



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-RELATED AUDIT

Montana State University

*For the Two Fiscal Years Ended
June 30, 2013*

OCTOBER 2013

LEGISLATIVE AUDIT
DIVISION

13-13

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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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Room 160, State Capitol
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October 2013

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial-related audit of Montana State University (university) for the two fiscal years ended June 30, 2013. The financial-related audit focuses on compliance with federal requirements of the university's federal assistance programs. We also test compliance with selected state laws, university policies, and state accounting policies.

This audit report includes two recommendations. The recommendations relate to nonresident fee waivers in excess of limits in state law, and segregation of university and foundation assets.

Our prior financial-related audit report included ten recommendations to the university. Of those, the university implemented eight and partially implemented two recommendations which are further addressed in 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

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APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Term Expires</u>
Board of Regents of Higher Education	
Angela McLean, Chair	February 1, 2017
Paul Tuss, Vice Chair	February 1, 2020
Jeffrey Krauss	February 1, 2015
Major Robinson	February 1, 2018
Todd Buchanan	February 1, 2014
Fran Maronick Albrecht (Effective Sept. 2013)	February 1, 2019
Zachary Rogala, Student Regent (Effective July 1, 2013)	
Joseph Thiel, Student Regent (June 30, 2013)	
Clayton Christian, Commissioner of Higher Education*	
Steve Bullock, Governor*	
Denise Juneau, Superintendent of Public Instruction*	
*Ex officio members	

Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	Mick Robinson	Deputy Commissioner for Fiscal Affairs/ Chief of Staff
	Neil Moisey	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
	Vivian Hammill	Chief Legal Counsel
	Frieda Houser	Director of Accounting and Budget

Montana State University– All Campuses	Waded Cruzado	President
	Leslie Taylor	Legal Counsel
	Daniel Adams	Director of Institutional Audit & Advisory Services
Montana State University– Bozeman	Martha Potvin	Provost and Vice President for Academic Affairs
	Terry Leist	Vice President for Administration and Finance
	Anne Camper	Interim Vice President for Research, Creativity, and Technology Transfer
	Robert Marley	Interim Vice President of Student Success
	Laura Humberger	Associate 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
Montana State University– Billings	Rolf Groseth	Chancellor
	Mark Pagano	Provost and 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
	Trudy Collins	University Budget Director
Montana State University– Northern	James Limbaugh	Chancellor
	Brian Simonson	Vice Chancellor for Finance and Administration
	Rosalyn Templeton	Provost and Vice Chancellor for Academic Affairs
	Lindsey Brown	Dean of Students/Registrar
	Chris Wendland	Accountant/Budget Officer

**Great Falls College—
Montana State University**

Susan Wolff	Dean and CEO
Darryl Stevens	Associate Dean of Administration and Finance
Heidi Pasek	Associate Dean and Chief Academic Officer
Camille Consolvo	Associate Dean of Student Services
Ed Binkley	Controller
Kayce Waite	Budget and Purchasing Analyst

**Montana Agricultural
Experiment Station**

Glenn Duff	Acting Director
Jody Barney	Budget and Fiscal Director

**Montana State University
Extension**

Jill Martz	Interim Director
Sandra Rahn Gibson	Budget and Fiscal Director

For additional information concerning Montana State University contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-RELATED AUDIT Montana State University

For the Two Fiscal Years Ended June 30, 2013

OCTOBER 2013

13-13

REPORT SUMMARY

Montana State University (university) consists of four campuses located in Bozeman, Billings, Havre, and Great Falls. For fiscal year 2012-13, the university served just under 20,000 students, 76 percent of which were Montana residents.

Context

The university consists of campuses located in Bozeman (MSU-Bozeman), Billings (MSU-Billings and City College), Havre (MSU-Northern), and Great Falls (Great Falls College-MSU). During the course of our audit we visited MSU-Bozeman, MSU-Billings, MSU-Northern and the Great Falls College-MSU.

