; and the College of Professional Studies and Lifelong Learning. MSU-Billings offers one-year and two-year certificate programs, associate degrees, and bachelor's and master's degrees, as well as pre-professional academic offerings in a number of fields.

Introduction

Montana State University-Northern

MSU-Northern is a regional, multipurpose educational center, serving students who seek both a technical and liberal arts education. MSU-Northern offers courses at two locations, the campus in Havre and facilities in Great Falls. Northern offers associate, bachelor's, and master's degrees. A master's degree program is offered in education, with options in counseling and development, elementary education, vocational education, and general science.

Montana State University-Great Falls College of Technology

GF-COT was established in 1969 and offers instruction leading to certificates in one-year programs and associate of applied science degrees in two-year programs in vocational-technical trades and industry. Programs include practical nursing, dental hygiene, office/secretarial, interior design technology, computer and information sciences, various health-related programs, auto body repair and refinishing, and business management/entrepreneurship.

Prior Audit Recommendations

Our office performed a financial-compliance audit of Montana State University (all campuses), for the two fiscal years ending June 30, 2001. The university concurred with all 13 recommendations contained in the report. Of these recommendations, the university implemented 12 recommendations and partially implemented 1 recommendation.

The recommendation that was partially implemented deals with physical inventories at MSU-Bozeman and is further discussed on page 16.

Findings and Recommendations

Grants and Contracts

MSU–Bozeman received approximately \$58.5 million in federal research funds in each of the fiscal years of our audit period. These funds are subject to state law and policy as well as federal regulations. Fiscal managers within the Grants and Contracts office monitor these grants. Individual principal investigators (PI) at the departments apply for and receive the grants. The departments are responsible for the research required by the grant while Grants and Contracts is responsible for ensuring all federal requirements are met. Federal requirements include proper identification of federal grant identification numbers, submission of timely financial reports, and ensuring only allowable expenditures are charged to the grants.

We noted instances where grant expenditures exceeded authorized budgets, grants were not properly closed out, and control procedures were not followed by fiscal managers. As discussed in the following sections, university management needs to improve controls over grants and contracts.

Overspent Grants and Untimely Closeouts

At the end of fiscal year 2003, there were nine fiscal managers who had 164 grants where expenditures exceeded the federal budget by a total of over \$850,000. Although not material to the total federal awards, the \$850,000 represents a commitment from a non-grant source or an unrecorded loan or expenditure from other university resources. We noted 71 of these grants had ended at least 90 days prior to fiscal year end. The dates when the grants had ended range back as far as February 1999. As of August 29, 2003, the grants had not gone through the closing process. Grants and Contracts closing procedures ensure all grant agreement requirements have been met, all reports were submitted, and cost sharing was correct. University personnel stated they were aware the grants had been completed, but in some cases had not had time to go through the formal process of closing the grant.

In some instances, expenditures are still being charged to the grant fund even though the grant has ended. According to federal regulations, unless the federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under

Findings and Recommendations

the award no later than 90 calendar days after the funding period or the date of completion. The grants and contracts policy states it is the responsibility of each fiscal officer to review, on a monthly basis, his or her assigned accounts for expenditure levels, cash balances, project ending dates, and any fiscal activity that appears unusual.

In some instances, the fiscal officers indicated that the grants appeared to be overspent because some of the costs should be transferred to other grants or department budgets. University policies require any cost transfers (expenditure corrections) must be timely, within 90 days of the original transaction date, and must be approved by the Grants and Contracts Office. Officials stated they had not had time to go back and determine which costs might be approved for transfer.

Based on the number of grants that reflect overspent budgets at June 30, 2003, it is apparent that the university has not promptly taken action to resolve this problem. The university is not following its established controls system. Grants and Contracts should comply with university policies for grant monitoring. Fiscal officers should continuously monitor grants and when grant funds are becoming low they should estimate the cost to finish the grant project, request approval to use appropriate funds, and update the grant budget for these funds.

