



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-RELATED AUDIT

*Montana State  
University  
(All Campuses)*

*For the Two Fiscal Years Ended  
June 30, 2011*

OCTOBER 2011

LEGISLATIVE AUDIT  
DIVISION

11-13

**LEGISLATIVE AUDIT  
COMMITTEE**

**REPRESENTATIVES**

RANDY BRODEHL  
[brodehl@centurytel.net](mailto:brodehl@centurytel.net)

TOM BURNETT  
[Tburnetthd63@hotmail.com](mailto:Tburnetthd63@hotmail.com)

VIRGINIA COURT  
[Vjchd52@yahoo.com](mailto:Vjchd52@yahoo.com)

MARY McNALLY  
[mcnallyhd49@gmail.com](mailto:mcnallyhd49@gmail.com)

TRUDI SCHMIDT  
[trudischmidt@q.com](mailto:trudischmidt@q.com)

WAYNE STAHL, VICE CHAIR  
[wstahl@nemontel.net](mailto:wstahl@nemontel.net)

**SENATORS**

DEBBY BARRETT  
[grt3177@smtel.com](mailto:grt3177@smtel.com)

GARY BRANAE  
[garybranae@gmail.com](mailto:garybranae@gmail.com)

TAYLOR BROWN  
[taylor@northernbroadcasting.com](mailto:taylor@northernbroadcasting.com)

CLIFF LARSEN  
[cliff@larsenusa.com](mailto:cliff@larsenusa.com)

FREDRICK (ERIC) MOORE  
[mail@SenatorEricMoore.com](mailto:mail@SenatorEricMoore.com)

MITCH TROPILA, CHAIR  
[tropila@mt.net](mailto:tropila@mt.net)

MEMBERS SERVE UNTIL A  
MEMBER'S LEGISLATIVE TERM  
OF OFFICE ENDS OR UNTIL A  
SUCCESSOR IS APPOINTED,  
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE  
(STATEWIDE)  
1-800-222-4446  
(IN HELENA)  
444-4446

**FINANCIAL-RELATED AUDITS**

A financial-related audit is a component of the biennial financial-compliance audit. In these audits, the financial-related and financial audits are combined for a two-year period to constitute the financial-compliance audit. Financial-compliance audits are classified as financial audits according to Government Auditing Standards. The primary objectives of the financial-related audits are to determine compliance with regulations relating to contract and grant expenditures, other governmental financial assistance, and to test compliance with requirements of selected state laws, regulations, and rules. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and 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, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
Room 277, State Capitol  
P.O. Box 200802  
Helena, MT 59620-0802

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

---

**AUDIT STAFF**

---

DAVID BRAMMER	FRANK CORNWELL
JEANE CARSTENSEN-GARRETT	ALEXA O'DELL
DEON OLSON	VICKIE RAUSER
VANESSA SHAW	

---

Reports can be found in electronic format at:  
<http://leg.mt.gov/audit>

# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors  
Cindy Jorgenson  
Angie Grove

October 2011

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, 2011. The financial-related audit focuses on compliance with federal requirements of the university's federal assistance programs. Tests of controls and compliance over requirements for these programs constitute an integral part of the testing required to support the Single Audit Report for the two fiscal years ended June 30, 2011. We also test compliance with selected state laws, university policies, and state accounting policies.

This audit report includes ten recommendations. Recommendations primarily relate to proper segregation of duties over cash collection and distribution functions, payment of overtime in accordance with university policy, internal controls over payroll tax withholdings, and compliance with various state laws and Board of Regents' policies.

Our prior financial-related audit report included six recommendations to the university. Of those, the university implemented three, partially implemented one, and did not implement two recommendations. Recommendations not fully implemented are further addressed by this report.

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

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor

## TABLE OF CONTENTS

Figures and Tables.....	ii
Appointed and Administrative Officials .....	iii
Report Summary .....	S-1
<b>CHAPTER I – INTRODUCTION.....</b>	<b>1</b>
Audit Objectives.....	1
Background.....	1
Montana State University Funding.....	5
Prior Audit Recommendations.....	5
Selective Service Registration .....	5
<b>CHAPTER II – FINDINGS AND RECOMMENDATIONS.....</b>	<b>7</b>
Internal Controls.....	7
Segregation of Duties .....	7
Student Account Refunds .....	8
Personnel Services .....	9
Overtime.....	9
FICA Tax Withholding.....	11
State Compliance .....	12
Nonresident Student Tuition Waivers .....	12
Cash Deposits .....	13
Military Selective Service .....	13
Donated Capital Assets .....	14
Indirect Cost Rate Policy .....	15
Equipment Inventory .....	16
<b>UNIVERSITY RESPONSE</b>	
Montana State University.....	A-1

## FIGURES AND TABLES

### Figures

Figure 1 Montana University System Organizational Chart ..... 2

### Tables

Table 1 Montana State University Full-Time Equivalent Employees ..... 4

Table 2 Student FTE by Resident Status ..... 4

Table 3 Student FTE by Academic Level..... 5

## APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Term Expires</u>
<b>Board of Regents of Higher Education</b> Clayton Christian, Chair	February 1, 2015
Todd Buchanan, Vice Chair	February 1, 2014
Stephen Barrett	February 1, 2012
Angela McLean	February 1, 2017
Lynn Morrison-Hamilton**	February 1, 2013
Major Robinson	February 1, 2018
Teresa Borrenpohl, Student Regent	June 30, 2011
Sheila M. Stearns, Commissioner of Higher Education*	
Brian Schweitzer, Governor*	
Denise Juneau, Superintendent of Public Instruction*	

