



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Commissioner of
Higher Education*

*For the Two Fiscal Years Ended
June 30, 2009*

SEPTEMBER 2009

LEGISLATIVE AUDIT
DIVISION

09-20

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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.

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, 2007, was issued January 23, 2008. The Single Audit Report for the two fiscal years ended June 30, 2009, will be issued by March 31, 2010. Copies of the Single Audit Report can be obtained by contacting:

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

September 2009

The Legislative Audit Committee
of the Montana State Legislature:

This is the report on our financial-compliance audit of the Montana Office of the Commissioner of Higher Education (office) for the two fiscal years ended June 30, 2009. The objectives of this audit include determining whether the office's financial schedules present fairly, in accordance with state accounting policy, the results of operations for each of the two fiscal years ended June 30, 2009, and documenting the status of the six recommendations from the prior audit. We also tested compliance with laws related to operations of the department.

The Commissioner of Higher Education is responsible for providing leadership, technical assistance, and staff support to the Board of Regents and the units of the university system. Duties of the office include academic planning and curriculum reviews, budgetary planning and control, legal services and labor negotiation policies and procedures. The office conducts its operations in, but not limited to, the following programs; Administration Program, Student Assistance Program, Guaranteed Student Loan Program, and MUS Group Insurance Program. Other smaller programs include the Board of Regents Administration, Community College Assistance and Tribal College Assistance programs.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial schedules and accompanying notes. We have issued an unqualified opinion on the office's financial schedules.

The office implemented the six audit recommendations from the prior audit report. Any issues resulting from this financial-compliance audit have been discussed with office management. The office's response to this report is on page B-1.

We thank the Commissioner and her staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Board of Regents of Higher Education	Lynn Morrison-Hamilton	Havre	Feb. 1, 2013
	Stephen M. Barrett, Chair	Bozeman	Feb. 1, 2012
	Todd Buchanan	Billings	Feb. 1, 2014
	Clayton Christian, Vice Chair	Missoula	Feb. 1, 2015
	Robert Barnosky, Student Regent	Butte	June 30, 2010
	Dr. Janine Pease	Billings	Feb. 1, 2011
	Lila Taylor	Busby	Feb. 1, 2010
	Brian Schweitzer, Governor*		
	Sheila M. Stearns, Ed. D, Commissioner of Higher Education*		
	Denise Juneau, Superintendent of Public Instruction*		
	*Ex Officio Member		
Commissioner of Higher Education	Sheila M. Stearns, Ed. D	Commissioner of Higher Education	
	Sylvia Moore	Deputy Commissioner for Academic and Student Affairs	
	Mick Robinson	Deputy Commissioner for Fiscal Affairs	
	Mary Sheehy Moe	Deputy Commissioner for Two-Year Education	
	Frieda Houser	Director, Budget and Accounting	
	Tyler Trevor	Associate Commissioner for Planning, Technology and Communication	
For additional information concerning the Office of the Commissioner of Higher Education, contact Frieda Houser at:			
2500 Broadway P.O. Box 203201 Helena, MT 59620-3201 (406) 444-0320 e-mail: fhouser@montana.edu			

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances and Property Held in Trust, Schedule of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Commissioner of Higher Education for each of the fiscal years ended June 30, 2009, and 2008. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Office of the Commissioner of Higher Education for each of the fiscal years ended June 30, 2009, and 2008, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 8, 2009

