



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Commissioner of Higher
Education*

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

OCTOBER 2011

LEGISLATIVE AUDIT
DIVISION

11-20

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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, 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

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LEGISLATIVE AUDIT DIVISION

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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-compliance audit of the Office of the Commissioner of Higher Education for the two fiscal years ended June 30, 2011. During the course of our audit we reviewed the Office's financial records and compliance with selected laws and federal regulations. This report contains no recommendations.

We thank the commissioner and Office staff for the assistance and cooperation provided during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Term Expires</u>
Board of Regents of Higher Education Clayton Christian, Chair	February 1, 2015
Todd Buchanan, Vice Chair	February 1, 2014
Stephen M. 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 Stearns, Commissioner of Higher Education*	
Brian Schweitzer, Governor*	
Denise Juneau, Superintendent of Public Instruction*	

*Ex Officio Member

**Resigned as of September 2011

Commissioner of Higher Education	Sheila 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
	Frieda Houser	Director of Accounting and Budget
	Catherine Swift	Chief Legal Counsel

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT Office of the Commissioner of Higher Education

For the Two Fiscal Years Ended June 30, 2011

OCTOBER 2011

11-20

REPORT SUMMARY

The Office of the Commissioner of Higher Education transferred a total of \$189,501,181 to the Montana University System in fiscal year 2010 and \$183,296,861 in fiscal year 2011. The Montana University System is comprised of 14 campuses and enrolls more than 47,000 students.

Context

The Montana Constitution extends governance authority over the Montana University System (MUS) to the Montana Board of Regents (board) but leaves the power to appropriate state funds for the MUS to the legislature. The board consists of seven members appointed by the Governor, and confirmed by the Senate, to seven-year overlapping terms. The Governor, Superintendent of Public Instruction, and the Commissioner of Higher Education are ex-officio members of the board. The Constitution charges the board with hiring a Commissioner of Higher Education who serves as its executive staff. All state funds appropriated by the legislature to the board for the support of the MUS are channeled through the office.

The Office of Higher Education (Office) conducts its operations in, but is not limited to, the following programs: Administration Program, Student Assistance Program, Improving Teacher Quality Program, Educational Outreach & Diversity Program, Work Force Development Program, Guaranteed Student Loan Program, Appropriation Distribution, MUS Workers

Compensation Program, and the MUS Group Insurance Program. Other smaller programs include the Board of Regents Administration, Community College Assistance and Tribal College Assistance programs.

The Office transferred appropriations totaling \$189,501,181 to the MUS in fiscal year 2010 and \$183,296,861 in fiscal year 2011. The total includes \$18,000,000 from the 6-mill levy in fiscal year 2010 and \$17,000,000 in fiscal year 2011.

Results

There are no recommendations to the Office in this report.

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

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Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Office of the Commissioner of Higher Education (Office) for the two fiscal years ended June 30, 2011. The objectives of our audit were to:

1. Obtain an understanding of the Office's internal control systems to the extent necessary to support our audit of the Office's financial schedules and, if appropriate, make recommendations for improvement in management and internal controls.
2. Determine whether the Office's financial schedules present fairly the results of its operations and changes in fund balances for each of the two fiscal years ended June 30, 2011.
3. Determine the Office's compliance with selected state and federal laws and regulations.

In addressing objectives #1 and #2, we focused our audit effort primarily on reviewing financial transactions related to premium payments and claims in the MUS Insurance Program; evaluating balances related to the College Savings Plan; determining whether funds were distributed to the universities as directed by legislative appropriations; and assessing the related control systems.

We addressed objective #3 by reviewing state laws, Board of Regents policies, and federal regulations related to the Family Education Savings Act; functions and responsibilities of the Board of Regents and the Commissioner; the Montana Guaranteed Student Loan Program; and Stabilization Government Services and Education grants made under the American Recovery and Reinvestment Act.

There are no recommendations in this report.

The Montana Guaranteed Student Loan Program was established by the Office to coordinate and administer the federally insured student loans issued by various lending institutions. As of July 1, 2010, all new Federal student loans are made through the Federal Direct Student Loan Program, which will now be administered by the federal government. The Montana Guaranteed Student Loan program will continue to service the loans it has already guaranteed, however it will not guarantee any new loans. Our office performs an annual audit of the program, which is required by the Single Audit Act. The results of the most recent annual audits can be found under separate cover (09-06 and 09-06B).