\*Ex officio members

\*\*Resigned in September 2011

<b>Office of the Commissioner of Higher Education</b>	Sheila M. Stearns	Commissioner of Higher Education
	Mick Robinson	Deputy Commissioner for Fiscal Affairs/ Chief of Staff
	Sylvia Moore	Deputy Commissioner for Academic, Research and Student Affairs
	John Cech	Deputy Commissioner for Two-Year and Community College Education
	Tyler Trevor	Associate Commissioner for Planning and Analysis
	Kevin McRae	Associate Commissioner for Communications & Human Resources
	Catherine Swift	Chief Legal Counsel
	Frieda Houser	Director of Accounting and Budget

<b>Montana State University– All Campuses</b>	Waded Cruzado	President
	Leslie Taylor	Legal Counsel
	Daniel Adams	Director of Institutional Audit & Advisory Services
<b>Montana State University– Bozeman</b>	Martha Potvin	Provost and Vice President for Academic Affairs
	Terry Leist	Interim Vice President for Administration and Finance
	Thomas McCoy	Vice President for Research, Creativity, and Technology Transfer
	Allen Yarnell	Vice President of Student Success
	Douglas Steele	Vice President for External Relations
	Jim Rimpau	Vice President for Planning and Chief Information Officer
	Thomas Calcagni	Executive Director of University Communications
	Laura Humberger	Assistant Vice President for Financial Services
	Leslie Schmidt	Assistant Vice President for Research, Creativity and Technology Transfer
	Brandi Payne	Director of Financial Aid
	Kathy Attebury	Director of University Budgets
<b>Montana State University– Billings</b>	Rolf Groseth	Chancellor
	Mark Pagano	Provost
	Gary Young	Academic Vice Chancellor
	Terrie Iverson	Vice Chancellor for Administrative Services
	Stacy Klippenstein	Vice Chancellor of Student Affairs
	LeAnn Anderson	Director of Financial Services
	Jim Nielsen	Director of Business Services
Liz Tooley	University Budget Director	

<b>Montana State University– Northern</b>	Joseph Callahan	Interim Chancellor
	Rosalyn Templeton	Provost and Vice Chancellor for Academic Affairs
	Lindsey Brown	Dean of Students/Registrar
	Sue Ost	Director of Business Services
	Chris Wendland	Accountant/Budget Officer
<b>Montana State University– Great Falls</b>	Joe Schaffer	Dean and CEO
	Mary Ellen Baukol	Associate Dean of Administration and Finance
	Heidi Pasek	Associate Dean and Chief Academic Officer
	Judy Hay	Assistant Dean of Student Services
	Ed Binkley	Controller
	Deby Gunter	Budget and Fiscal Director
<b>Montana Agricultural Experiment Station</b>	Jeffrey Jacobson	Director
	Jody Barney	Budget and Fiscal Director
<b>MSU Extension</b>	Douglas Steele	Director
	Sandra Rahn Gibson	Budget and Fiscal Director

For additional information concerning the Montana State University (all campuses), contact:

Daniel Adams, Director of Institutional Audit & Advisory Services  
 Hamilton Hall, Room 118  
 Bozeman, MT 59717  
 (406) 994-7035  
 e-mail: [danieladams@montana.edu](mailto:danieladams@montana.edu)



# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-RELATED AUDIT

### Montana State University (All Campuses)

#### For the Two Fiscal Years Ended June 30, 2011

OCTOBER 2011

11-13

REPORT SUMMARY

Montana State University (MSU) consists of four campuses located in Bozeman, Billings, Havre, and Great Falls. It also provides outreach and continuing education to people in the communities of Montana through its Montana Agricultural Experiment Station, MSU Extension, and Fire Services Training School. For fiscal year 2010-11, the university served just under 19,000 students, 79 percent of which were Montana residents. We identified continuing compliance deficiencies related to nonresident student tuition waivers, payment of overtime, and hiring practices.

### Context

Montana State University (MSU) is one of two universities in the state. All campuses are accredited by the Northwest Commission on Colleges and Universities. Collectively, the campuses provide undergraduate and graduate academic and two-year vocational-technical programs to students.

MSU–Bozeman was founded as the state’s agricultural college in 1893. MSU–Bozeman managed approximately \$103 million and \$109 million in grant funds in fiscal years 2010-11 and 2009-10, respectively. MSU–Billings offers two-year certificate programs, associate degrees, and bachelor’s and master’s degrees at its two locations. MSU–Northern offers courses and associate, bachelor’s, and master’s degree programs at three locations, including Havre, Lewistown, and Great Falls. MSU–Great Falls College of Technology offers two-year degrees and certificate programs preparing students for careers in health sciences, business, and technology. For fiscal year 2010-11, MSU employed 4,371.40 full-time equivalent employees.

### Results

Our prior audit report included six recommendations to the university. Of those, the university implemented three, partially implemented one, and did not implement two recommendations.

This audit report includes ten recommendations. Recommendations primarily relate to proper segregation of duties over cash collection and distribution functions, payment of overtime in accordance with university policy, internal controls over payroll tax withholdings, and compliance with various state laws and Board of Regents’ policies.

Recommendation Concurrence	
Concur	9
Partially Concur	1
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (11-13) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
Report Fraud, Waste, and Abuse to the Legislative Auditor’s FRAUD HOTLINE  
Call toll-free 1-800-222-4446, or e-mail [lad@mt.gov](mailto:lad@mt.gov).