Recommendation #1

We recommend the university comply with its procedures to ensure:

- A. Expenditures do not exceed authorized budget amounts.**
- B. Expenditure corrections are made and grants are closed out within 90 days or according to grantor guidelines.**

Controls Over Grants and Contracts

We reviewed 30 grants and contracts and noted the following instances of non-compliance:

- ▶ Two grants were misclassified on the Schedule of Expenditures of Federal Awards (SEFA). One grant did not have a federal

Findings and Recommendations

identification number and therefore was not recorded as a federal grant, it was misclassified as a state grant and not reported on the SEFA. The other grant was reported on the SEFA with an incorrect federal identification number. Proper identification of each grant ensures the grants are recorded on the SEFA and identifies the specific federal regulations that apply to each grant. University policy requires this information be reviewed by the fiscal manager as part of the initial grant approval process. The fiscal manager stated this was an oversight on his part.

- ▶ Federal regulations require only time spent on grants be charged to grants. The university tracks time spent through time and effort reports. University policy requires the time and effort reports sent to all departments by Grants and Contracts be completed and returned to Grants and Contracts within 30 days. In June of 2003, we noted time and effort reports for the TechLink department had not been completed since January of 2003. TechLink personnel stated they haven't had time to complete the reports. Grants and Contracts personnel stated they recently hired additional staff to monitor the timeliness of the submission of time and effort reports by individual departments.
- ▶ We noted several grants for MSTA/NASA had not been invoiced timely. The last invoice was dated April 24, 2003. Funds spent totaled \$238,048, but the university has only received revenue of \$101,330. We noted one grant had not been invoiced since October 2002. The fiscal manager stated she had received this project from a former fiscal manager who had last invoiced the project in January 2002. She noted that the grant file contained five amendments that had not been signed and approved by the former fiscal manager so the university had not received any additional spending authority for this grant. Grants and Contracts policy states accounts will be billed monthly in an effort to collect funds in the timeliest manner possible. University personnel stated they had a large workload and got behind on the billing of some grants.
- ▶ We noted three grants where the Financial Status Report (SF269) and/or property reports had not been submitted timely. According to federal regulations, annual reports are due 90 calendar days after the grant year. University personnel stated they have not had time to prepare and submit the reports.

The instances noted above document areas where the university has not complied with its control procedures for its grants and contracts. In order to ensure compliance with university policies and ensure

Findings and Recommendations

compliance with federal regulations the university should improve management oversight.

Recommendation #2

We recommend the university comply with its controls over the grant monitoring process to ensure all state and federal requirements are met.

Student Financial Aid

Student financial aid is federal assistance including Perkins Loans, Federal Supplemental Educational Opportunity Grants, Federal Work-Study, Nursing Student Loans and the Scholarship for Health Professions Students From Disadvantaged Backgrounds. We reviewed compliance with federal regulations and Board of Regents' policy related to control and disbursement by the university of these monies. The following sections discuss instances where the university can improve compliance with federal regulations and Board of Regents' policy.

Financial Aid Refund Calculations

Students, who receive student financial aid, must return to the U.S. Department of Education any aid that is not earned by the student. For all but Federal Work-Study funds, which are earned as the student performs the job duties, students earn the financial aid by attending classes. Once students have attended 60 percent of their classes, they have earned all of their financial aid. A student who withdraws from the university prior to this 60 percent point has not earned all of their financial aid. The university is responsible for calculating the amount of financial aid that the student must return. According to federal regulations, the calculation to determine the amount of financial aid that a student has earned is based on the date that the student began the withdrawal process prescribed by the school.

At MSU-Bozeman, a student begins the withdrawal process by talking with the Dean of Students Office or the Graduate Studies Office. These offices obtain the information from the student and fill out an official withdrawal form for the student. The Dean of

Findings and Recommendations

Students Office notifies the financial aid office, where the amount of unearned financial aid is calculated based on the date of the notification. In three of the ten instances we reviewed, the notification date was not the date the student began the withdrawal process. In these three instances, if the correct date had been used, an additional \$1,800 should have been returned to the U.S. Department of Education.

