



A REPORT
TO THE
MONTANA
LEGISLATURE

COMPLIANCE AUDIT

*Montana State
University*

*For the Two Fiscal Years Ended
June 30, 2015*

OCTOBER 2015

LEGISLATIVE AUDIT
DIVISION

15-13

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October 2015

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the compliance (formerly financial-related) audit of Montana State University (university) for the two fiscal years ended June 30, 2015. The compliance audit focuses on compliance with federal requirements of the university's Student Financial Assistance (SFA) and Research and Development (R&D) federally-assisted programs. We also test compliance with selected state laws, Board of Regents' policies, and state accounting policies.

This audit report includes 12 recommendations to the university, related to administration of the federally-funded SFA programs, the federally-funded R&D program, the Museum of the Rockies, and the Wool Laboratory. It also includes recommendations related to computer access termination and compliance with Board of Regents' policy.

Our prior financial-related audit report included two recommendations to the university. Due to legislative changes in 2015, one of the prior audit recommendations is no longer applicable. The university partially implemented the other recommendation, which is further addressed in this report.

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

Respectfully submitted,

Tori Hunthausen, CPA
Legislative Auditor

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William Johnstone	February 1, 2017
Robert A. Nystuen	February 1, 2022
Martha Sheehy	February 1, 2021
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Mariah Williams, Student Regent	June 30, 2015
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Denise Juneau, Superintendent of Public Instruction*	
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	Tyler Trevor	Deputy Commissioner for Planning and Analysis/IT
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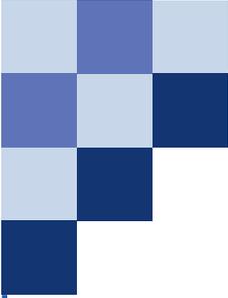
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	Alisha Schroeder	Registrar
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MONTANA LEGISLATIVE AUDIT DIVISION

COMPLIANCE AUDIT Montana State University For the Two Fiscal Years Ended June 30, 2015

OCTOBER 2015

15-13

REPORT SUMMARY

In fiscal years 2014 and 2015, Montana State University spent approximately \$249 million in federal monies for financial aid awards to students. This report includes multiple recommendations to the university regarding improvements in the administration of the federal Student Financial Assistance programs, under which these financial aid awards were made.

Context

The Montana State University (university) consists of campuses located in Bozeman (MSU–Bozeman), Billings (MSU–Billings), Havre (MSU–Northern), and Great Falls (Great Falls College–MSU). We performed procedures at each of these campuses as part of the audit.

Through the audit, we examined the university's compliance with federal regulations governing the Student Financial Assistance (SFA) and Research and Development (R&D) programs. The university recorded approximately \$142.49 million in R&D expenditures in fiscal years 2014 and 2015, 99.44 percent of which were at MSU–Bozeman. As such, our audit efforts focused on compliance with R&D program requirements at MSU–Bozeman. The university also spent approximately \$249.23 million of SFA federal funds in fiscal years 2014 and 2015, of which 84.92 percent were for awards to students at MSU–Bozeman and MSU–Billings. As a result, our audit focused on compliance testing for the SFA programs at the MSU–Bozeman and MSU–Billings campuses.

In addition, we reviewed certain aspects of the operations of the Museum of the Rockies, the Fire Services Training School, and the Wool Laboratory. We also tested select state laws and Board of Regents' policies at each of the campuses we visited as part of the audit.

Results

This report contains 12 recommendations to the university, 5 of which are related to internal control deficiencies over and noncompliance with federal regulations governing the SFA programs at MSU–Bozeman and MSU–Billings.

The remaining recommendations are related to: documentation of review procedures performed for R&D expenses at MSU–Bozeman; noncompliance with policy requirements within the operations of the Museum of the Rockies; deficiencies in internal controls related to accounting and financial reporting for university-owned collections at the Museum of the Rockies, revenue activities at the Wool Laboratory, and computer system access termination; and noncompliance with Board of Regents' policy at MSU–Northern.