In accordance with §17-8-101(6), MCA, we analyzed the fees and charges for services and the fund equity balance in the Office's Internal Service Fund. The fund was new to the Office in fiscal year 2008 and was created to account for the central service activity for the state programs. In fiscal year 2008 the Office used the approved federal indirect cost rate which built up the fund balance. Our audit work indicates that starting in fiscal year 2011 the current rates are commensurate with costs. We had discussions with management concerning reducing fund balance and we make no recommendation at this time.

Background

The MUS is comprised of fourteen campuses, enrolling more than 47,000 students. The MUS serves students through the delivery of postsecondary educational opportunities. The Montana Constitution extends governance authority over the MUS to the Montana Board of Regents but leaves the power to appropriate state funds for the MUS to the legislature. The Board of Regents has administrative and supervisory control of the units of the university system and general supervision of community colleges. It consists of seven members appointed by the Governor, and confirmed by the Senate, to seven-year overlapping terms. The Governor, Superintendent of Public Instruction, and the Commissioner of Higher Education are ex-officio members. The Montana Constitution charges the Board of Regents with hiring a Commissioner of Higher Education who serves as its executive staff. The Office is the state-level administrative organization that provides management support and administrative leadership to all educational units and research and public service education agencies, for student support and assistance programs, and for financial aid functions of the MUS. The state funds appropriated by the legislature in support of the MUS are channeled through the Office.

Total authorized full-time equivalent (FTE) staff for the Office was 110.05 during the audit period. This includes 22.4 FTE funded by the General Fund for general administration and operations, 6.0 FTE funded by the Enterprise Fund for the Montana University System (MUS) group health insurance and workers' compensation programs, 1.5 for student assistance, 19.95 FTE for federal grant operations, and 55.2 FTE for the Montana Guaranteed Student Loan Program. The Office conducts its operations in the following programs:

Administration Program – provides general administration for all the duties of the Office. This includes academic, student assistance, financial, and legal administration as well as labor relations and personnel administration.

Student Assistance Program – consists of grants, loans, and work-study programs such as the Governor's Postsecondary Scholarship Program; the Leveraging

Educational Assistance Partnership (LEAP) Program; the Supplemental Leveraging Educational Assistance Partnership (SLEAP) Program; the Baker Grants Program; the Montana Higher Education Grant (MHEG) Program; state matching dollars for the federal Supplemental Education Opportunity Grant (SEOG); the Perkins Federal Loan Program; the Western Interstate Commission on Higher Education (WICHE); Student Exchange Program; and the Washington, Wyoming, Alaska, Montana, and Idaho (WWAMI) Cooperative Medical Program.

Improving Teacher Quality – is a federal program that provides funds for professional development and teacher training that improves teaching methods and teaching skills in the classroom.

Community College Assistance – accounts for the distribution of the state’s assistance to the three community colleges.

MUS Group Insurance Program – provides group benefits, which includes a flexible spending account option.

Educational Outreach & Diversity – is primarily a federal program intended to decrease the dropout rate of low-income and at-risk students at the secondary school level, and to increase their enrollment in postsecondary education. The three components that provide services are the Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR-UP); Montana Educational Talent Search (METS); and American Indian/Minority Achievement (AIMA).

MUS Workers Compensation Program – accounts for all activity related to the MUS’s self-funded workers’ compensation program.

Work Force Development Program – supports vocational education at the secondary and postsecondary levels. The Board of Regents is the state agency that administers the federal Vocational Education - Basic Grants to States grant. Amounts used at the secondary level are subgranted to the Office of Public Instruction.

Appropriation Distribution – accounts for the distribution of the state’s General Fund and millage appropriations to the university units.

Tribal College Assistance Program – accounts for the distribution of the state’s assistance to the tribal colleges.

Guaranteed Student Loan Program – processes loan applications, maintains records on student borrowers, warehouses records, collects loan payments and performs other

duties related to the Federal Family Education Loan Program (FFELP). It also includes the administration of the Governor's Scholarship Program and the Montana Family Education Savings Program.