Based on differences between the notification date and the withdrawal date, we identified a potential of 250 student accounts where the wrong date was used to calculate the amount of unearned financial aid during the fall 2002 and spring 2003 semesters. We did not recalculate the refund amount for each of the 250 students.

Recommendation #3

We recommend the university revise its refunding policy to ensure the correct date is used to calculate the amount of aid that must be returned to the U.S. Department of Education.

Student Receivables for Financial Aid Refund

Students who receive federal financial aid and withdraw early from the university are required to pay the U.S. Department of Education the amount of financial aid that was not earned.

The University is required to calculate the amount of unearned financial aid. MSU-Northern properly calculated the amount of financial aid that is required to be returned to the U.S. Department of Education and paid those amounts to the federal government on the student's behalf. Based on that amount, MSU-Northern incorrectly reduced tuition and fee revenues for each student. This is not in compliance with Board of Regents' policy. The university did not record an account receivable or collect from the student the funds that were returned to the Department of Education.

As a result, MSU-Northern tuition and fees revenue and receivables from students are understated by a total of \$23,049 during our audit period.

Findings and Recommendations

Recommendation #4

We recommend the university follow the Board of Regents' policy when issuing refunds.

Financial Aid Federal Reporting

Universities participating in certain financial aid programs are required to complete a Fiscal Operations and Application to Participate (FISAP) report. The report is due by October 1 of each year. It reports the activity of the completed award year and requests funds for the up coming award year.

The FISAP form is available on the web along with the instructions for completing each line item on the report. We reviewed a completed FISAP for each MSU campus. We noted errors in the MSU-Billings FISAP for the 2001-02 award year.

The America Reads and the Math Tutors programs are both 100 percent funded by the federal government. The instructions for the FISAP state that these programs should be reported at the total amount of federal funds expended. When preparing the FISAP, MSU-Billings made an error, assuming these programs are a 75 percent federal, 25 percent state match. This error under stated the total federal expenditures by \$1,081.

Additionally, the FISAP requires both the federal and non-federal share of community services compensation work study to be reported on separate lines. The university included the state share on the federal line item and on the state line item. This resulted in double reporting the state share and a total overstatement of \$17,010. University personnel stated they used the wrong number from the supporting documentation.

Recommendation #5

We recommend the university improve procedures to ensure the financial aid reports are accurate and prepared in accordance with federal requirements.

Findings and Recommendations

Schedule of Expenditures of Federal Awards (SEFA)

State agencies that receive federal financial assistance are required to prepare a Schedule of Expenditures of Federal Awards (SEFA) and submit it to the Governor's Office of Budget and Program Planning (OBPP) for inclusion in the state's Single Audit report. The SEFA is required to be submitted in August of every year for the preceding fiscal year.

Federal regulations require the SEFA to include: all individual federal programs by federal agency; identification of the grant as direct, subgrant, or passthrough; the total federal money expended for each federal program; and the catalog of federal domestic assistance (CFDA) number. We found the following errors in the schedules submitted:

- ▶ The SEFA submitted by MSU–Bozeman in August of 2002 for fiscal year 2001-02 was incomplete. A total of 39 out of approximately 1,100 grants were omitted from the schedule. These grants totaled approximately \$1.6 million. Nearly one third of this amount was due to the omission of the college work study grant in the amount of \$464,627.
- ▶ The fiscal year 2001-02 MSU–Bozeman SEFA misclassified the Leveraging Educational Assistance Partnership Grant (LEAP-formerly SSIG). The grant is from the Office of the Commissioner of Higher Education (CHE). The grant was classified as a direct grant on the SEFA and should have been a subgrant since it came from another state agency.
- ▶ The SEFA submitted by MSU–Northern for fiscal year 2001-02 was missing its LEAP grant. The SEFA was understated by \$14,777. University personnel stated Guaranteed Student Loan personnel told them they could classify both the federal and state share of LEAP as state. Therefore it was not categorized as federal and not included on the SEFA.
- ▶ The SEFA submitted by MSU–Billings for fiscal year 2002-03 reported the wrong Federal Perkins Loan outstanding balance as of June 30, 2003 in the SEFA Notes. The amount reported omitted the current portion of the loans outstanding, understating the total loans outstanding by \$587,452.
- ▶ The SEFA submitted by MSU–Billings for fiscal year 2001-02 reported the wrong expenditure amounts for two grants. The

Findings and Recommendations

SEOG grant, was overstated by \$15,952 and college work- study was understated by the same amount.