Recommendation Concurrence	
Concur	11
Partially Concur	1
Do Not Concur	0
Source: Agency audit response included in final report.	

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Chapter I – Introduction

Audit Objectives

We performed a compliance audit of Montana State University (university) for the two fiscal years ended June 30, 2015. The objectives of the audit were to:

1. Determine whether the university complied with federal regulations applicable to Student Financial Assistance (SFA) and Research and Development (R&D) 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.

Through the audit, we examined the university's compliance with federal regulations governing the SFA and R&D programs. The university recorded approximately \$142.49 million in R&D expenditures in fiscal years 2014 and 2015, 99.44 percent of which were at MSU–Bozeman. As such, our audit efforts focused on compliance with R&D program requirements at MSU–Bozeman. The university also had approximately \$249.23 million of SFA expenditures in fiscal years 2014 and 2015, of which 84.92 percent were at MSU–Bozeman and MSU–Billings. As a result, our audit focused on compliance testing for the SFA programs at the MSU–Bozeman and MSU–Billings campuses.

In addition, we reviewed certain aspects of the operations of the Museum of the Rockies, the Fire Services Training School, and the Wool Laboratory. We also tested select state laws and Board of Regents' policies at each of the campuses we visited as part of the audit.

Background

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)
- ◆ Great Falls College–Montana State University (Great Falls College–MSU)

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, Honors, 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. 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 4,649.33 for fiscal year 2014. Of these positions, 1,273.32 FTE were contract faculty positions. Table 1 (see page 3) shows fiscal year 2014 FTE positions by campus and type. Actual fiscal year 2015 data is not presently available.

Table 1
University Full-Time Equivalent Employee Positions
 Fiscal Year 2014

Agency	Contract Faculty	Contract Administrative	Contract Professional	Classified	Graduate Assistants	Part-Time & Other	Total
MSU–Bozeman	738.17	25.71	689.83	911.48	463.10	418.94	3,247.23
MSU–Billings	214.81	38.80	90.50	208.23	8.68	58.81	619.83
MSU–Northern	85.49	7.00	58.97	60.75		31.75	243.96
Great Falls College	56.80	6.95	31.00	49.80		16.15	160.70
Montana Agricultural Experiment Station	65.72	0.86	33.90	59.48	26.36	11.57	197.89
MSU Extension	112.33		21.85	28.25		9.57	172.00
Fire Services Training School			4.64	1.82		1.26	7.72
Total	1,273.32	79.32	930.69	1,319.81	498.14	548.05	4,649.33

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 FTE enrollment for fiscal year 2015 by residential status.

Table 2
Student Full-Time Equivalent Enrollment by Residential Status
 For Fiscal Year 2015

Campus	Resident	Nonresident	Western Undergraduate Exchange	Total
MSU–Bozeman	8,753	4,021	776	13,550
MSU–Billings	3,392	234	298	3,924
MSU–Northern	958	52	95	1,105
Great Falls College	1,239	37	6	1,282
Total	14,342	4,344	1,175	19,861

Source: Compiled by the Legislative Audit Division from the Office of Commissioner of Higher Education data.

Table 3 shows the university student FTE enrollment for fiscal year 2015 by academic level.

Table 3
Student Full-Time Equivalent Enrollment by Academic Level
For Fiscal Year 2015

Campus	Underclassmen	Graduate	Two-Year	Total
MSU–Bozeman	12,030	1,078	442	13,550
MSU–Billings	2,848	271	805	3,924
MSU–Northern	1,037	68		1,105
Great Falls College			1,282	1,282
Total	15,915	1,417	2,529	19,861

Source: Compiled by the Legislative Audit Division from the Office of Commissioner of Higher Education data.

Table 4 shows the university student FTE enrollment, by campus, for the past four fiscal years.