Board of Regents Administration – provides secretarial support, travel, and per diem for the Board of Regents.

Prior Audit Recommendations

There were no audit recommendations in the previous audit.

Independent Auditor's Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, 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, 2011, and 2010. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

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, 2011, and 2010, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

August 11, 2011

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
 SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private-Purpose Trust Fund
FUND BALANCE: July 1, 2010	\$ 35,877	\$ 2,313,985	\$ 23,910,705	\$ 30,898,814	\$ 94,529	\$ 0	\$ 244,296,962
PROPERTY HELD IN TRUST: July 1, 2010						\$ 360	
ADDITIONS							
Budgeted Revenues & Transfers-In	1,155,360	796,482	51,254,973	87,124,192	84,138		
Nonbudgeted Revenues & Transfers-In	725	635,221	10,020	18,990			37,600,393
Prior Year Revenues & Transfers-In Adjustments	(9,246)	(14,064)	(772,317)	18,172			
Direct Entries to Fund Balance	156,398,498	19,149,469	38,570,238	(152,000)			
Total Additions	157,545,337	20,567,108	89,062,914	87,009,354	84,138	0	37,600,393
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	157,517,114	19,120,776	90,006,233	84,669,659	81,570		
Nonbudgeted Expenditures & Transfers-Out		319,090	12,655	33,713	2,717		54,918,064
Prior Year Expenditures & Transfers-Out Adjustments	231,083	14,000	(175)			360	
Reductions in Property Held in Trust						360	
Total Reductions	157,748,197	19,453,866	90,018,713	84,703,372	84,287	360	54,918,064
FUND BALANCE: June 30, 2011	\$ (166,983)	\$ 3,427,227	\$ 22,954,906	\$ 33,204,796	\$ 94,380	\$ 0	\$ 226,979,291
PROPERTY HELD IN TRUST: June 30, 2011							

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

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
 SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private-Purpose Trust Fund
FUND BALANCE: July 1, 2009	\$ (791,708)	\$ 3,758,166	\$ 21,158,431	\$ 36,351,470	\$ 76,265	\$ 0	\$ 229,252,142
PROPERTY HELD IN TRUST: July 1, 2009						\$ 0	
ADDITIONS							
Budgeted Revenues & Transfers-In	1,115,350	763,588	48,045,088	78,190,432	104,034		
Nonbudgeted Revenues & Transfers-In	978	297,202	8,148	15,163			48,258,400
Prior Year Revenues & Transfers-In Adjustments	(8,918)		(230,870)				
Direct Entries to Fund Balance	157,121,698	18,034,708	39,144,546	24,000			
Additions to Property Held in Trust						360	
Total Additions	158,229,108	19,095,498	86,966,912	78,229,595	104,034	360	48,258,400
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	157,405,441	20,354,423	83,988,089	83,646,147	80,413		
Nonbudgeted Expenditures & Transfers-Out		185,256		34,520	5,357		33,213,580
Prior Year Expenditures & Transfers-Out Adjustments	(3,918)		226,549	1,584			
Total Reductions	157,401,523	20,539,679	84,214,638	83,682,251	85,770	0	33,213,580
FUND BALANCE: June 30, 2010	\$ 35,877	\$ 2,313,985	\$ 23,910,705	\$ 30,898,814	\$ 94,529	\$ 0	\$ 244,296,962
PROPERTY HELD IN TRUST: June 30, 2010						\$ 360	