The SEFA errors noted above were caused by a variety of factors. Performing more timely reconciliation, increasing communications and coordination between the person who prepares the schedule and the Grants & Contracts and Financial Aid offices, and management reviews of the schedule could help reduce these errors in the future. When errors or omissions are detected, the university officials should submit corrections to OBPP.

Recommendation #6

We recommend the university ensure the Schedule of Expenditures of Federal Awards is complete and accurate before submitting it to OBPP.

Time Reporting

State policy requires overtime be paid when hours worked exceed 40 in a work week. University policy further states that salaried part-time employees working more than their normal work week should show additional hours as extra hours worked, not overtime. Extra hours are paid at the base wage rate while overtime is paid at time and a half. We noted the following instances of incorrect overtime at MSU-Bozeman:

- ▶ A position was budgeted at three-quarter time, but the employee was working full-time hours. The employee was working 36 to 40 hours each week and charging the time above 30 hours to overtime, not extra hours.

We estimate the employee was overpaid approximately \$2,185 between April 2002 and June 2003 based on the misclassification of hours.

- ▶ An employee was budgeted for two part-time positions. The employee working in these positions agreed to perform additional duties for a flat fee of \$500 a month for a certain number of months. The department converted the \$500 into overtime hours on the employee's timesheet. Therefore, the payroll records are inaccurate and do not reflect actual hours worked.

Findings and Recommendations

- ▶ The job duties of a vacant position in one department were distributed to remaining staff. A dollar value was placed on the additional job duties performed and overtime hours were calculated for each employee equal to the dollar value placed on the duties. Their timesheets were charged the calculated overtime hours. The employees were paid for the additional duties they completed, however, the timesheets do not reflect actual hours worked, but rather estimates to compensate for the additional duties. Approximately \$5,100 was paid in overtime that was not supported by accurate time records.

Recommendation #7

We recommend the university:

- A. Use proper coding for hours worked in excess of the amount the position is budgeted for, and**
- B. Follow state policy for charging overtime.**

FICA Taxes

During the prior audit we noted students working for MSU-Northern and enrolled for less than one-half time did not have appropriate Social Security taxes withheld from their pay. In addition, the university did not pay its share of the tax for these employees. The IRS requires that a student be enrolled at least on a half-time basis to be eligible for a Social Security tax exemption.

MSU-Northern personnel implemented procedures to ensure they withhold Social Security taxes from those students that drop below six credit hours. However, they have not paid the appropriate back taxes to the federal government. According to university calculations, the amount owed was approximately \$7,700. They determined this amount was immaterial. Failure to pay these taxes results in an unpaid tax liability and may subject the university to penalty and interest charges on this liability.

Recommendation #8

We recommend the university pay the amount of taxes due the federal government.

Findings and Recommendations

Fixed Assets

State accounting policy requires the universities' fixed asset records be updated every time a fixed asset is purchased or disposed of. A physical count of fixed assets is required every two years. Federal requirements further state equipment records should be maintained accurately and include a description, the serial number, source of equipment, acquisition date and cost, location, who the title vests with, and disposition data.

Montana State University implemented its BANNER accounting system in fiscal year 1998-99. Initially, BANNER was unable to produce the necessary reports needed to perform an inventory. At the end of fiscal year 2001-02, BANNER reports were available for this purpose.

In response to our prior audit recommendation, university personnel stated they plan to update the inventory twice a year. The property manager will do a physical count every other year. Currently, inventory lists are available electronically and departments are responsible for checking the list and ensuring the inventory properly represents their department. They are required to report to the property department concerning whether the list is accurate or needs additions or reductions.