The university receives a variety of federal funding. During the audit, we examined the university's compliance with federal regulation over the Student Financial Assistance (SFA) and Research and Development (R&D) programs. The university had approximately \$100 million in R&D expenditures in fiscal years 2012 and 2013, 99 percent of which were at MSU-Bozeman. The university had approximately \$132 million of SFA expenditures in fiscal years 2012 and 2013, of which 87 percent were at MSU-Bozeman and MSU-Billings. As a result, we concentrated our audit efforts for programs at the MSU-Bozeman and MSU-Billings campuses.

In addition we tested compliance with selected state laws and Board of Regent policies at the campuses we visited including the Agriculture Experiment Station and Fire Services which are affiliated with the MSU-Bozeman campus.

Results

Our prior audit report included ten recommendations to the university. Of those, the university implemented eight and partially implemented two.

This audit report includes two recommendations relating to nonresident fee waivers in excess of limits in state law, and segregation of university and foundation assets.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	1
Source: Agency audit response included in final report.	

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Chapter I – Introduction

Audit Objectives

We performed a financial-related audit of Montana State University (university) for the two fiscal years ended June 30, 2013. The objectives of the audit were to:

1. Determine whether the university complied with federal regulations applicable to Student Financial Aid and Research and Development 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.

Background

Montana State University consists of four campuses:

- ♦ Montana State University–Bozeman (MSU–Bozeman/Gallatin College)
- ♦ Montana State University–Billings (MSU–Billings/City College at MSU–Billings)
- ♦ Montana State University–Northern (MSU–Northern)
- ♦ Great Falls College–Montana State University (Great Falls College)

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

MSU–Bozeman offers four-year undergraduate programs along with Master's and Doctoral graduate programs. It includes the colleges of Agriculture, Arts and Architecture, Business, Education, Health and Human Development, Engineering, Letters and Science, Nursing, and Graduate 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 consists of five colleges: the College of Arts and Sciences, the College of Business, the College of Education, the City College, and the College of Allied Health Professions. MSU–Billings offers one-year and two-year certificate programs,

Associate degrees, 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.

Great Falls College serves as a comprehensive two year college within the Montana University System (MUS). Great Falls College offers Associate of Applied Science degrees and certificates preparing students for high-demand careers in Health Sciences, Business, and Technology. In addition, Great Falls College offers an Associate of Arts degree and an Associate of Science degree for students interested in completing the first two years of a bachelor's degree in Great Falls.

The university reported employee full-time equivalent (FTE) positions of 4,644.71 for fiscal year 2011-12. Of these positions, 1,435.11 FTE were contract faculty positions. The following table shows budgeted fiscal year 2011-12 FTE positions by campus and type.

Table 1
The University Full-Time Equivalent Employees
Fiscal Year 2012

Agency	Contract Faculty	Contract Administrative	Contract Professional	Classified	Graduate Assistants	Part-Time & Other	Total
MSU–Bozeman	909.69	23.12	643.58	1,003.17	249.68	441.63	3,270.87
MSU–Billings	222.60	39.99	96.58	215.89	8.25	56.70	640.01
MSU–Northern	85.11	6.16	67.22	61.66		26.85	247.00
Great Falls College	76.67	4.00	31.90	49.17			161.74
Montana Agricultural Experiment Station	74.98	.65	30.12	69.72	10.82	14.17	200.46
MSU Extension	66.06	.50	21.40	28.62			116.58
Fire Services Training School			5.92	2.13			8.05
Total	1,435.11	74.42	896.72	1,430.36	268.75	539.35	4,644.71

Source: Compiled by the Legislative Audit Division from Office of the Commissioner of Higher Education "Montana University System Operating Budgets Summary."

Table 2 shows the university student full-time equivalent enrollment for fiscal years 2012 by residential status.

<p>Table 2</p> <p><u>Student Full-Time Equivalent by Resident Status</u></p> <p>For Fiscal Year 2012</p>				
Campus	Resident	Nonresident	Western Undergraduate Exchange	Total
MSU–Bozeman	8,799	3,531	611	12,941
MSU–Billings	3,786	223	309	4,318
MSU–Northern	1,011	44	101	1,156
Great Falls College	1,365	39	5	1,409
Total	14,961	3,837	1,026	19,824

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

Table 3 shows the university student full-time equivalent enrollment for fiscal years 2011-12 by academic level.