# Chapter I – Introduction

## **Audit Objectives**

We performed a financial-related audit of Montana State University (all campuses) for the two fiscal years ended June 30, 2011. The objectives of the audit were to:

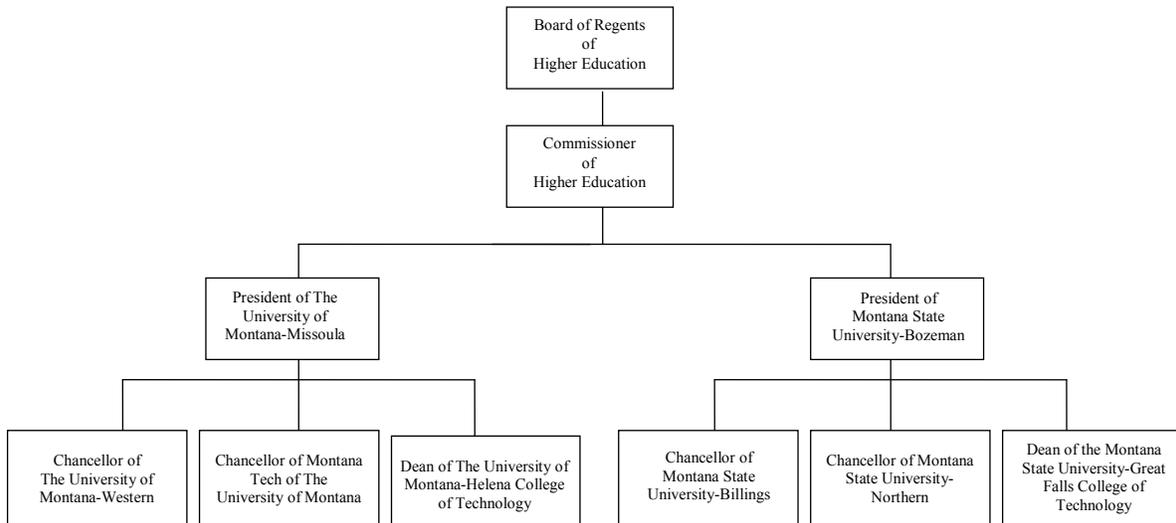
1. Determine whether the university complied with federal regulations applicable to Student Financial Aid, Research and Development, and Stabilization Cluster programs.
2. Determine whether the university complied with selected state laws and regulations and Board of Regents' policies applicable to university operations.
3. Provide university management with recommendations for improvements in its internal and management controls.
4. Determine the implementation status of the prior audit recommendations.

In accordance with §5-13-307(2), MCA, we analyzed the cost of implementing the recommendations made in this report. The report sections disclose the cost, if significant, of implementing the recommendations.

## **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.

Figure 1  
**Montana University System Organizational Chart**



**Source: Compiled by the Legislative Audit Division from university information.**

Montana State University consists of four campuses:

- ◆ Montana State University–Bozeman (MSU–Bozeman)
- ◆ Montana State University–Billings (MSU–Billings)
- ◆ Montana State University–Northern (MSU–Northern)
- ◆ Montana State University–Great Falls–College of Technology (MSU–GF)

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

MSU–Bozeman was founded in February 1893 as the Agricultural College of the State of Montana. The university is a land-grant institution, established 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, Gallatin College programs, and Graduate School. Also included as part of the Bozeman campus is the MSU Extension, the Montana Agricultural Experiment Station, and the Fire Services Training School which provide outreach and continuing education to people in Montana communities.

MSU–Billings, established in 1927, consists of five colleges: the College of Arts and Sciences, the College of Business, the College of Education, the College of Technology, and the College of Allied Health Professions. 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.

MSU–Northern is a regional, multipurpose educational center, serving students who seek both a technical and liberal arts education. MSU–Northern offers courses at three locations, including Havre, Lewistown and Great Falls. MSU–Northern offers associate, bachelor’s, and master’s degrees. A master’s degree program is offered in education, with options in counseling and learning development, and general science.

Established in 1969 as a vocational-technical center, MSU–GF now serves as a comprehensive two year college within the Montana University System. MSU–GF offers Associate of Applied Science degrees and certificates preparing students for high-demand careers in Health Sciences, Business, and Technology. In addition, MSU–GF offers the Associate of Arts degree and the Associate of Science degree for students interested in completing the first two years of a bachelor’s degree in Great Falls.

Montana State University reported employee full-time equivalent (FTE) positions of 4,371.40 for fiscal year 2010-11. Of these positions, 1,334.18 FTE were contract faculty positions. The following table shows budgeted fiscal year 2010-11 FTE employees by campus and type.

Table 1  
**Montana State University Full-Time Equivalent Employees**  
 Fiscal Year 2011 - Budgeted All Funds

Agency	Contract Faculty	Contract Administrative	Contract Professional	Classified	Graduate Assistants	Part-Time & Other	Total
MSU-Bozeman	825.20	26.73	616.79	957.87	224.55	377.51	<b>3,028.65</b>
MSU-Billings	201.24	28.13	92.68	217.51	7.95	43.75	<b>591.26</b>
MSU-Northern	85.47	6.27	63.62	58.75		32.21	<b>246.32</b>
MSU-GF	74.30	4.00	32.15	63.75		9.50	<b>183.70</b>
Montana Agricultural Experiment Station	76.56	0.65	34.36	68.18	5.32	10.91	<b>195.98</b>
MSU Extension	70.19	1.00	16.77	28.94		0.07	<b>116.97</b>
Fire Services Training School	1.22		5.15	2.15			<b>8.52</b>
<b>Total</b>	<b>1,334.18</b>	<b>66.78</b>	<b>861.52</b>	<b>1,397.15</b>	<b>237.82</b>	<b>473.95</b>	<b>4,371.40</b>

**Source: Compiled by the Legislative Audit Division from Office of the Commissioner of Higher Education "MUS Operating Budgets 2011."**

The following tables show Montana State University student FTE enrollment for fiscal years 2010-11 by residential status and academic level.