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

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	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	\$ 1,146,827	\$ (4,009)	\$ 1,750	\$ 248			\$ 1,144,816
Charges for Services	12	607,695	38,862,990	4,554,873			44,025,570
Investment Earnings		5,790	73,247	145,790		\$ 13,994,820	14,219,647
Monetary Settlements				26,798			26,798
Contributions and Premiums				81,661,470		23,605,573	105,267,043
Grants, Contracts, and Donations		637,699					637,699
Transfers-in		170,464	899,994				1,070,458
Federal Indirect Cost Recoveries			407,097		\$ 84,138		491,235
Miscellaneous				375,877			375,877
Federal			10,247,598	396,298			10,643,896
Total Revenues & Transfers-In	1,146,839	1,417,639	50,492,676	87,161,354	84,138	37,600,393	177,903,039
Less: Nonbudgeted Revenues & Transfers-In	725	635,221	10,020	18,990		37,600,393	38,265,349
Prior Year Revenues & Transfers-In Adjustments	(9,246)	(14,064)	(772,317)	18,172			(777,455)
Actual Budgeted Revenues & Transfers-In	1,155,360	796,482	51,254,973	87,124,192	84,138	0	140,415,145
Estimated Revenues & Transfers-In	1,290,293	525,001	53,962,336	87,684,357	102,469		143,564,456
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (134,933)	\$ 271,481	\$ (2,707,363)	\$ (560,165)	\$ (18,331)	\$ 0	\$ (3,149,311)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Taxes	\$ (134,933)						\$ (134,933)
Charges for Services		\$ 206,760	\$ 690,222	\$ (1,445,127)			(548,145)
Investment Earnings		(25,743)	(232,643)	(2,611,951)			(2,870,337)
Monetary Settlements				6,798			6,798
Contributions and Premiums				4,597,940			4,597,940
Transfers-in		90,464	(612,400)				(521,936)
Federal Indirect Cost Recoveries			142,097		\$ (18,331)		123,766
Miscellaneous				(629,123)			(629,123)
Federal			(2,694,639)	(478,702)			(3,173,341)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (134,933)	\$ 271,481	\$ (2,707,363)	\$ (560,165)	\$ (18,331)	\$ 0	\$ (3,149,311)

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

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private-Purpose Trust Fund	Total
Taxes	\$ 1,107,385	\$ 5,094	\$ 2,031	\$ 355			\$ 1,114,865
Charges for Services		646,263	32,918,069	4,979,335			38,543,692
Investment Earnings	25		93,316	161,682		\$ 15,634,659	15,894,672
Contributions and Premiums		5,015		71,337,722		32,623,741	103,961,463
Grants, Contracts, and Donations		290,775					290,775
Transfers-in		113,643	4,160,258				4,273,901
Federal Indirect Cost Recoveries			441,427		\$ 104,034		545,461
Miscellaneous				783,298			783,298
Federal				943,203			11,150,468
Total Revenues & Transfers-In	1,107,410	1,060,790	10,207,265	78,205,595	104,034	48,258,400	176,558,595
Less: Nonbudgeted Revenues & Transfers-In	978	297,202	8,148	15,163		48,258,400	48,579,891
Prior Year Revenues & Transfers-In Adjustments	(8,918)		(230,870)				(239,788)
Actual Budgeted Revenues & Transfers-In	1,115,350	763,588	48,045,088	78,190,432	104,034	0	128,218,492
Estimated Revenues & Transfers-In	1,211,293	505,000	60,356,490	155,962,637	102,469		218,137,889
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (95,943)	\$ 258,588	\$ (12,311,402)	\$ (77,772,205)	\$ 1,565	\$ 0	\$ (89,919,397)
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Taxes	\$ (95,943)	\$	(707)				\$ (96,650)
Charges for Services		231,263	(11,122,358)	(3,268,665)			(14,159,760)
Investment Earnings		(26,318)	(535,097)	(2,592,126)			(3,153,541)
Monetary Settlements				(20,000)			(20,000)
Contributions and Premiums				(70,087,915)			(70,087,915)
Transfers-in		53,643	1,811,516				1,865,159
Federal Indirect Cost Recoveries			166,427		\$ 1,565		167,992
Miscellaneous				(1,871,702)			(1,871,702)
Federal			(2,631,183)	68,203			(2,562,980)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (95,943)	\$ 258,588	\$ (12,311,402)	\$ (77,772,205)	\$ 1,565	\$ 0	\$ (89,919,397)