<p>Table 3</p> <p><u>Student Full-Time Equivalent by Academic Level</u></p> <p>For Fiscal Year 2011-12</p>				
Campus	Underclassmen	Graduate	Two-Year	Total
MSU–Bozeman	11,539	1,037	365	12,941
MSU–Billings	3,077	318	923	4,318
MSU–Northern	1,087	69		1,156
Great Falls College			1,409	1,409
Total	15,703	1,424	2,697	19,824

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

University Funding

The Montana State Legislature sets the state support for the MUS. The legislature appropriates state source 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 36.17 and 34.3 percent of the anticipated cost of their education in fiscal year 2012 and fiscal year 2013, respectively.

Prior Audit Recommendations

Our office performed the financial-related audit of the university, for the two fiscal years ending June 30, 2011. Of the ten recommendations included in the prior audit report, the university implemented eight and partially implemented two. One of the partially implemented recommendations regarding nonresident fee waivers is further discussed on page 5.

The other recommendation not fully implemented relates to equipment inventory at the Montana Agricultural Experiment station Research Centers (MAES). The MAES Central Office has been working with the research center managers to implement procedures to comply with state and university policies for inventorying equipment. Based on our work it was evident that the central office is working with the research center managers across the state to ensure compliance. As a result, we make no further recommendation at this time.

Chapter II – Findings and Recommendations

Nonresident Student Tuition Waivers

Montana State University (university) violated state law when awarding tuition waivers to nonresident students, in excess of the amount allowed.

Section 20-25-421(2)(a), MCA, limits 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; however, when necessary, tuition may be waived in excess of 2 percent for students that meet criteria stated in law. Our two prior audits noted the university exceeded the two percent limit, and we recommended the university comply with state law. Previously, board policy also required waivers of out-of-state tuition for out-of-state students be limited to the two percent level. At the September 2012 Board of Regents meeting, Policy 940.13 – Policy Statement on Tuition Waivers was revised to match current university practices. Since this change was implemented beginning with summer session 2011, the university now complies with board policy, but policy conflicts with state law.

The university partially concurred with the two previous recommendations, indicating that the law enacted in 1971 was effectively repealed by ratification of the 1972 Montana Constitution, which gave the Board of Regents authority to set tuition and fees. We disagree with this position. Section 20-25-421, MCA, has been amended several times since 1972, including during the 2013 Legislative Session, and the limit on nonresident tuition waivers remains in effect.

In awarding tuition waivers to nonresident students, the university exceeded the limit specified in state law in each year of our audit period. The office of the Commissioner of Higher Education reported that the university collected approximately \$51 million and \$60.7 million in nonresident tuition in fiscal years 2012 and 2013, respectively. We estimate the value of tuition waivers granted in excess of the two percent limit at approximately \$2.6 million in fiscal year 2012 and \$2.8 million in fiscal year 2013. Until such time as requirements in state law change, we continue with our prior audit recommendation regarding compliance with §20-25-421(2)(a), MCA.

RECOMMENDATION #1

We recommend the university limit nonresident student tuition waivers to 2 percent of the full-time equivalent enrollment in compliance with state law.

Board of Regent Policies Related to the Foundation

MSU-Northern has not implemented Board of Regents' policies concerning the MSU-Northern Foundation.

As part of our audit work, we tested multiple Board of Regents' policies at MSU-Northern. We identified two issues of noncompliance with policies concerning relations with MSU-Northern Foundation. These issues are discussed in more detail below:

- ◆ At MSU-Northern, all donations received by the university are forwarded to the Foundation. No documentation is kept to support the transfer of donations to the Foundation. Since the donations are transferred immediately to the Foundation, donations intended for the University are not recorded as an asset by the university or deposited in the State Treasury. MSU-Northern staff were not aware of the requirement to document transfers to the Foundation. Personnel thought all donations were intended for the Foundation regardless of the what the donor intent was.
- ◆ Board of Regents policy requires each campus to have written procedures in place governing payments or expense reimbursement to MUS employees or departments by campus-affiliated organizations (foundations). MSU-Northern does not have written procedures in place regarding this requirement. MSU-Northern staff was not aware that Board policy requires procedures. As a result, MSU-Northern may not be aware of the payments or reimbursements made to its employees.