Table 2  
**Student FTE by Resident Status**  
 For Fiscal Year 2010-11

Campus	Resident	Nonresident	Western Undergraduate Exchange	Total
MSU-Bozeman	8,452	2,930	438	<b>11,820</b>
MSU-Billings	4,127	149	280	<b>4,556</b>
MSU-Northern	1,015	47	93	<b>1,155</b>
MSU-GF	1,387	23	5	<b>1,415</b>

**Source: Compiled by the Office of Commissioner of Higher Education.**

Table 3  
**Student FTE by Academic Level**  
 For Fiscal Year 2010-11

Campus	Underclassmen	Graduate	Two-Year	Total
MSU–Bozeman	10,465	1,075	280	<b>11,820</b>
MSU–Billings	3,162	341	1,053	<b>4,556</b>
MSU–Northern	1,094	61		<b>1,155</b>
MSU–GF			1,415	<b>1,415</b>

**Source: Compiled by the Office of the Commissioner of Higher Education.**

## Montana State University Funding

The Montana State Legislature sets the state support for the Montana University System. The legislature appropriates general fund and six-mill levy revenues in a lump sum for the educational units. The Board of Regents (board) then allocates the lump sum appropriation to the various programs and educational units. Personnel from the Commissioner of Higher Education's office indicated the board's formula that allocates state funds to the educational units is based upon resident enrollment, an analysis of faculty salaries in states with similar per capita income, the academic program offerings of the university, the necessary support expenditures, board priorities, and the amount of state funds available. The Legislative Fiscal Division calculated state support for resident students at 38.1 percent of the anticipated cost of their education in fiscal year 2010-11.

## Prior Audit Recommendations

Our office performed the financial-related audit of Montana State University (all campuses), for the two fiscal years ending June 30, 2009. Of the six recommendations included in the prior audit report, the university implemented three, partially implemented one, and did not implement two recommendations. Recommendations not implemented relating to overtime at MSU–Bozeman and nonresident student tuition waivers are further discussed on pages 9 and 12, respectively. The partially implemented recommendation is discussed below.

## Selective Service Registration

Our prior audit report recommended MSU–Bozeman perform selective service registration verification. Section 2-15-130(1), MCA, prohibits the Montana University System from employing an individual who has knowingly and willfully failed to comply with federal Military Selective Service requirements. Staff in Human Resources at MSU–Bozeman noted continued challenges with the selective service verification

requirements, indicating that required documents are not always completed and returned to the Human Resources office as required. MSU–Bozeman is in the process of implementing an electronic method to track and review that selective service registration is verified for all newly hired employees, as applicable. Because MSU–Bozeman has made progress in this area, we make no further recommendation at this time. Compliance with selective service registration requirements at MSU–Northern is discussed beginning on page 13.

## Chapter II – Findings and Recommendations

### Internal Controls

During our audit we reviewed controls over cash collections, deposits, and recordkeeping at various locations within the university. State accounting policy requires state agencies to implement internal control procedures to ensure all transactions necessary for compliance with generally accepted accounting principles are recorded on the state's accounting system before fiscal year-end, and to develop appropriate internal control procedures based upon their business processes. The state's Internal Control Guidebook specifies management should establish internal control policies and procedures designed to safeguard assets, and to periodically conduct reviews, tests and analyses of internal controls to ensure proper operation. An effective system of internal controls provides reasonable assurance that the procedures for collections and deposits are performed properly and reduces the potential for theft or misuse of funds or state resources. The following two sections discuss how Montana State University (MSU) can improve its internal controls.

### **Segregation of Duties**

---

**MSU–Bozeman Student Health Services, MSU–Billings Campus Police, and Fire Services Training School do not have adequate segregation of duties over cash collection, deposit, and recordkeeping functions.**

---

The state's Internal Control Guidebook suggests the responsibility for custody and recordkeeping for cash collections be segregated to avoid placing employees in a position to perpetrate and conceal errors or irregularities in the normal course of their duties. During the audit, we identified the following locations where segregation of duties should be improved.

- ◆ MSU–Billings, Campus Police – collects payments for parking permits and various parking violations. One employee is responsible for creating deposits, reconciling the financial reports, and updating the permit/fine database. MSU–Billings personnel indicated that the university does not have documented internal control procedures for the Campus Police department.
- ◆ MSU–Bozeman, Student Health Services – collected over \$100,000 in cash payments for various health services provided to university students and staff during the audit period. Health care workers indicate the services provided, and the patient's medical bill is generated based on rates established in the university's medical billing system. At the end of the appointment, the patient checks out at the cashier station, and makes payment arrangements for amounts not covered by insurance. The cashier enters payments received and creates daily deposit slips. During the audit, we noted the cashier had user rights in the medical billing system allowing her to change medical billing

codes. We also identified that the cashier could modify the payment type after processing a payment on a patient. Student Health Services staff were not aware that the cashier's user rights caused incompatible responsibilities between custody and recordkeeping.

- ◆ Fire Services Training School (FSTS) - collects approximately \$200,000 annually in payments for various training school fees. One employee is responsible for entering transactions in the accounting system, creating deposits, and reconciling financial reports. FSTS personnel indicated segregation of duties is difficult due to the small number of staff, and provided documentation that their cash collection policy did not include a segregation of duties requirement. However, other staff could review reports or perform reconciliations to address this issue.

Each location has assigned incompatible duties to staff since one person has responsibility for cash collection, custody, and/or recordkeeping functions. These locations should evaluate processes and establish procedures to properly segregate duties for cash collections processes.