Table 4
Student Full-Time Equivalent Enrollment
For Fiscal Years 2012–2015

Campus	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
MSU–Bozeman	12,352	12,942	13,374	13,550
MSU–Billings	4,478	4,319	4,153	3,924
MSU–Northern	1,125	1,156	1,148	1,105
Great Falls College	1,465	1,409	1,379	1,282
Total	19,420	19,826	20,054	19,861

Source: Compiled by the Legislative Audit Division from the Office of Commissioner of Higher Education data.

Prior Audit Recommendations

The prior financial-related audit of the university, for the two fiscal years ended June 30, 2013, contained two recommendations. The first recommendation related to noncompliance with a state law limiting the nonresident student tuition waivers to two percent of the full-time equivalent student enrollment. Chapter 73, Laws of 2015, removed the statutory requirement to limit nonresident student tuition fee waivers to two percent. As such, the recommendation is no longer applicable.

The second recommendation related to noncompliance with two Board of Regents' (board) policies at Montana State University–Northern. The university partially implemented this recommendation. The university implemented internal policy necessary to comply with the board policy related to payments and expense reimbursement. However, the university did not implement policy or procedures to comply with the board policy related to donations. This issue is discussed further on page 25.

Chapter II – Findings and Recommendations

Federal Student Financial Assistance Programs

Montana State University (university) administers several federally-funded student financial assistance programs. The objective of these programs is to provide financial assistance to students pursuing postsecondary education. During fiscal years 2014 and 2015, the university awarded student financial assistance to eligible students under the following programs:

- ◆ **Perkins Loan Program (Perkins):** This program provides long-term, low-interest loans to undergraduate and graduate students who have demonstrated financial need. The university maintains campus-specific revolving loan funds for this program, where loan repayments of principle and interest are returned to the fund and used to provide additional loans to eligible students.
- ◆ **Federal Direct Student Loan Program (Direct):** This program makes interest subsidized or unsubsidized loans available to students, or PLUS loans to graduate or professional students or parents of dependent students.
- ◆ **Federal Pell Grant Program (Pell):** This program provides grants primarily to undergraduate students enrolled in eligible programs, who have demonstrated financial need.
- ◆ **Federal Work-Study Program (FWS):** This program provides part-time employment to undergraduate and graduate students who have a demonstrated financial need.
- ◆ **Federal Supplemental Educational Opportunity Grant Program (FSEOG):** This program provides grants to undergraduate students who are of financial need. Priority is given to Pell Grant eligible students at the university who have the lowest expected family contribution.
- ◆ **Nursing Student Loan Program (NSL):** This program provides long-term, low-interest loans to nursing students who have demonstrated financial need. The university maintains a revolving loan fund for this program, where loan repayments of principle and interest are returned to the fund and used to provide additional loans to eligible students.

For fiscal years 2014 and 2015, the university's expenditures under the programs approximated \$249.23 million, of which 84.92 percent were at Montana State University–Bozeman (MSU–Bozeman) and Montana State University–Billings (MSU–Billings). We concentrated our audit efforts for these programs at the MSU–Bozeman and MSU–Billings campuses.

Each of the programs in the list above have associated federal compliance requirements, and federal regulations require the university to establish and maintain internal controls at each campus to reasonably ensure the campus complies with the program

requirements. Our audit procedures identified both deficiencies in internal controls over, and noncompliance with, program requirements for the federally-funded student financial assistance programs at both MSU–Bozeman and MSU–Billings. These control deficiencies and instances of noncompliance are outlined in the following four report sections.

Enrollment Reporting

MSU–Bozeman and MSU–Billings did not report student enrollment information to the United States Department of Education within prescribed time frames. Additionally, MSU–Bozeman’s procedures did not always result in accurate information being reported.

Federal regulations require the university to report to the United States Department of Education’s (Department of Education) National Student Loan Data System (NSLDS) the enrollment status of all students who have received Pell grants or federally-assisted loans, such as Perkins or Direct Loans, from the university. Enrollment statuses can include full-time, half-time, less than half-time, graduated, and withdrawn.