RECOMMENDATION #2

We recommend that Montana State University-Northern develop policy and procedures to comply with Board of Regents' policies related to the campus-affiliated organizations.

MONTANA STATE
UNIVERSITY

UNIVERSITY RESPONSE



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September 30, 2013

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, 2013.

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

Sincerely,

Waded Cruzado
President

Enclosure

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MONTANA STATE UNIVERSITY
Response to Legislative Audit Division Recommendations
Financial-Related Audit for the Two Fiscal Years Ended June 30, 2013

RECOMMENDATION #1

We recommend the university limit nonresident student tuition waivers to 2 percent of the full-time equivalent enrollment in compliance with state law.

The university does not concur with the recommendation.

Subsequent to our discussion of this issue with the Legislative Audit Committee, the Board of Regents addressed the issue of being out of compliance with its own policy. In September 2012, the Board approved the revised Policy 940.13. The revision of BOR Policy 940.13 Tuition Waivers, as it relates to this issue, provided the following explanation:

When Board of Regents policy 940.13 was first enacted in 1974, the primary source of funding for the university system was state general fund. Because at that time nonresident students were partially supported by state funding, the intent of the legislature and the Board of Regents, in setting limits 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, at some campuses, tuition revenues from nonresident students subsidize the cost of education of resident students.

The Montana Constitution conferred full management and control of the university system on the Montana Board of Regents. Other state and national authorities also support the principle that it is within the regent's sole authority to set tuition and fees, which includes the judicious use of tuition waivers.

Recognizing that the strategic use of resident and nonresident student waivers can be useful in attracting larger numbers of students, which in turn can increase the overall tuition revenue generated by a campus and create economies of scale, and recognizing the additional educational benefit to all students of enhanced student academic achievement and ethnic diversity, tuition may be waived, on a full or partial basis, for superior academic achievement, service to the campus, or other meritorious achievement. For nonresident student waivers certain revenue conditions apply.

The Montana University System campuses, especially MSU-Bozeman and UM-Missoula, have grown their nonresident student populations over the years. Those nonresident students, in aggregate, generate tuition revenue well in excess of their cost of education. The use of tuition waivers has been very instrumental in recruiting these larger numbers of nonresident students.

When speaking of tuition waivers for nonresident students we typically refer to "recruiting waivers", i.e. partial reductions of perhaps \$2,000 in the full nonresident tuition price of \$19,000, in an effort to attract the nonresident student. This practice nationally is referred to as tuition discounting.

This revenue received from nonresident students helps the campus maintain its quality of education and provide adequate services to students. The Board of Regents believes this policy revision results in a framework facilitating the maximization of revenue contribution from nonresident tuition to the overall cost of education of all Montana University System students.

We welcome the support of the Legislative Audit Committee in updating state law, to reflect the current funding structure of the university system, by removing the 2% nonresident limit.

RECOMMENDATION #2

We recommend that Montana State University-Northern develop policy and procedures to comply with Board of Regents' policies related to the campus-affiliated organizations.

MSU-Northern concurs with the recommendation.

MSU-Northern has determined from audit findings and review of BOR policies 901.7, Donations, and 901.14, Payment or Expense Reimbursement for University Employees by Affiliated Organizations, that local policies are warranted and Northern is currently out of compliance. Draft policies are presently in work to restore Northern to compliance. Operationally of note, a records review highlights that Northern and our Foundation have working procedures that do comply the intent of the BOR policies. Review and authorization forms for Foundation payments to employees and departments are processed through the University and no donations were discovered that the University first received and subsequently transferred to the Foundation. It is Northern's and the Foundation's practice that all gifts are processed at the Foundation.