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

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	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
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT													
Personal Services													
Salaries	\$ 1,853,382				\$ 637,130	\$ 1,311,321	\$ 10,506	\$ 285,231	\$ 64,479	\$ 93,585		\$ 192,682	\$ 4,448,316
Other Compensation	398		\$ 5,000			200							5,598
Employee Benefits	632,607				226,265	505,418	3,236	86,810	18,691	22,706		52,347	1,548,080
Personal Services-Other	(403)							777	(1,495)				(1,121)
Total	<u>2,485,984</u>		<u>5,000</u>		<u>863,395</u>	<u>1,816,939</u>	<u>13,742</u>	<u>372,818</u>	<u>81,675</u>	<u>116,291</u>		<u>245,029</u>	<u>6,000,873</u>
Operating Expenses													
Other Services	285,777		41,023		106,207	2,168,855	3,010	5,572,527	546,084	1,712,837		30,796	10,467,116
Supplies & Materials	63,453		2,172		84,577	25,214		24,982	570	29		4,029	205,026
Communications	48,689		1,606		18,504	112,340	19	16,974	2,928	728		5,011	206,799
Travel	94,667		21,981		208,322	32,402		12,434	938	2,444		45,217	418,405
Rent	204,850				48,993	14,600		34,366	7,557			26,411	336,777
Utilities						21,201							21,201
Repair & Maintenance	1,616					11,403		4,965					17,984
Other Expenses	139,911		9,878		153,614	716,037	755	1,260,515	31,845	14,049		25,218	2,351,822
Total	<u>838,963</u>		<u>76,660</u>		<u>620,217</u>	<u>3,102,052</u>	<u>3,784</u>	<u>6,926,763</u>	<u>589,922</u>	<u>1,730,087</u>		<u>136,682</u>	<u>14,025,130</u>
Local Assistance													
From State Sources	589,631			\$ 11,779,745						125,000			12,494,376
Total	<u>589,631</u>			<u>11,779,745</u>						<u>125,000</u>			<u>12,494,376</u>
Grants													
From State Sources										13,395,025	\$ 842,365		14,237,390
From Federal Sources	15,000				1,709,873		274,522					2,266,432	4,265,827
From Other Sources										447,354			447,354
Total	<u>15,000</u>				<u>1,709,873</u>		<u>274,522</u>			<u>13,842,379</u>	<u>842,365</u>	<u>2,266,432</u>	<u>18,950,571</u>
Benefits & Claims													
To Individuals									4,067,215				4,067,215
Insurance Payments						35,741,760		72,640,949					108,382,709
Total						<u>35,741,760</u>		<u>72,640,949</u>	<u>4,067,215</u>				<u>112,449,924</u>
From Other Sources													
Distrib from Priv Purp Trusts										53,241,560			53,241,560
Total										<u>53,241,560</u>			<u>53,241,560</u>
Transfers-out													
Fund transfers					900,000							3,270,423	4,170,423
Intra-Entity Expense	2,226,152	\$ 183,296,861											185,523,013
Total	<u>2,226,152</u>	<u>183,296,861</u>			<u>900,000</u>							<u>3,270,423</u>	<u>189,693,436</u>
Debt Service													
Capital Leases						43,479							43,479
Total						<u>43,479</u>							<u>43,479</u>
Other Post Employment Benefits													
Other Post Employment Benefits	3,120							20,964	3,066				27,150
Total	<u>3,120</u>							<u>20,964</u>	<u>3,066</u>				<u>27,150</u>
Total Expenditures & Transfers-Out	\$ 6,158,850	\$ 183,296,861	\$ 81,660	\$ 11,779,745	\$ 4,093,485	\$ 40,704,230	\$ 292,048	\$ 79,961,494	\$ 4,741,878	\$ 69,055,317	\$ 842,365	\$ 5,918,566	\$ 406,926,499
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 4,615,747	\$ 129,273,434	\$ 81,660	\$ 9,406,964	\$ 71,882	\$ 904				\$ 13,365,175	\$ 842,365	\$ 90,066	\$ 157,748,197
State Special Revenue Fund	249,237	18,608,584			39,853					556,192			19,453,866
Federal Special Revenue Fund	1,209,579	35,414,843		2,372,781	3,981,750	40,703,326	\$ 292,048			215,886		5,828,500	90,018,713
Enterprise Fund								\$ 79,961,494	\$ 4,741,878				84,703,372
Internal Service Fund	84,287												84,287
Private-Purpose Trust Fund										54,918,064			54,918,064
Total Expenditures & Transfers-Out	6,158,850	183,296,861	81,660	11,779,745	4,093,485	40,704,230	292,048	79,961,494	4,741,878	69,055,317	842,365	5,918,566	406,926,499
Less: Nonbudgeted Expenditures & Transfers-Out	251,954				39,853	12,655		32,142	1,571	54,948,064			55,286,239
Prior Year Expenditures & Transfers-Out Adjustments		234,083			(175)					11,000			244,908
Actual Budgeted Expenditures & Transfers-Out	5,906,896	183,062,778	81,660	11,779,745	4,053,807	40,691,575	292,048	79,929,352	4,740,307	14,096,253	842,365	5,918,566	351,395,352
Budget Authority	6,686,842	186,830,221	87,401	11,893,149	9,043,714	50,354,240	457,674	80,715,229	4,866,584	15,059,162	956,058	7,124,770	374,075,044
Unspent Budget Authority	<u>\$ 779,946</u>	<u>\$ 3,767,443</u>	<u>\$ 5,741</u>	<u>\$ 113,404</u>	<u>\$ 4,989,907</u>	<u>\$ 9,662,665</u>	<u>\$ 165,626</u>	<u>\$ 785,877</u>	<u>\$ 126,277</u>	<u>\$ 962,909</u>	<u>\$ 113,693</u>	<u>\$ 1,206,204</u>	<u>\$ 22,679,692</u>
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 658,812	\$ 3,733,509	\$ 5,741	\$ 113,404	\$ 22	\$ 0				\$ 877,323	\$ 113,693		\$ 5,502,504
State Special Revenue Fund		33,934								85,586			119,520
Federal Special Revenue Fund	103,181				4,989,885	9,662,665	\$ 165,626					\$ 1,206,204	16,127,561
Enterprise Fund								\$ 785,877	\$ 126,277				912,154
Internal Service Fund	17,953												17,953
Unspent Budget Authority	<u>\$ 779,946</u>	<u>\$ 3,767,443</u>	<u>\$ 5,741</u>	<u>\$ 113,404</u>	<u>\$ 4,989,907</u>	<u>\$ 9,662,665</u>	<u>\$ 165,626</u>	<u>\$ 785,877</u>	<u>\$ 126,277</u>	<u>\$ 962,909</u>	<u>\$ 113,693</u>	<u>\$ 1,206,204</u>	<u>\$ 22,679,692</u>