The NSLDS reporting system sets default reporting dates at every two months, but allows institutions to establish individualized enrollment reporting schedules based on key dates in the institution’s academic calendar. NSLDS reporting guidance in effect during the audit period required institutions to report changes in individual student enrollment statuses within 30 days, unless an all-student enrollment report was scheduled for submission within 60 days of the change. Accurate and timely submission of enrollment statuses is important, because the enrollment status is used to determine student eligibility for loan interest subsidies and in-school repayment deferrals, as well as to establish loan repayment dates.

The Registrar’s offices at MSU–Bozeman and MSU–Billings are responsible for completing enrollment reporting. Staff in these offices submit student enrollment data information, obtained from the university’s accounting, human resource, and student data information system (Banner) to the National Student Clearinghouse (NSC). The NSC then reports the information, on behalf of the campuses, to NSLDS. For both campuses, various other parties use the enrollment information reported to NSC and NSLDS. For example, during the audit period, the third-party Perkins Loan servicer for both campuses used enrollment information reported to NSC and NSLDS to determine the date Perkins Loan recipients separated from at least half-time enrollment at the applicable campus, which was used in determining the students’ loan repayment dates.

MSU–Bozeman

MSU–Bozeman did not report timely, and in some instances, accurate enrollment status changes for multiple students who graduated during the audit period. For example, one student we reviewed graduated in May 2014. To comply with NSLDS guidance, the campus should have reported the student’s status change to NSC and NSLDS no more than 60 days after graduation. The university did not report a status change for the student until September 2014, and at that time, reported the student as withdrawn instead of graduated. As of May 2015, the university had not reported the student’s graduation to NSC and NSLDS.

Internal controls at MSU–Bozeman did not detect the noncompliance. After we brought the issue to their attention, Registrar’s Office personnel performed further analysis and determined the noncompliance was not isolated to those students we reviewed in our audit work. For example, personnel estimated the campus did not report graduation statuses for 157 students who graduated from the Summer 2013 through Fall 2014 semesters.

Staff attribute the noncompliance to several factors, most prominently the frequency and timing of submissions to NSC and deficiencies in the electronic reporting systems at NSC and NSLDS. During the audit period, MSU–Bozeman reported student enrollment statuses to NSC based on default reporting dates with NSC’s system. These dates did not always correspond to campus-specific academic calendar dates, which caused timing issues for reporting. Additionally, staff indicated they, and peer financial aid administrators from other institutions across the nation, have identified and communicated deficiencies in the electronic reporting systems currently made available to them by Department of Education. While MSU–Bozeman was aware of these deficiencies, they chose to continue reporting electronically, due in part to the additional human resources that would be necessary to report manually.

MSU–Billings

MSU–Billings did not consistently report student enrollment status changes within federally-prescribed time frames for students who graduated during the audit period. Our review identified the following instances of untimely status change reporting.

- ♦ Spring 2014 Semester – two students we reviewed graduated in May 2014, but the campus did not report any change in enrollment status until September 2014, approximately 120 days after the students’ enrollment changes actually occurred.
- ♦ Fall 2014 Semester – one student we reviewed graduated in December 2014, but the campus did not report any change in enrollment status until

February 2015, 63 days after the student's enrollment change actually occurred.

- ◆ Spring 2015 Semester – three students we reviewed graduated in April 2015, but the campus did not report any change in enrollment status until September 2015, approximately 125 days after the students' enrollment changes actually occurred.

Staff in the Registrar's Office were not aware their procedures resulted in untimely reporting of status changes during the audit period. Based on our review, the untimely reporting for the Fall 2014 semester was a result of timing differences between the date the student's degree was reported in the Banner system, and the dates the university submitted enrollment files to NSC in February 2015. For the Spring 2014 and Spring 2015 semesters, staff are in the process of researching why enrollment status changes were not reported timely. Staff indicated they believe the untimely reporting is due in part to changes in the electronic reporting process that occurred during the audit period.