---

#### ***RECOMMENDATION #1***

*We recommend the MSU–Billings Campus Police, MSU–Bozeman Student Health Services, and Fire Services Training School segregate duties over cash collections processes, as appropriate for university business, in accordance with state accounting policy.*

---

## **Student Account Refunds**

---

**MSU–Great Falls College of Technology does not have adequate controls over tuition and fee refunds placing the university at risk for inappropriate refunds of tuition and fee revenue.**

---

Costs incurred by students of Montana State University–Great Falls College of Technology (MSU–GF) are funded from a variety of sources including student payments as well as payments from third parties, such as scholarship funds. At the end of each semester, MSU–GF runs a report to identify students and third parties entitled to refunds. Refunds are issued via a check. MSU–GF staff indicated they issued approximately \$800,000 in refunds for summer session 2011, and amounts are substantially higher for fall and spring semesters.

We reviewed the refund process and found one employee runs the refund report, prints refund checks, and mails refund checks. In addition, this employee also is responsible for creating and updating third party payee accounts. In combination, these job duties

would allow the employee to direct payments to entities not entitled to receive refund checks. MSU–GF administration was not aware of the incompatible responsibilities. At the time of our audit, MSU–GF did not have a secondary review of the refund process in place, or of changes to third party payee accounts.

---

***RECOMMENDATION #2***

*We recommend MSU–GF implement internal controls over its tuition and fee refund process to properly safeguard assets, as appropriate for university business, in accordance with state accounting policy.*

---

## **Personnel Services**

The Human Resources Department administers the personnel and payroll processes at MSU–Bozeman. The following sections discuss ways in which the university can improve compliance with policies related to human resource activities.

### **Overtime**

---

**MSU–Bozeman did not implement a prior audit recommendation and continues to pay overtime not documented in accordance with university policy.**

---

MSU–Bozeman personnel policies require employees to report all hours actually worked and any leave taken each pay period on their timesheets. Calculation of the 40-hour week for employees eligible for overtime is based on time in pay status, including any holiday, annual leave, and sick leave. Supervisors have the responsibility of reviewing each employee’s individual monthly timesheet and verifying that any extra hours worked, whether overtime or compensatory time, were in fact approved and closely match the employee’s original request to work overtime, and that all hours reported reflect the actual time that an employee worked or used leave. Our prior audit report included a recommendation that MSU–Bozeman implement procedures to detect and prevent overtime charges not documented in accordance with university policy.

We reviewed overtime at MSU–Bozeman, and made inquiries regarding eleven employees with more than 50 hours of overtime in a single month or a consistent number of overtime hours charged for consecutive months. We identified seven instances where overtime was not paid in accordance with university policy, as described below.

- ◆ Admissions employees have a regular 40-hour work week, beginning Sunday and ending Saturday. We examined timesheets for four admissions staff and confirmed Admissions employees continue to record time on an exception basis only, meaning only sick or vacation time used or overtime earned is recorded. Because actual time worked each day is not recorded on timesheets, it is impossible to determine whether overtime hours claimed and paid were actually earned. One Admissions employee was paid for 29.5 overtime hours recorded on a single day.
- ◆ One Animal and Range Sciences employee claimed and was paid for 145 overtime hours in a single month. University controls identified the high number and questioned the department, but were told the overtime was valid. The department later reported the employee had not been properly trained in recording his time, but declined to recover any improper payment from the employee.
- ◆ One Graduate School staff was paid \$650 per month for five months using overtime hours charged to another department. University staff explained this was payment for teaching one class for a semester, which was in addition to the employee's regular job duties.
- ◆ One Political Science department staff was paid \$200 per month for four months for organizing a conference. Documentation provided by the university indicates the dollar amount was agreed-upon, and overtime hours were recorded to achieve the amount paid to the employee.

The last two instances described above relate to situations where full-time classified staff who were eligible for overtime assumed additional responsibilities for a short period of time. University policy addresses these situations and specifies methods to properly calculate and pay the additional compensation, but policy excludes classified staff eligible to receive overtime from this practice. Because university policy did not allow additional compensation for the employees noted above, the additional compensation was paid using equitable number of overtime hours. Recording overtime on the accounting records could lead to a conclusion that the university is understaffed.

Human Resources (HR) staff review an overtime report monthly and confirm the validity of overtime charged in excess of 40 hours with department personnel. HR relies on departments to review time records as required by policy and does not review individual timesheets for compliance. HR only considers overtime incurred within a single month, and does not perform any analysis of overtime incurred over a period of months by the same staff. The current processes in place at MSU–Bozeman do not verify overtime at the level of detail necessary to detect and correct the type of noncompliance found during the past two audits.

---

**RECOMMENDATION #3**

*We recommend MSU–Bozeman implement procedures to detect and correct overtime charges not documented according to university policy.*

---

## **FICA Tax Withholding**

---

### **MSU–Bozeman did not withhold FICA taxes in accordance with Internal Revenue Service regulations.**

---

Students actively in the pursuit of study who also maintain employment with the university are exempt from FICA taxes, as outlined by Board of Regents' policy and federal tax regulations. When these employees are no longer employed in student positions, university staff must make manual changes to the employee's profile in the payroll system to activate rather than exempt the employee's earnings from FICA taxes. MSU–Bozeman identified a problem in this manual process in August 2010 and developed a report to identify employees whose taxes were not withheld correctly. At this time, MSU–Bozeman identified two employees whose earnings were not properly taxed, and required the employees to repay approximately \$2,700 over a four month period in taxes not properly withheld from their prior paychecks. Human Resources staff cited simultaneous turnover in two positions as the reason the manual changes did not occur in a timely manner.

Human Resources staff intended to run the report quarterly, but had not run the report again as of July 14, 2011. When we asked for a list of employees who were formerly student employees, university staff ran the report and identified four current employees whose taxes have not been properly withheld in calendar year 2011. After identifying these errors, the university began the process to recollect the \$638 not properly withheld from employee wages. Running the report on a regular basis will allow the university to identify and correct errors on a timely basis.