We reviewed the inventory lists for MSU-Bozeman and selected 20 items. We visited the department where the records indicated the item was located and attempted to verify the information on the inventory list was accurate. We noted the following exceptions:

- ▶ Two computers were no longer in service and had been cannibalized, but were still on the inventory list.
- ▶ Two computers were located but the serial number on the computers did not match the serial number on the inventory list.

We reviewed the MSU-Great Falls College of Technology inventory list and selected 10 items. We located the items and attempted to verify the information on the inventory list was accurate for the item selected. We noted the following exceptions:

Findings and Recommendations

- ▶ Two items were not located.

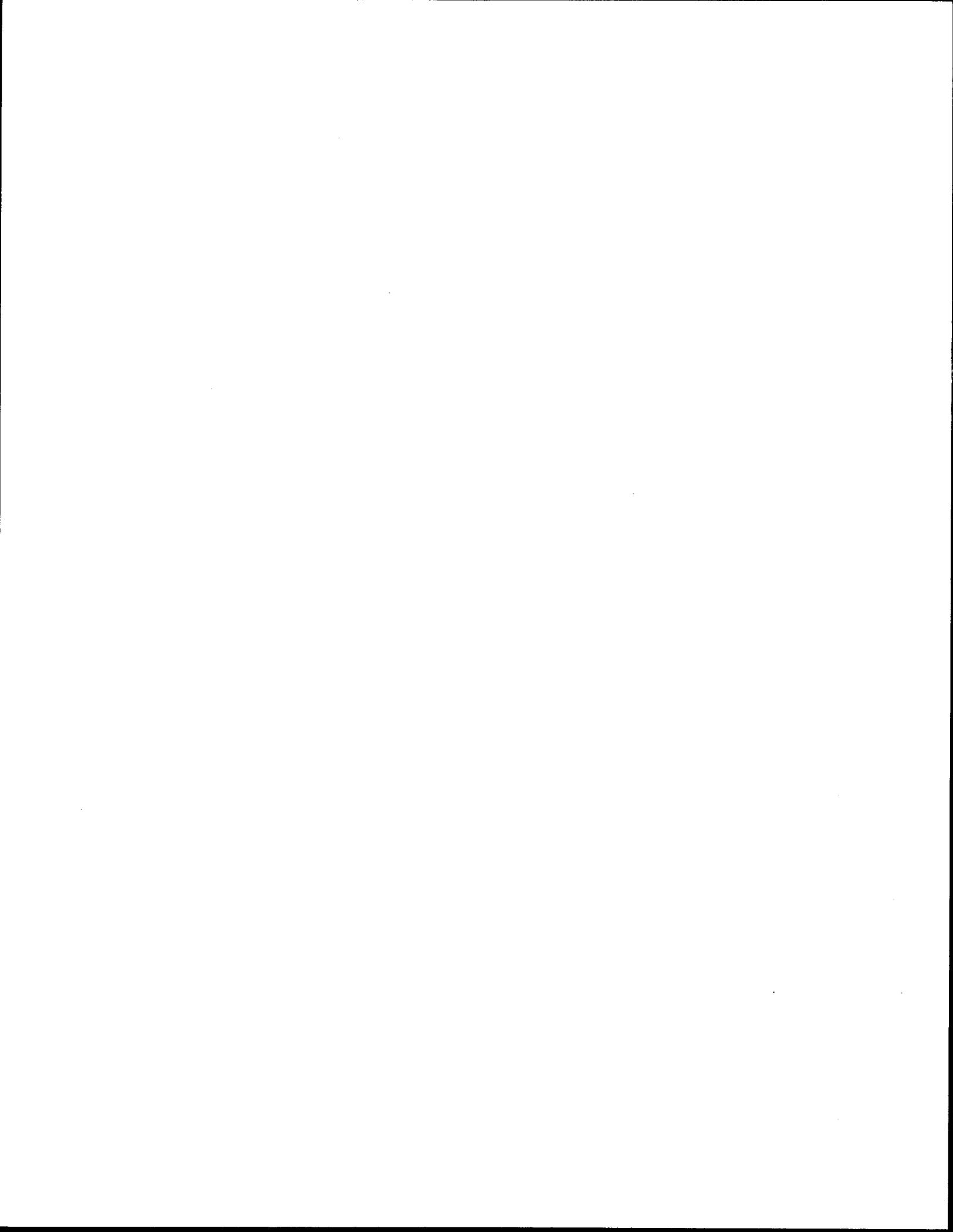
University faculty indicated that a blood gas analyzer, used in respiratory therapy classes, was disposed of several years ago.