Summary

As outlined in the preceding paragraphs, MSU–Bozeman and MSU–Billings did not report student enrollment information to Department of Education within federally-prescribed time frames, and MSU–Bozeman did not always report accurate enrollment information. The untimely enrollment reporting negatively impacted students whose Perkins Loans entered into repayment status during the audit period. As discussed in greater detail within the Perkins Loan Program Student Repayment Due Care and Diligence section on page 11, multiple students were not provided proper Perkins Loan exit counseling or were not sufficiently contacted during their Perkins Loan grace periods as a result of untimely enrollment reporting.

RECOMMENDATION #1

We recommend:

- A. *MSU–Bozeman implement internal control procedures to ensure accurate and timely submission of student enrollment status changes to the National Student Loan Data System.*
 - B. *MSU–Bozeman and MSU–Billings comply with requirements governing the Federal Perkins Loan, Federal Direct Loan, and Federal Pell Grant programs by reporting accurate student enrollment status changes to the National Student Loan Data System within prescribed time frames.*
-

Perkins Loan Program Student Repayment **Due Care and Diligence**

Internal controls at MSU–Bozeman and MSU–Billings were not sufficient to ensure all students received exit counseling or notices pertaining to their loan repayment status in accordance with federal regulations governing the Perkins Loan Program.

Federal regulations require institutions participating in the Perkins Loan Program to exercise due care and diligence in the collection of student loans. Under federal regulations, institutions must ensure:

- ◆ Loan exit counseling is conducted shortly before a student ceases at least half-time study at the institution, and
- ◆ A student is contacted three times during the initial nine-month grace period for the loan, at 90, 150, and 240 days into the grace period.

These due care and diligence requirements give student borrowers an opportunity to improve their capability to repay their loans. Exit counseling includes discussion of key items, such as repayment terms, the importance of repayment, the likely consequences of default, and debt management strategies. Contact during the borrower's grace period ensures the borrower is made aware of impending repayment requirements.

We reviewed the repayment due care and diligence procedures used by both campuses, including the services contracted-out and those performed in-house, to determine whether they were sufficient to comply with federal regulations. Based on our review, the procedures at both campuses were not adequate to ensure compliance with the repayment due care and diligence requirements.

Contracted Grace Period Contact and Exit Counseling Services

MSU–Bozeman and MSU–Billings contracted with a third party (contractor) to act as the loan servicer for the Perkins Loans issued by each campus, including performing portions of the student repayment due care and diligence federal compliance requirements. During the audit period, both MSU–Bozeman and MSU–Billings utilized the contractor to contact students during their grace periods. MSU–Bozeman also utilized the contractor to provide exit counseling to students.

The contractor's computer system is designed to send documents to students, including exit counseling packets and grace period communications, timed based on the date the student is expected to cease at least half-time study at the campus. This date is referred

to as the student's separation date. The campus can either report student separation dates directly to the contractor or have the contractor obtain student separation dates from enrollment information the campus Registrar's Office reported to the National Student Clearinghouse (NSC). This enrollment information includes student enrollment status changes that constitute separation from the campus for Perkins Loan repayment purposes. During the audit period, MSU–Bozeman and MSU–Billings opted to have the contractor obtain student separation dates from NSC.

We identified untimely reporting of enrollment status changes to NSC at both campuses during the audit period. In some instances, the Registrar's Offices did not report student enrollment status changes, constituting separation for Perkins Loan repayment purposes, to NSC until months after the status change actually occurred. In those instances, the contractor's system did not send an exit counseling packet because the separation date had already occurred. Similarly, the contractor's system did not send a grace period communication if the 90-day, 150-day, or 240-day date trigger had already passed at the time the student's enrollment status was updated.

As part of our review at MSU–Bozeman, we identified three students who did not receive exit counseling packets or 90-day and 150-day grace period communications. For these students, the 240-day grace period notice was the first contact the students received about entering into repayment status on their loans. At that time, the students were approximately one month out from the start of repayment on their loans. After we brought the issue to management's attention, personnel performed further analysis, and estimated that out of 749 loans entering into repayment during the audit period, exit counseling was not provided for 285 loans. Additionally, 90-day, 150-day, and 240-day grace period communications were not sent on 150, 184, and 1 loans, respectively. As part of our review at MSU–Billings, we identified three students who did not receive at least one grace period communication.