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

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	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
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT													
Personal Services													
Salaries	\$ 1,670,127				\$ 626,016	\$ 1,545,202	\$ 11,014	\$ 289,864	\$ 64,479	\$ 90,169		\$ 250,983	\$ 4,547,854
Other Compensation			\$ 4,600			300							4,900
Employee Benefits	464,483				226,958	578,475	5,336	98,666	18,181	19,125		76,085	1,487,309
Personal Services-Other	2,364							77	1,039				3,480
Total	<u>2,136,974</u>		<u>4,600</u>		<u>852,974</u>	<u>2,123,977</u>	<u>16,350</u>	<u>388,607</u>	<u>83,699</u>	<u>109,294</u>		<u>327,068</u>	<u>6,043,543</u>
Operating Expenses													
Other Services	299,249		2,958		144,675	2,698,374		4,621,261	573,631	1,923,500		107,558	10,371,206
Supplies & Materials	32,495		2,247		54,536	50,150		38,387	2,290	1,565		9,283	190,953
Communications	57,905		3,554		13,805	177,550	32	14,406	2,922	5,655		2,929	278,758
Travel	95,837		26,542		186,345	33,733		14,514	1,707	5,832		27,835	392,345
Rent	212,521				53,734	15,439		19,170	7,581	536		31,007	339,988
Utilities						22,631				221			22,852
Repair & Maintenance	1,678					6,122		29,902		59			37,761
Other Expenses	118,585		9,165		230,856	437,361	1,017	1,041,834	32,424	10,443		106,480	1,988,165
Total	<u>818,270</u>		<u>44,466</u>		<u>683,951</u>	<u>3,441,360</u>	<u>1,049</u>	<u>5,779,474</u>	<u>620,555</u>	<u>1,947,811</u>		<u>285,092</u>	<u>13,622,028</u>
Local Assistance													
From State Sources	858,222			\$ 10,083,815						125,000			11,067,037
Total	<u>858,222</u>			<u>10,083,815</u>						<u>125,000</u>			<u>11,067,037</u>
Grants													
From State Sources										12,137,681	\$ 825,946		12,963,627
From Federal Sources	15,000				1,059,268		400,391					4,780,317	6,254,976
From Other Sources										429,508			429,508
Total	<u>15,000</u>				<u>1,059,268</u>		<u>400,391</u>			<u>12,567,189</u>	<u>825,946</u>	<u>4,780,317</u>	<u>19,648,111</u>
Benefits & Claims													
To Individuals									3,190,903				3,190,903
Insurance Payments						25,854,071		73,595,962					99,450,033
Total						<u>25,854,071</u>		<u>73,595,962</u>	<u>3,190,903</u>				<u>102,640,936</u>
From Other Sources													
Distrib from Priv Purp Trusts										31,314,101			31,314,101
Total										<u>31,314,101</u>			<u>31,314,101</u>
Transfers-out													
Fund transfers					1,400,000	71,678						3,270,747	4,742,425
Intra-Entity Expense	488,555	\$ 189,501,181											189,989,736
Total	<u>488,555</u>	<u>189,501,181</u>			<u>1,400,000</u>	<u>71,678</u>						<u>3,270,747</u>	<u>194,732,161</u>
Debt Service													
Capital Leases						43,480							43,480
Total						<u>43,480</u>							<u>43,480</u>
Other Post Employment Benefits													