---

**RECOMMENDATION #4**

*We recommend MSU–Bozeman comply with FICA withholding requirements as required by Internal Revenue Service regulations.*

---

## State Compliance

### Nonresident Student Tuition Waivers

---

**The university continues to violate state law and Board of Regents' policy in awarding tuition waivers to nonresident students.**

---

Section 20-25-421(2), MCA, and Board of Regents' (board) policy generally limit waivers of tuition for selected and approved nonresident students for each university unit to two percent of the full-time equivalent enrollment at that unit during the preceding year. Our prior audit noted the university exceeded the two percent limit, and we recommended the university comply with state law. The university partially concurred with this recommendation, indicating that the law enacted in 1971 was effectively repealed in 1972 with amendments to the Montana Constitution. We disagree with the university's position. Section 20-25-421, MCA, has been amended several times since 1971, and the limit on nonresident tuition waivers remains in effect. In addition, board policy requires waivers of out-of-state tuition for out-of-state students be limited to the two percent level discussed above. Board policy further specifies the two percent limit applies to all undergraduate, graduate and athletic waivers.

In awarding tuition waivers to nonresident students, the university exceeded the limit specified in state law in each year of our audit period. We estimate the value of tuition waivers granted in excess of the limit at approximately \$2.4 million annually. At their November 2010 meeting, the board authorized the university to set nonresident tuition for graduate research and teaching assistants at 100 percent of resident tuition, indicating that it is a national trend to admit graduate students at in-state rates to remain competitive. Because this is a reduction in tuition and not a tuition waiver, these students will be excluded from the calculation for nonresident student tuition waivers. The university plans to implement these changes beginning with summer session 2011. In addition, the university is working with the Office of the Commissioner of Higher Education to evaluate tuition waivers for nonresident undergraduates. Until such time as requirements in state law change, we continue with our prior audit recommendation regarding compliance with §20-25-421(2), MCA.

---

**RECOMMENDATION #5**

*We recommend the university limit nonresident student tuition waivers in compliance with state law and Board of Regents' policy.*

---

## Cash Deposits

---

### **MSU–GF did not deposit funds in accordance with state law.**

---

Section 17-6-105(6), MCA, requires state agencies deposit receipts with the state treasurer at least weekly, but requires daily deposit when the accumulated amount of coin and currency exceeds \$200 or total collections exceed \$750. State law also allows for modified deposit schedules if approved by the Department of Administration and the Board of Investments. During the audit, we noted MSU–GF prepares a daily deposit for all cash collection points on campus, but only makes deposits with the state treasury three times per week. MSU–GF staff contracted with an armored car service for three days per week, believing that to be cost effective, but staff was not aware of the requirements in state law. Personnel indicated they could update their contract to require daily pick up service, which will increase costs borne by the campus. Alternatively, MSU–GF could propose a modified deposit schedule, and if accepted, MSU–GF could maintain the current armored car contract.

---

#### ***RECOMMENDATION #6***

*We recommend MSU–GF deposit funds in accordance with state law.*

---

## Military Selective Service

---

### **MSU–Northern does not have procedures in place to ensure it does not hire individuals who are required to register with selective service and have not done so knowingly and willfully.**

---

Section 2-15-130(1), MCA, prohibits the Montana University System from employing an individual who has knowingly and willfully failed to comply with the registration requirements of the federal Military Selective Service Act. Our prior audit report included a recommendation that MSU–Bozeman ensure job applicants have registered with selective service, which the university is working to address. During the audit, we reviewed hiring practices at all four campuses and determined MSU–Northern did not have procedures in place to consider selective service registration. A human resources administrator indicated the campus had recently been made aware of the requirement but had not yet addressed it. As of July 2011, the administrator said a new form was included in their hiring packet.

---

**RECOMMENDATION #7**

*We recommend MSU–Northern implement procedures to verify job applicants are registered for selective service to ensure hiring decisions are made in compliance with state law.*

---

## **Donated Capital Assets**

---

### **MSU–Northern did not properly value donated assets on the state’s accounting records.**

---

In 2006, MSU–Northern received a donation of land, two buildings and a shop located in Lewistown, Montana. One building was then renovated for approximately \$850,000, also using donated funds. Since August 2007, the site is used as the campus for MSU–Northern at Lewistown.

We noted these assets were recorded based on the insurance value, not at the estimated fair market value at the time of receipt as required by state accounting policy. State accounting policy also requires any additions, betterments, and preservation costs be capitalized. The property is undervalued on the state’s accounting records by at least \$850,000. The university’s files did not contain documentation as to why the insurance value was selected when recording the assets on the state’s accounting records.

---

**RECOMMENDATION #8**

*We recommend MSU–Northern record donated assets at values in accordance with state accounting policy.*

---

## **Indirect Cost Rate Policy**

---

**Montana State University–Bozeman is not recovering indirect costs from state agencies at rates outlined in Board of Regents’ policy, resulting in under-collection of approximately \$1.7 million over a two year period.**

---

Indirect cost collections fund the university’s administrative costs for research and development programs. Board of Regents’ policy, which has not been revised since 1986, specifies indirect cost rates for various grant types, including grants from state agencies. MSU–Bozeman accepts indirect cost rates determined by the grantor, as documented in individual grant agreements. University staff said some state agencies refuse to include proper indirect cost rates in their grant agreements, or exclude indirect cost rates altogether. University staff said they have accepted these grants because state agencies have strongly suggested reducing grant funding to MSU–Bozeman if the Board of Regents’ required indirect cost rate was applied.

According to university projections, over a two-year period MSU–Bozeman expended approximately \$14.7 million in direct costs from state or federal moneys passed through various state agencies. On this direct amount, MSU–Bozeman received approximately \$1.7 million less in indirect cost reimbursement than what they would have collected if rates in board policy were followed. MSU–Bozeman’s acceptance of these agreements places fiscal pressures on program administration.