At both campuses, personnel responsible for Perkins student loan accounts were not aware of the time delay in reporting enrollment status changes by the Registrar's Offices, and were not aware some student borrowers did not receive all of the required documents associated with their loan repayment. For the students impacted, the communications provided to the students regarding their Perkins Loan repayments were not adequate under federal regulations.

In-House Exit Counseling

MSU–Billings personnel perform in-house exit counseling for students with Perkins Loans. At the end of each semester, personnel compile a list of students who graduated or withdrew from the university during the semester and have Perkins loan balances

with the university. Exit counseling with these students is then conducted several months after the end of the semester. This process is not designed to conduct exit counseling prior to a student's separation from the university, as is required by federal regulations.

Personnel indicated they were not aware of the requirement to conduct exit counseling prior to a student's separation from the university. Based on our review and discussion with personnel, exit counseling did not occur within the federally-mandated time frames for the 70 students whose loans entered into repayment during the audit period. For the semesters ended December 2013 and May 2014, exit counseling occurred in March 2014 and October 2014, respectively, three to five months after the end of the semester. For the semesters ended December 2014 and May 2015, as of our inquiry at the end of May 2015, no exit counseling had occurred.

Summary

The exit counseling and grace period contact procedures used at MSU–Bozeman and MSU–Billings were not adequate to ensure students received exit counseling or all grace period communications within the applicable time frames in federal regulations, and internal controls did not detect the noncompliance. While not all students were adequately contacted by the university regarding loan repayment, the students are still responsible for repayment of their loans.

RECOMMENDATION #2

We recommend:

- A. *MSU–Bozeman and MSU–Billings implement internal control procedures to ensure accurate student separation dates are provided to the loan servicer in a timely manner.*
 - B. *MSU–Billings modify internal control procedures to ensure exit counseling occurs prior to a student's separation from the campus.*
 - C. *MSU–Bozeman and MSU–Billings comply with requirements of the Federal Perkins Loan Program by conducting exit counseling prior to students' separation from the university and providing three notices during students' grace periods.*
-

Return of Title IV Funds

MSU–Bozeman did not process returns of Title IV program funds within federally-prescribed time frames for students who unofficially withdrew during the audit period.

Several of the federal student financial assistance programs listed on page 7 are authorized under Title IV of the Higher Education Act (Title IV), including the Perkins Loan, Direct Loan, Pell Grant, FSEOG, and FWS programs. When a student who has received financial assistance under one of these programs withdraws from the university during a period in which Title IV funds were disbursed, the university is required to determine the amount of Title IV financial assistance the student earned as of the withdrawal date. This determination is based on a formula established in federal regulations. In cases where the university determines the amount of Title IV assistance earned by the student is less than the amount disbursed to the student, the university is required to return the difference to the Title IV programs so that it is available to be awarded to other eligible students.

Federal regulations also stipulate the time frame in which the university is required to return funds. For students who withdraw without providing notification to the university (unofficially withdraw), the university has 30 days from the end of the earlier of the following events to determine the student's withdrawal date: (1) the payment period or period of enrollment from which the student withdrew; (2) the academic year in which the student withdrew; or (3) the educational program from which the student withdrew. The university then has an additional 45 days to return funds to the Title IV programs.

We reviewed a sample of students who withdrew during the audit period to determine whether MSU–Bozeman's return of Title IV fund calculations were accurate and if any necessary returns were made within the federally-prescribed time frames. We determined MSU–Bozeman accurately completed the return of Title IV fund calculations during the audit period; however, MSU–Bozeman did not return funds within the federally-prescribed time frame for students who unofficially withdrew.

Of the students reviewed in our sample, MSU–Bozeman was required to return Title IV funds for 15 students. For 4 of these 15 students, the university did not return funds in a timely manner. Each of the untimely returns were for students who unofficially withdrew during the audit period. The university did not return these students' Title IV funds until between 84 and 90 days after the end of the applicable semester. Management attributed these errors to staff misapplication of the federal

regulations, noting staff started the 75-day clock as of the date student grades were posted to the Banner system, not as of the last day of class for the semester in which the student withdrew.