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND BALANCE: July 1, 2008	\$ (1,083,961)	\$ 1,531,353	\$ 18,796,338	\$ 0	\$ 36,367,090	\$ 59,352	\$ 0	\$ 242,416,338
PROPERTY HELD IN TRUST: July 1, 2008							\$ 0	
ADDITIONS								
Budgeted Revenues & Transfers-In	1,116,364	714,077	43,501,232		74,568,799	130,550		
Nonbudgeted Revenues & Transfers-In	1,228	177,523	205,870		61,334	1	(56,705)	14,423,215
Prior Year Revenues & Transfers-In Adjustments	(21,883)	(10,014)	(53,675)		(213,879)		56,705	
Direct Entries to Fund Balance	191,612,835	20,575,038		568,000	12,000			
Total Additions	192,708,544	21,456,624	43,653,427	568,000	74,428,254	130,551	0	14,423,215
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	192,404,434	19,150,075	41,110,134	568,000	74,398,239	110,249		
Nonbudgeted Expenditures & Transfers-Out		79,736	181,200		45,635	3,389		27,587,411
Prior Year Expenditures & Transfers-Out Adjustments	11,857							
Total Reductions	192,416,291	19,229,811	41,291,334	568,000	74,443,874	113,638	0	27,587,411
FUND BALANCE: June 30, 2009	\$ (791,708)	\$ 3,758,166	\$ 21,158,431	\$ 0	\$ 36,351,470	\$ 76,265	\$ 0	\$ 229,252,142
PROPERTY HELD IN TRUST: June 30, 2009							0	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund
FUND BALANCE: July 1, 2007	\$ <u>(93,927)</u>	\$ <u>3,289,371</u>	\$ <u>16,663,208</u>	\$ <u>27,061,679</u>	\$ <u>0</u>	\$ <u>0</u>
ADDITIONS						
Budgeted Revenues & Transfers-In	1,093,727	375,644	44,091,770	75,445,335	157,898	
Nonbudgeted Revenues & Transfers-In	1,285	51,328	5,697	10,880		57,486,415
Prior Year Revenues & Transfers-In Adjustments	(24)		(104,367)	(106)		40,135,540
Direct Entries to Fund Balance	<u>175,687,097</u>	<u>18,114,122</u>		<u>16,000</u>		<u>182,888,093</u>
Total Additions	<u>176,782,085</u>	<u>18,541,094</u>	<u>43,993,100</u>	<u>75,472,109</u>	<u>157,898</u>	<u>280,510,048</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	177,775,010	20,282,352	41,859,253	66,129,617	94,471	
Nonbudgeted Expenditures & Transfers-Out		16,760		42,730	4,075	20,628,568
Prior Year Expenditures & Transfers-Out Adjustments	<u>(2,891)</u>		<u>717</u>	<u>(5,649)</u>		<u>17,465,142</u>
Total Reductions	<u>177,772,119</u>	<u>20,299,112</u>	<u>41,859,970</u>	<u>66,166,698</u>	<u>98,546</u>	<u>38,093,710</u>
FUND BALANCE: June 30, 2008	\$ <u><u>(1,083,961)</u></u>	\$ <u><u>1,531,353</u></u>	\$ <u><u>18,796,338</u></u>	\$ <u><u>36,367,090</u></u>	\$ <u><u>59,352</u></u>	\$ <u><u>242,416,338</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Taxes	\$ 1,095,709	\$ (26,026)	\$ 1,574	\$ 273	\$ 1			\$ 1,071,531
Charges for Services		643,725	30,747,713	5,003,315				36,394,753
Investment Earnings		18,868	351,023	787,696			\$ (21,775,863)	(20,618,276)
Contributions and Premiums				67,306,519			36,199,078	103,505,597
Grants, Contracts, and Donations		188,198						188,198
Transfers-in		56,821	2,376,660					2,433,481
Inception of Lease/Installment Contract			181,200					181,200
Federal Indirect Cost Recoveries			371,524		130,550			502,074
Miscellaneous				453,841				453,841
Federal			9,623,733	864,610				10,488,343