Auto body equipment valued at approximately \$66,000 was not located. Upon further research, university staff determined the item on the property list was acquired during the construction of the auto body shop. The asset on the list is possibly an assortment of tools and equipment that should be listed separately on either the capital assets list or the minor equipment list.

- ▶ One item had no property tag.
- ▶ One item had an incorrect property tag.

Recommendation #9

We recommend the university strengthen its controls for recording and tracking fixed assets.



University Response



RECEIVED
NOV 20 2003
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November 21, 2003

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

Dear Mr. Seacat:

Enclosed you will find Montana State University's responses to the recommendations of our Financial Related Audit Report.

Montana State University would like to thank the Legislative Audit Division for their diligent efforts in the Financial Related Audit for the two fiscal years ended June 30, 2003. As MSU continues to experience tremendous growth in sponsored research, we particularly appreciate your work in those areas.

Sincerely,

Geoffrey Gamble
President

Enclosure

MONTANA STATE UNIVERSITY
Response to Audit Recommendations
Financial Related Audit for the Two Fiscal Years Ended June 30, 2003

Recommendation #1

We recommend the university comply with its procedures to ensure:

- A. Expenditures do not exceed authorized budget amounts.
- B. Expenditure corrections are made and grants are closed out within 90 days or according to grantor guideline.

Montana State University partially concurs with A and concurs with B.

- A. Expenditures charged to grantors have not exceeded grantor's authorized budget amounts. Thus, the expenditures noted in the recommendation have no bearing on compliance with the grantor's authorized budget or compliance with federal reporting requirements. However, the expenditures noted in the recommendation are a result of an accounting matter internal to MSU-Bozeman. We will reevaluate our policies and accounting practices in response to this recommendation.
- B. We will make expenditure corrections and grant closures in compliance with University policy and grantor guidelines.

Recommendation #2

We recommend the university comply with its controls over the grant monitoring process to ensure all state and federal requirements are met.

Montana State University concurs.

Recommendation #3

We recommend the university revise its refunding policy to ensure the correct date is used to calculate the amount of aid that must be returned to the U.S. Department of Education.

Montana State University concurs and has necessary made process corrections.

Recommendation #4

We recommend the university follow the Board of Regents' policy when issuing refunds.

Montana State University concurs and has already implemented corrective measures. In addition, the university will review the students' accounts described in this finding and make appropriate changes.

Recommendation #5

We recommend the University improve procedures to ensure the Financial Aid Reports are accurate and prepared in accordance with federal requirements.

Montana State University concurs and has already implemented corrective measures.

Recommendation #6

We recommend the University ensure the Schedule of Expenditures of Federal Awards is complete and accurate before submitting it to OBPP.

Montana State University concurs. Written procedures have been developed to ensure that adequate review of the Schedule of Expenditures of Federal Awards is performed prior to its submission to OBPP. Necessary corrections have been submitted to OBPP.

Recommendation #7

We recommend the university:

- A. Use proper coding for hours worked in excess of the amount the position is budgeted for, and
- B. Follow state policy for charging overtime.

Montana State University concurs. Additionally, we must also adhere to contract language of our unions regarding overtime.

Recommendation #8

We recommend the university pay the amount of taxes due the federal government.

Montana State University concurs and will comply by the end of this calendar year.

Recommendation #9

We recommend the university strengthen its controls for recording and tracking fixed assets.

Montana State University concurs.