Other Post Employment Benefits	2,993							20,110	2,941				26,044
Total	<u>2,993</u>							<u>20,110</u>	<u>2,941</u>				<u>26,044</u>
Total Expenditures & Transfers-Out	<u>\$ 4,320,014</u>	<u>\$ 189,501,181</u>	<u>\$ 49,066</u>	<u>\$ 10,083,815</u>	<u>\$ 3,996,193</u>	<u>\$ 31,534,566</u>	<u>\$ 417,790</u>	<u>\$ 79,784,153</u>	<u>\$ 3,898,098</u>	<u>\$ 46,063,395</u>	<u>\$ 825,946</u>	<u>\$ 8,663,224</u>	<u>\$ 379,137,441</u>
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 3,625,906	\$ 131,288,522	\$ 49,066	\$ 9,306,964	\$ 70,905	\$ 869				\$ 12,143,284	\$ 825,946	\$ 90,061	\$ 157,401,523
State Special Revenue Fund	178,676	19,844,913			6,580					509,510			20,539,679
Federal Special Revenue Fund	429,662	38,367,746		776,851	3,918,708	31,533,697	\$ 417,790			197,021		8,573,163	84,214,638
Enterprise Fund								\$ 79,784,153	\$ 3,898,098				83,682,251
Internal Service Fund	85,770												85,770
Private-Purpose Trust Fund										33,213,580			33,213,580
Total Expenditures & Transfers-Out	<u>4,320,014</u>	<u>189,501,181</u>	<u>49,066</u>	<u>10,083,815</u>	<u>3,996,193</u>	<u>31,534,566</u>	<u>417,790</u>	<u>79,784,153</u>	<u>3,898,098</u>	<u>46,063,395</u>	<u>825,946</u>	<u>8,663,224</u>	<u>379,137,441</u>
Less: Nonbudgeted Expenditures & Transfers-Out	184,033				6,580			30,540	3,980	33,213,580			33,438,713
Prior Year Expenditures & Transfers-Out Adjustments	(918)				6,930	40,739	178,880	1,584		(3,000)			224,215
Actual Budgeted Expenditures & Transfers-Out	<u>4,136,899</u>	<u>189,501,181</u>	<u>49,066</u>	<u>10,083,815</u>	<u>3,982,683</u>	<u>31,493,827</u>	<u>238,910</u>	<u>79,752,029</u>	<u>3,894,118</u>	<u>12,852,815</u>	<u>825,946</u>	<u>8,663,224</u>	<u>345,474,513</u>
Budget Authority	6,096,644	192,696,871	49,116	10,959,275	7,071,528	39,073,632	243,789	82,832,569	4,055,012	13,754,159	891,002	9,143,822	366,867,419
Unspent Budget Authority	<u>\$ 1,959,745</u>	<u>\$ 3,195,690</u>	<u>\$ 50</u>	<u>\$ 875,460</u>	<u>\$ 3,088,845</u>	<u>\$ 7,579,805</u>	<u>\$ 4,879</u>	<u>\$ 3,080,540</u>	<u>\$ 160,894</u>	<u>\$ 901,344</u>	<u>\$ 65,056</u>	<u>\$ 480,598</u>	<u>\$ 21,392,906</u>
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 1,505,335	\$ 3,120,221	\$ 50	\$ 113,404	\$ 1,709					\$ 809,154	\$ 65,056	\$ 959	\$ 5,615,888
State Special Revenue Fund		75,469								89,323			164,792
Federal Special Revenue Fund	444,028			762,056	3,087,136	7,579,805	\$ 4,879			2,867		479,639	12,360,410
Enterprise Fund								\$ 3,080,540	\$ 160,894				3,241,434
Internal Service Fund	10,382												10,382
Unspent Budget Authority	<u>\$ 1,959,745</u>	<u>\$ 3,195,690</u>	<u>\$ 50</u>	<u>\$ 875,460</u>	<u>\$ 3,088,845</u>	<u>\$ 7,579,805</u>	<u>\$ 4,879</u>	<u>\$ 3,080,540</u>	<u>\$ 160,894</u>	<u>\$ 901,344</u>	<u>\$ 65,056</u>	<u>\$ 480,598</u>	<u>\$ 21,392,906</u>