---

### **RECOMMENDATION #9**

*We recommend MSU–Bozeman:*

- A. *Work with the Board of Regents to establish an exception process when state agencies are unable or reluctant to pay the current prescribed indirect cost rate, and*
  - B. *Work with state agencies to recover indirect costs in accordance with Board of Regents’ policy.*
-

## Equipment Inventory

---

### **Montana Agricultural Experiment Station locations are not properly inventorying equipment.**

---

The Montana Agricultural Experiment Stations (MAES) are part of MSU–Bozeman operations. Various MAES locations obtain and maintain equipment to complete research projects at various locations throughout the state. State accounting policy requires agencies track items that are sensitive to theft, such as laptops and cell phones. MSU–Bozeman’s policy requires each department to use property tags for new equipment costing \$1,000 to \$4,999, and to track these items on a minor equipment inventory spreadsheet. Property tags are also required for capital equipment, items costing at least \$5,000, and these items must be tracked on the accounting records. When it is not feasible to affix a standard property tag, the property number should be identified on the item by some means such as decal, paint or engraving. Policy requires inventory lists be updated during periodic inventories or when equipment is transferred to a new location. In addition, changes in disposition must be reported to MSU–Bozeman’s Property Management Office.

During our audit, we visited four MAES locations and identified areas where compliance with state and university policy could be improved. The following summarizes our findings:

- ◆ Sensitive items at each of the locations were not properly inventoried or tracked.
- ◆ Inventory lists for equipment costing \$1,000 to \$4,999 were not maintained at two locations.
- ◆ Capital equipment at one location was not properly tagged.

Discussions with university staff indicate the term “sensitive items” is interpreted differently by various individuals. To ensure compliance with equipment inventorying, university could clarify policy regarding sensitive items and educate MAES staff on property management requirements.

---

#### **RECOMMENDATION #10**

*We recommend the university’s Montana Agricultural Experiment Station implement procedures to comply with state and university policies for inventorying equipment.*

---

MONTANA STATE  
UNIVERSITY  
(ALL CAMPUSES)

UNIVERSITY RESPONSE

RECEIVED

OCT 17 2011

LEGISLATIVE AUDIT DIV.

October 13, 2011

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

Dear Ms. Hunthausen:

Enclosed you will find Montana State University's responses to the recommendations outlined in the narrative segment of its Financial-Related Audit Report for the two fiscal years ended June 30, 2011.

Montana State University appreciates the Legislative Audit Divisions' efforts in regards to this audit, and its identification of areas for continued improvement.

Sincerely,



Waded Cruzado  
President

enclosure

**Office of the President**

211 Montana Hall  
P.O. Box 172420  
Bozeman, MT 59717-2420  
[www.montana.edu](http://www.montana.edu)

Tel (406) 994-2341  
Fax (406) 994-1893

**Montana State University  
Response to Legislative Audit Division Recommendations  
Financial-Related Audit for the Two Fiscal Years Ended June 30, 2011**

**RECOMMENDATION #1**

*We recommend the MSU-Billings Campus Police, MSU-Bozeman Student Health Services, and Fire Services Training School segregate duties over cash collections processes, as appropriate for university business, in accordance with state accounting policy.*

**MSU-Billings concurs with the recommendation.**

MSU-Billings has reviewed and discussed the audit recommendation on segregation of duties and related controls in our University Police Department. MSU Billings understands the importance of and is emphatically committed to ensuring the security of University assets.

MSU-Billings will develop and implement policy and procedures that cover all points addressed in the recommendation. MSU-Billings will train departmental personnel on the provisions and implementation of the aforementioned policy.

**MSU-Bozeman concurs with the recommendation.**

Student Health Services changed the cashier's user rights to address the incompatible responsibilities between custody and recordkeeping. In addition, it has ensured that anyone that may substitute for the cashier does not have these incompatible user rights.

**Fire Services Training School concurs with the recommendation.**

MSU Extension provides administrative oversight for Fire Services Training School (FSTS). Extension will implement controls to compensate for FSTS' lack of segregation of duties during FY2012.

**RECOMMENDATION #2**

*We recommend MSU-GF implement internal controls over its tuition and fee refund process to properly safeguard assets, as appropriate for university business, in accordance with state accounting policy.*

**MSU-GF concurs with the recommendation.**

Effective September 26, 2011 a new full-time employee will be responsible for issuing and mailing refund checks to students. This employee will not have the ability to setup new vendors in the Banner system, which will address the segregation of duties issues raised in the audit report.

In addition, management is reviewing, on a daily basis, system reports showing new vendors set up and daily check registers of student refunds issued.

**RECOMMENDATION #3**

*We recommend MSU-Bozeman implement procedures to detect and correct overtime charges not documented according to university policy.*

**MSU-Bozeman concurs with the recommendation.**

Web- time entry has been implemented, which provides a consistent electronic format for recording hours worked, including overtime. Issues that have subsequently been identified will be addressed by:

1. Reformatting the timesheet template that is provided to the departments to capture actual hours worked, actual hours of overtime worked, and hours and type of leave taken to improve compliance with the Fair Labor Standards Act and MSU Policy.
2. Appointment protocols have been developed to ensure that overtime eligible classified employees who take an additional professional position are appointed correctly, taking into consideration appropriate hourly rate and ensuring the accurate reporting of overtime hours.
3. Exception reports will be developed and generated automatically each month to identify:
  - Similar amounts of overtime recorded in consecutive months, and
  - Improbable amounts of overtime recorded in a single day.

**RECOMMENDATION #4**

*We recommend MSU-Bozeman comply with FICA withholding requirements as required by Internal Revenue Service regulations.*

**MSU-Bozeman concurs with the recommendation.**

The appropriate report will be placed in an automated processing queue to ensure monthly reporting.