Total Revenues & Transfers-In	1,095,709	881,586	43,653,427	74,416,254	130,551	0	14,423,215	134,600,742
Less: Nonbudgeted Revenues & Transfers-In	1,228	177,523	205,870	61,334	1	\$ (56,705)	14,423,215	14,812,466
Prior Year Revenues & Transfers-In Adjustments	(21,883)	(10,014)	(53,675)	(213,879)		56,705		(242,746)
Actual Budgeted Revenues & Transfers-In	1,116,364	714,077	43,501,232	74,568,799	130,550	0	0	120,031,022
Estimated Revenues & Transfers-In	1,141,293	490,000	41,926,536	78,058,819	102,469			121,719,117
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (24,929)	\$ 224,077	\$ 1,574,696	\$ (3,490,020)	\$ 28,081	\$ 0	\$ 0	\$ (1,688,095)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Taxes	\$ (24,929)							\$ (24,929)
Charges for Services		\$ 243,725	\$ 2,140,212	\$ 878,815				3,262,752
Investment Earnings		(16,469)	(277,760)	(762,365)				(1,056,594)
Monetary Settlements				(20,000)				(20,000)
Contributions and Premiums				(2,958,322)				(2,958,322)
Transfers-in		(3,179)	1,022,017					1,018,838
Federal Indirect Cost Recoveries			(186,558)		\$ 28,081			(158,477)
Miscellaneous				(617,758)				(617,758)
Federal			(1,123,215)	(10,390)				(1,133,605)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (24,929)	\$ 224,077	\$ 1,574,696	\$ (3,490,020)	\$ 28,081	\$ 0	\$ 0	\$ (1,688,095)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Taxes	\$ 1,094,988	\$ 2,852	\$ 1,741	\$ 158			\$ 1,099,739
Charges for Services		345,708	32,309,469	4,659,752			37,314,929
Investment Earnings		31,135	701,469	1,702,236		\$ 10,422,269	12,857,109
Monetary Settlements				5,720			5,720
Contributions and Premiums				66,760,368		87,199,686	153,960,054
Grants, Contracts, and Donations		47,277					47,277
Transfers-in			1,829,605				1,829,605
Federal Indirect Cost Recoveries			266,428		\$ 157,898		424,326
Miscellaneous				1,443,144			1,443,144
Federal			8,884,388	884,731			9,769,119
Total Revenues & Transfers-In	1,094,988	426,972	43,993,100	75,456,109	157,898	97,621,955	218,751,022
Less: Nonbudgeted Revenues & Transfers-In	1,285	51,328	5,697	10,880		57,486,415	57,555,605
Prior Year Revenues & Transfers-In Adjustments	(24)		(104,367)	(106)		40,135,540	40,031,043
Actual Budgeted Revenues & Transfers-In	1,093,727	375,644	44,091,770	75,445,335	157,898	0	121,164,374
Estimated Revenues & Transfers-In	1,091,293	680,000	52,667,980	77,297,283	307,190		132,043,746
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 2,434	\$ (304,356)	\$ (8,576,210)	\$ (1,851,948)	\$ (149,292)	\$ 0	\$ (10,879,372)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Taxes	\$ 2,434						\$ 2,434
Charges for Services		\$ (279,292)	\$ (4,215,882)	\$ (298,248)			(4,793,422)
Investment Earnings		(25,064)	(1,598,150)	(20,380)			(1,643,594)
Monetary Settlements				(14,280)			(14,280)
Contributions and Premiums				(1,879,875)			(1,879,875)
Transfers-in			(518,727)				(518,727)
Federal Indirect Cost Recoveries			(291,653)		\$ (149,292)		(440,945)
Miscellaneous				351,104			351,104