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

Office of The Commissioner of Higher Education

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2011

1. Summary of Significant Accounting Policies

Basis of Accounting

The Office of the Commissioner of Higher Education (office) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue and Federal Special Revenue). 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 department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the 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 Internal Service) and Fiduciary (Private-Purpose Trust and 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 college for their general operations.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. The 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. This includes 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.

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. This includes 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. This includes 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. This includes optional retirement funds, and the 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. This fund accounts for the Montana Family Education Savings Program.

2. General Fund Balance

For the fiscal year ended June 30, 2010, the office's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund balance.

The negative fund balance in the General Fund for the fiscal year ended June 30, 2011, does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office's outstanding liabilities placed in the fund exceed the assets it had placed in the fund, resulting in a negative ending General Fund balance for the fiscal year ended June 30, 2011. The unspent general fund budget authority is the result of budget reductions implemented in accordance with §17-7-140, MCA.

3. Direct Entries to Fund Balance

The 2009 Legislature appropriated General Fund moneys 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 15-10-108, 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 \$18,034,708 and \$19,149,469 in fiscal years 2009-10 and 2010-11, respectively.

4. Revenue Estimates

The revenue estimate in the Enterprise Fund on the Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2010 was significantly over budgeted. This is an error in the budgeted revenue. The actual revenue collected represents the amount that should have been budgeted.

5. 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 one common board member.

6. 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 received federal funding from ARRA totaling \$77,714,835 for the 2011 biennium appropriated in House Bill 645 of the 2009 Legislative Session. Of this amount \$3,149,632 was disbursed to the community colleges, \$73,782,589 was disbursed to the educational units, and \$782,614 was disbursed to the office's Administration Program during the two fiscal years ended June 30, 2011. All ARRA funds were spent by June 30, 2011.

OFFICE OF THE
COMMISSIONER OF
HIGHER EDUCATION

OFFICE RESPONSE



MONTANA UNIVERSITY SYSTEM
Office of the Commissioner of Higher Education

2500 Broadway ♦ PO Box 203101 ♦ Helena, Montana 59601♦ (406)444-6570

September 26, 2011

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

RECEIVED
SEP 28 2011
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 for the two fiscal years ended June 30, 2011. We received an unqualified opinion with no recommendations. The audit process is an invaluable tool for our office. We want to especially thank the on-site auditors for their professionalism in conducting the audit.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sheila".

Sheila M. Stearns
Commissioner of Higher Education