**RECOMMENDATION #5**

*We recommend the university limit nonresident student tuition waivers in compliance with state law and Board of Regents' policy.*

**MSU partially concurs with the recommendation.**

MSU does not concur with the LAD's finding that MSU has violated § 20-25-421(2), MCA. The reason for nonconcurrency is that § 20-25-421, MCA, enacted in 1971, was effectively repealed in 1972 by the adoption of Article X, § 9, of the new Montana Constitution, which conferred full management and control of the university system on the Montana Board of Regents. See, e.g. Schaefer, Hugh V., "The Legal Status of the Montana University System Under the New Constitution," *Montana Law Review*, Vol. 35, No. 2, Summer 1974, p. 207, in which Mr. Schaefer expressly designates § 20-25-421, MCA, as repealed by implication by the new constitution. Mr. Schaefer's article was favorably referenced by the Montana Supreme Court in 1975 in *Board of Regents v. Judge*, as addressing the impact of the 1972 constitutional provision. Other state and national authorities support the principle that it is within the regents' sole authority to set student tuition and fees, including opinions by Greg Petesch, Director of Legal Services, Montana Legislature, dated March 13, 2009 (citing the Montana Supreme Court's heavy reliance on a Michigan case which held that the power "to establish tuition and student fees reposes exclusively in the governing boards of state universities") and Montana AG Opinion 76, Vol. 36, 1976, which stated the legislature cannot do "indirectly what it cannot do directly, that is, to establish tuition rates for the university system." Also, the fact that a statute remains on the books or has been amended does not make it constitutional.

We concur in part with the LAD finding because Board of Regents' Policy 940.13 adopts the same nonresident tuition waiver limitation as the statute, and MSU has exceeded this limit. To the extent of the dollar amount cited in the LAD report, MSU is out of compliance with regents' policy. The campuses, the regents and the commissioner have been engaged in considering whether changes are necessary to the regents' policy on tuition waivers. This issue was first raised to the regents at their May 2007 meeting. The commissioner's office is aware that the campuses are adopting nonresident waiver programs designed to enhance both nonresident attendance and resident affordability.

When Board of Regents policy 940.13 was first enacted, the primary source of funding for the university was state general funds. Because at that time nonresident students were partially supported by state funding, the intent of the legislature and the Board of Regents, in setting limitations on nonresident waivers, was to limit the number of nonresident students benefitting from the state's funding of higher education. Four decades later, funding for the university system is very different. Now, tuition revenues from nonresident students subsidize the cost of education for resident students. MSU's program was adopted to increase the diversity and academic profile of the student body and, on the whole, increase the overall tuition revenue. This funding allows MSU to maintain its quality of education and to provide adequate services to students. The decrease in state general fund support may warrant a reconsideration of the regents' limitation on nonresident tuition waivers.

At the November 2010 Board of Regents meeting, the regents approved Revision of Policy 940.31 - Policy Statement on Tuition to allow for campus flexibility in setting of tuition rates for nonresident graduate students who are employed as teaching and research assistants on the campuses (Board of Regents Item 149-106-R1110). This policy change authorizes Montana

University System campuses to admit such graduate assistants at resident tuition levels in order to increase our competitive advantage in attracting such students and in recognition of the teaching load borne by these graduate assistants. Taking graduate teaching and research assistants out of the equation was the first step toward compliance with the two percent of previous year's enrollment limitation on nonresident fee waivers in accordance with Board of Regents policy. Montana State University implemented this change beginning Summer Session 2011.

MSU is now working with the commissioner's office and the Board of Regents to develop a plan, including addressing nonresident undergraduate tuition waivers, which will result in policy compliance as well as maximization of revenue contribution from nonresident tuition to the overall cost of education.

**RECOMMENDATION #6**

*We recommend MSU-GF deposit funds in accordance with state law.*

**MSU-GF concurs with the recommendation.**

Effective July 1, 2011 the contract with MSU-GF armored carrier was expanded to a five-day per week pick up of deposits.

**RECOMMENDATION #7**

*We recommend MSU-Northern implement procedures to verify job applicants are registered for selective service to ensure hiring decisions are made in compliance with state law.*

**MSU-Northern concurs with the recommendation.**

MSU-Northern did not have a procedure in place to meet this requirement. We performed a verification of all current male employees to ensure that all were registered with selective service as required. Three employees were not registered; they were employed during the audit period but are currently not employed by MSU-Northern. Selective Service Forms are now included in all New Hire Packets as of July 1, 2011, and MSU-Northern is currently and will continue to verify registration as required by state law.

**RECOMMENDATION #8**

*We recommend MSU-Northern record donated assets at values in accordance with state accounting policy.*

**MSU-Northern concurs with the recommendation.**

MSU-Northern agrees that an oversight occurred in not recording donated renovations to our Lewistown building. Records of renovation costs have been obtained, and accounting entries to recognize the increase in the value of the asset have been made.

**RECOMMENDATION #9**

*We recommend MSU-Bozeman:*

- A. Work with the Board of Regents to establish an exception process when state agencies are unable or reluctant to pay the current prescribed rate, and*
- B. Work with state agencies to recover indirect costs in accordance with Board of Regents' policy.*

**MSU-Bozeman concurs with the recommendation.**

MSU-Bozeman will begin working with the Office of the Commissioner of Higher Education personnel and the Board of Regents to put this process in place.

**RECOMMENDATION #10**

*We recommend the university's Montana Agricultural Experiment Station implement procedures to comply with state and university policies for inventorying equipment.*

**Montana Agricultural Experiment Station concurs with the recommendation.**

The Montana Agricultural Experiment Station will implement procedures at all locations to comply with state and university policies for inventorying equipment.