Federal			(1,951,798)	9,731			(1,942,067)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 2,434	\$ (304,356)	\$ (8,576,210)	\$ (1,851,948)	\$ (149,292)	\$ 0	\$ (10,879,372)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMINISTRATION PROGRAM	APPROPRIATION DISTRIBUTION	BOARD OF REGENTS-ADMIN	COMMUNITY COLLEGE ASSISTANCE	EDUCATIONAL OUTREACH & DIVERSITY	GUARANTEED STUDENT LOAN PROGRAM	IMPROVING TEACHER QUALITY	MUS GROUP INSURANCE PROGRAM	MUS WORKERS COMPENSATION PROGRAM	STUDENT ASSISTANCE PROGRAM	TRIBAL COLLEGE ASSISTANCE PROGRAM	WORK FORCE DEVELOPMENT PROGRAM	Total
Personal Services													
Salaries	\$ 1,715,898				\$ 645,720	\$ 1,663,715	\$ 9,680	\$ 226,362	\$ 63,930	\$ 94,031		\$ 279,549	\$ 4,698,885
Other Compensation			\$ 4,800										4,800
Employee Benefits	451,842				235,511	612,011	5,138	72,934	17,466	15,189		82,506	1,492,597
Personal Services-Other	2,166							12,573	2,475				17,214
Total	<u>2,169,906</u>		<u>4,800</u>		<u>881,231</u>	<u>2,275,726</u>	<u>14,818</u>	<u>311,869</u>	<u>83,871</u>	<u>109,220</u>		<u>362,055</u>	<u>6,213,496</u>
Operating Expenses													
Other Services	296,809		9,232		132,137	2,675,795		4,566,474	567,043	1,977,586		16,704	10,241,780
Supplies & Materials	87,140		2,515		62,532	42,494		24,270	611	562		9,767	229,891
Communications	62,087		1,711		17,513	202,623	3	10,313	2,600	3,083		7,704	307,637
Travel	124,644		24,202		200,144	42,264	890	12,002	1,509	5,255		30,892	441,802
Rent	192,178		676		49,958	46,278		10,196	6,571	1,415		29,763	337,035
Utilities	472				24,987					460			25,919
Repair & Maintenance	16,452		200		402	7,648		5,455		124			30,281
Other Expenses	69,244		7,526		273,932	896,533	1,679	937,949	29,600	12,986		28,567	2,258,016
Total	<u>849,026</u>		<u>46,062</u>		<u>736,618</u>	<u>3,938,622</u>	<u>2,572</u>	<u>5,566,659</u>	<u>607,934</u>	<u>2,001,471</u>		<u>123,397</u>	<u>13,872,361</u>
Equipment & Intangible Assets													
Equipment	104,463					13,314							117,777
Capital leases - equipment						181,200							181,200
Intangible Assets	15,524												15,524
Total	<u>119,987</u>					<u>194,514</u>							<u>314,501</u>
Local Assistance													
From State Sources	<u>92,215</u>			\$ <u>9,722,085</u>						<u>120,000</u>			<u>9,934,300</u>
Total	<u>92,215</u>			<u>9,722,085</u>						<u>120,000</u>			<u>9,934,300</u>
Grants													
From State Sources					1,307,891		345,342			12,501,688	\$ 943,548		13,445,236
From Federal Sources												3,388,343	5,041,576
From Other Sources										179,850			179,850
Total					<u>1,307,891</u>		<u>345,342</u>			<u>12,681,538</u>	<u>943,548</u>	<u>3,388,343</u>	<u>18,666,662</u>
Benefits & Claims													
To Individuals						23,157,196		64,845,726	3,010,701				3,010,701
Insurance Payments													88,002,922
Total						<u>23,157,196</u>		<u>64,845,726</u>	<u>3,010,701</u>				<u>91,013,623</u>
From Other Sources													
Distrib from Priv Purp Trusts										25,624,971			25,624,971
Total										<u>25,624,971</u>			<u>25,624,971</u>
Transfers-out													
Fund transfers					900,000	65,091						3,212,650	4,177,741
Intra-Entity Expense	<u>1,042,473</u>	\$ <u>184,741,096</u>											<u>185,783,569</u>
Total	<u>1,042,473</u>	<u>184,741,096</u>			<u>900,000</u>	<u>65,091</u>						<u>3,212,650</u>	<u>189,961,310</u>
Debt Service													
Capital Leases						30,798							30,798
Total						<u>30,798</u>							<u>30,798</u>
Other Post Employment Benefits													
Other Post Employment Benefits	<u>1,223</u>							14,670	2,444				18,337
Total	<u>1,223</u>							<u>14,670</u>	<u>2,444</u>				<u>18,337</u>
Total Expenditures & Transfers-Out	\$ <u>4,274,830</u>	\$ <u>184,741,096</u>	\$ <u>50,862</u>	\$ <u>9,722,085</u>	\$ <u>3,825,740</u>	\$ <u>29,661,947</u>	\$ <u>362,732</u>	\$ <u>70,738,924</u>	\$ <u>3,704,950</u>	\$ <u>40,537,200</u>	\$ <u>943,548</u>	\$ <u>7,086,445</u>	\$ <u>355,650,359</u>
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 3,747,842	\$ 165,312,269	\$ 50,862	\$ 9,722,085	\$ 77,701	\$ 867				\$ 12,471,026	\$ 943,548	\$ 90,091	\$ 192,416,291
State Special Revenue Fund	71,607	18,860,827			8,130					289,247			19,229,811
Federal Special Revenue Fund	341,743				3,739,909	29,661,080	\$ 362,732			189,516		6,996,354	41,291,334
Capital Projects Fund		568,000											568,000
Enterprise Fund								\$ 70,738,924	\$ 3,704,950				74,443,874
Internal Service Fund	113,638												113,638
Private Purpose Trust Fund										27,587,411			27,587,411
Total Expenditures & Transfers-Out	<u>4,274,830</u>	<u>184,741,096</u>	<u>50,862</u>	<u>9,722,085</u>	<u>3,825,740</u>	<u>29,661,947</u>	<u>362,732</u>	<u>70,738,924</u>	<u>3,704,950</u>	<u>40,537,200</u>	<u>943,548</u>	<u>7,086,445</u>	<u>355,650,359</u>
Less: Nonbudgeted Expenditures & Transfers-Out	74,996				8,130	181,200		40,715	4,919	27,587,411			27,897,371
Prior Year Expenditures & Transfers-Out Adjustments	(327)	12,184											11,857
Actual Budgeted Expenditures & Transfers-Out	<u>4,200,161</u>	<u>184,728,912</u>	<u>50,862</u>	<u>9,722,085</u>	<u>3,817,610</u>	<u>29,480,747</u>	<u>362,732</u>	<u>70,698,209</u>	<u>3,700,031</u>	<u>12,949,789</u>	<u>943,548</u>	<u>7,086,445</u>	<u>327,741,131</u>
Budget Authority	4,834,882	184,752,195	50,875	9,996,990	5,663,014	69,406,393	541,612	83,177,663	3,732,990	13,407,940	1,002,599	11,413,808	387,980,961
Unspent Budget Authority	\$ <u>634,721</u>	\$ <u>23,283</u>	\$ <u>13</u>	\$ <u>274,905</u>	\$ <u>1,845,404</u>	\$ <u>39,925,646</u>	\$ <u>178,880</u>	\$ <u>12,479,454</u>	\$ <u>32,959</u>	\$ <u>458,151</u>	\$ <u>59,051</u>	\$ <u>4,327,363</u>	\$ <u>60,239,830</u>
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 591,964	\$ 13,283	\$ 13	\$ 274,905	\$ 7,130					\$ 362,361	\$ 59,051	\$ 3,183	\$ 1,311,890
State Special Revenue Fund		10,000								12,782			22,782
Federal Special Revenue Fund	42,648				1,838,274	\$ 39,925,646	\$ 178,880			83,008		4,324,181	46,392,636
Enterprise Fund								\$ 12,479,454	\$ 32,959				12,512,413
Internal Service Fund	109												109
Unspent Budget Authority	\$ <u>634,721</u>	\$ <u>23,283</u>	\$ <u>13</u>	\$ <u>274,905</u>	\$ <u>1,845,404</u>	\$ <u>39,925,646</u>	\$ <u>178,880</u>	\$ <u>12,479,454</u>	\$ <u>32,959</u>	\$ <u>458,151</u>	\$ <u>59,051</u>	\$ <u>4,327,363</u>	\$ <u>60,239,830</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-11.

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMINISTRATION PROGRAM	APPROPRIATION DISTRIBUTION	BOARD OF REGENTS-ADMIN	COMMUNITY COLLEGE ASSISTANCE	EDUCATIONAL OUTREACH & DIVERSITY	GUARANTEED STUDENT LOAN PROGRAM	IMPROVING TEACHER QUALITY	MUS GROUP INSURANCE PROGRAM	MUS WORKERS COMPENSATION PROGRAM	STUDENT ASSISTANCE PROGRAM	TRIBAL COLLEGE ASSISTANCE PROGRAM	WORK FORCE DEVELOPMENT PROGRAM	Total
Personal Services													
Salaries	\$ 1,683,344				\$ 554,837	\$ 1,768,109	\$ 10,558	\$ 244,283	\$ 62,238	\$ 95,043		\$ 307,758	\$ 4,726,170
Other Compensation			\$ 6,000										6,000
Employee Benefits	473,796				203,765	652,026	4,108	81,804	16,686	12,462		112,616	1,557,263
Personal Services-Other	2,902							10,938	1,481				15,321
Total	2,160,042		6,000		758,602	2,420,135	14,666	337,025	80,405	107,505		420,374	6,304,754
Operating Expenses													
Other Services	165,156		605		175,231	2,135,051		3,873,752	450,020	1,512,502		27,316	8,339,633
Supplies & Materials	46,573		9,597		80,083	61,088		32,944	1,429	2,558		8,710	242,982
Communications	46,772		1,058		17,423	208,136	9	9,785	1,877	2,922		8,326	296,308
Travel	113,297		20,937		177,998	125,037	1,097	7,256	2,564	11,494		59,659	519,339
Rent	131,350		120		33,886	127,097		8,385	4,687	2,209		21,472	329,206
Utilities						23,941				434			24,375
Repair & Maintenance	924				348	7,906		5,099		800		89	15,166
Other Expenses	45,665		8,160		461,284	1,249,498	830	584,735	22,569	9,433		37,561	2,419,735
Total	549,737		40,477		946,253	3,937,754	1,936	4,521,956	483,146	1,542,352		163,133	12,186,744
Equipment & Intangible Assets													
Equipment	21,389					22,343							43,732
Total	21,389					22,343							43,732
Local Assistance													
From State Sources	28,425			\$ 9,366,893						116,000			9,511,318
Total	28,425			9,366,893						116,000			9,511,318
Grants													
From State Sources										10,995,487	\$ 911,403		11,906,890
From Federal Sources					915,547		221,786					2,728,064	3,865,397
From Other Sources										185,175			185,175
Total					915,547		221,786			11,180,662	911,403	2,728,064	15,957,462
Benefits & Claims													
To Individuals									2,475,792				2,475,792
OPEB Expenses	1,173							14,071	2,345				17,589
Insurance Payments						25,034,673		58,226,660					83,261,333
Total	1,173					25,034,673		58,240,731	2,478,137				85,754,714
From Other Sources													
Distrib from Priv Purp Trusts										36,590,016			36,590,016
Total										36,590,016			36,590,016
Transfers-out													
Fund transfers					911,705							3,073,647	3,985,352
Intra-Entity Expense	136,000	\$ 173,794,765											173,930,765
Total	136,000	173,794,765			911,705							3,073,647	177,916,117
Debt Service													
Bonds									25,298				25,298
Total									25,298				25,298
Total Expenditures & Transfers-Out	\$ 2,896,765	\$ 173,794,765	\$ 46,477	\$ 9,366,893	\$ 3,532,107	\$ 31,414,905	\$ 238,388	\$ 63,099,712	\$ 3,066,986	\$ 49,536,535	\$ 911,403	\$ 6,385,218	\$ 344,290,155
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 2,530,494	\$ 153,806,957	\$ 46,477	\$ 9,366,893	\$ 63,006	\$ 823				\$ 10,955,975	\$ 911,403	\$ 90,091	\$ 177,772,119
State Special Revenue Fund	5,054	19,987,808			12,706					293,544			20,299,112
Federal Special Revenue Fund	262,672				3,456,395	31,414,082	238,388			193,306		6,295,127	41,859,970
Enterprise Fund								\$ 63,099,712	\$ 3,066,986				66,166,698
Internal Service Fund	98,546												98,546
Private Purpose Trust Fund										38,093,710			38,093,710
Total Expenditures & Transfers-Out	2,896,766	173,794,765	46,477	9,366,893	3,532,107	31,414,905	238,388	63,099,712	3,066,986	49,536,535	911,403	6,385,218	344,290,155
Less: Nonbudgeted Expenditures & Transfers-Out	9,129				11,706			38,904	3,826	20,628,568			20,692,133
Prior Year Expenditures & Transfers-Out Adjustments	(3,783)				1,829	(12)		(799)	(4,850)	17,464,935			17,457,320
Actual Budgeted Expenditures & Transfers-Out	2,891,420	173,794,765	46,477	9,366,893	3,518,572	31,414,917	238,388	63,061,607	3,068,010	11,443,032	911,403	6,385,218	306,140,702
Budget Authority	4,273,804	177,586,814	46,801	9,519,843	4,569,196	48,966,206	385,000	69,838,174	3,320,000	11,688,813	957,002	9,695,625	340,847,278
Unspent Budget Authority	\$ 1,382,384	\$ 3,792,049	\$ 324	\$ 152,950	\$ 1,050,624	\$ 17,551,289	\$ 146,612	\$ 6,776,567	\$ 251,990	\$ 245,781	\$ 45,599	\$ 3,310,407	\$ 34,706,576
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 1,360,185	\$ 2,588,620	\$ 324	\$ 152,950	\$ 10,876	\$ 17				\$ 198,243	\$ 45,599	\$ 1,580	\$ 4,358,394
State Special Revenue Fund		1,203,429			(1,000)					7,929			1,210,358
Federal Special Revenue Fund	14,310				1,040,748	17,551,272	146,612			39,609		3,308,827	22,101,378
Enterprise Fund								\$ 6,776,567	\$ 251,990				7,028,557
Internal Service Fund	7,889												7,889
Unspent Budget Authority	\$ 1,382,384	\$ 3,792,049	\$ 324	\$ 152,950	\$ 1,050,624	\$ 17,551,289	\$ 146,612	\$ 6,776,567	\$ 251,990	\$ 245,781	\$ 45,599	\$ 3,310,407	\$ 34,706,576

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

Office of the Commissioner of Higher Education

Notes to the Financial Schedules For the Two Fiscal Years Ended June 30, 2009

1. Summary of Significant Accounting Policies

Basis of Accounting

The office 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, Capital Projects), and certain post employment healthcare plans. In applying the modified accrual basis, the office 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 office 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 office to record the cost of employees' annual and sick leave when used or paid.

The office uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the office 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 office 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 is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The office uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. This includes funds appropriated for general operations of the office and distributions to the university units and tribal and community colleges for their general operations.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. The majority of this activity is related to the mill levy distributions to the university units.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The Office Federal Special Revenue Funds include the Federal Family Education Loan Program (FFELP), the Vocational Education – Basic Grants to States grant, the Talent Search grant, and the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) award.
- ♦ **Capital Projects Fund** - established in fiscal year 2009 for the Office of the Commissioner of Higher Education to transfer \$568,000 in research funds to the campuses from House Bill 4.

Proprietary Fund Category

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Office Enterprise Funds include the MUS Worker's Compensation Program and MUS Group Insurance Program.
- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The Office Internal Service Fund records revenue collected from the MUS Group Insurance Program that is used to fund the central services provided by the administration program such as payroll and accounting.

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 (to the State) clearing account activity, but these must have a zero balance at fiscal year-end. The Office Agency Funds include college license plates, optional retirement funds, and Guaranteed Student Loan collections.
- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. The Office Private-Purpose Trust Fund includes the Montana Family Education Savings Program.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2009, and June 30, 2008.

3. Direct Entries to Fund Balance

The 2007 Legislature appropriated General Fund monies to the office for distribution to the units of the university system, the community colleges, and the tribal colleges. The funding for this activity is shown in the General Fund as Direct Entries to Fund Balance on the Schedules of Changes in Fund Balances, and the expenditure is shown as Intra-Entity Expense in the Appropriations Distribution Program, Local Assistance from State Sources in the Community College Assistance Program, and Grants from State Sources in the Tribal College Assistance Program on the Schedules of Total Expenditures & Transfers-Out.

Section 20-25-423, MCA, directs the legislature to levy property taxes to support, maintain, and improve the MUS. The state treasurer collects university property tax revenue and records it in a shared State Special Revenue Fund between the Office and Department of Revenue. These collections appear on the Schedule of Changes in Fund Balances as Direct Entries to Fund Balance in the State Special Revenue Fund totaling \$18,114,122 and \$20,575,038 in fiscal years 2007-08 and 2008-09, respectively.

4. Related Party Transactions

The Montana Guaranteed Student Loan Program (MGSLP) guarantees loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC). The Board of Regents of Higher Education and MHESAC have three common board members.

5. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (ARRA) was enacted by the United States Congress to preserve and create jobs and promote economic recovery.

The Office of Commissioner of Higher Education expects to receive ARRA funding totaling \$77,714,835 for the 2011 biennium appropriated in House Bill 645 of the 2009 Legislative Session. Of this amount, \$3,149,632 will be disbursed to the community colleges and, \$74,565,203 will be disbursed to the educational units during in fiscal

years 2009-10 and 2010-11. At the report date, the office is not anticipating any other federal funding through other competitive nor non-competitive grants or in non-monetary assistance. The office did not receive or spend any ARRA funds as of June 30, 2009.



MONTANA UNIVERSITY SYSTEM

Sheila M. Stearns
Commissioner of Higher Education

September 17, 2009

Tori Hunthausen, CPA
Legislative Auditor
Legislative Audit Division
State Capitol, Room 160
P.O. Box 201705
Helena MT 59620-1705

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SEP 21 2009

LEGISLATIVE AUDIT DIV.

Dear Ms Hunthausen:

On behalf of the Office of the Commissioner of Higher Education, I wish to express my appreciation to you and your staff for the work done on the financial-compliance audit of our agency for the two fiscal years ended June 30, 2009. We received an unqualified opinion with no recommendations. We are grateful for the sound counsel and effective communication from your staff that helped us to accomplish this. We want to especially thank the audit staff for their professional competence and helpful manner in conducting the audit.

Sincerely,

A handwritten signature in cursive script that reads "Sheila M. Stearns".

Sheila M. Stearns
Commissioner of Higher Education