RECOMMENDATION #3

We recommend MSU–Bozeman comply with federal compliance requirements by returning Title IV funds within the prescribed time frame for students who unofficially withdraw from the university.

Data File Reconciliations for the Direct Loan Program

MSU–Bozeman and MSU–Billings did not reconcile their internal Direct Loan financial data to United States Department of Education data within the federally-prescribed time frame.

Federal regulations require the university to report all Direct Loan disbursements, made by the university, to the United States Department of Education (Department of Education) within 30 days of the funds being disbursed. Each campus reports their disbursements to the Direct Loan Servicing System via the Common Origination and Disbursement (COD). Each month, COD provides each campus with data files summarizing the campus's direct loan processing activities for the month.

Each campus has until July of the year following the aid year to close out its Direct Loan program for the aid year. For example, campuses had until July 2015 to close out the 2013-14 aid year. Because of this, a campus can have multiple aid years active during a particular month. COD provides individual data files for each aid year active at the campus during the month. Federal regulations require campuses to reconcile these data files to their internal records on a monthly basis.

The reconciliation process is a crucial step in maintaining financial responsibility for Direct Loan funds and ensures the Department of Education's Direct Loan records are accurate. According to guidance published by the Department of Education, the monthly reconciliation process involves identifying any discrepancies due to timing and tracking them to make sure that the missing transactions appear in the next month's data file, as well as identifying any discrepancies due to misreporting or internal miscommunication and taking necessary corrective actions to ensure they will not recur in the following month.

MSU–Bozeman

At MSU–Bozeman, staff did not reconcile data files as they were received. Staff did not prioritize the reconciliations because management did not believe there was an expectation for the files to be reconciled within a particular time frame. Management stated that so long as each individual data file was reconciled prior to the aid year closeout, the campus was in compliance with federal regulations.

Based on our review, many data files remained unreconciled for several months. As of May 2015, 16 of the 2013-2014 aid year and 4 of the 2014-2015 aid year monthly data files had not been reconciled. Because data files were not reconciled as they were received, and many files remained unreconciled for an extended period of time, MSU–Bozeman did not comply with the monthly reconciliation requirement during the audit period. Based on our review of guidelines published by the Department of Education and discussion with program personnel at Department of Education, the intent of the federal regulation requiring reconciliation on a monthly basis is to reconcile each month's data file as it is received, prior to the receipt of the following month's file. This allows an institution to identify errors and take corrective action before receipt of the next month's file, ensuring the data file is accurate.

RECOMMENDATION #4

We recommend MSU–Bozeman comply with federal requirements governing the Direct Loan Program by reconciling the Direct Loan data files on a monthly basis.

MSU–Billings

At MSU–Billings, the Office of Financial Aid and Scholarships is responsible for completing the data file reconciliations. The office underwent a change in leadership during the audit period, resulting in reassignment of duties among staff within the office. As part of this process, the responsibility for monthly data file reconciliation was not assigned. Internal controls within the office did not identify the uncompleted reconciliations. When we brought this issue to management's attention in February 2015, the 2014-2015 aid year data files for August 2014–January 2015 had not been reconciled. Management assigned reconciliation responsibility to a staff person after we brought the issue to their attention, and as of May 2015, the campus had reconciled all of the available data files for the 2014-2015 aid year.

RECOMMENDATION #5

We recommend MSU–Billings:

- A. *Implement internal control procedures to ensure the Direct Loan data files are reconciled monthly.*
 - B. *Comply with federal regulations governing the Direct Loan program by reconciling the Direct Loan data files on a monthly basis.*
-

Museum of the Rockies

The Museum of the Rockies (MoR) is a department of Montana State University (university) located on the MSU–Bozeman campus. The MoR is intended to promote appreciation, understanding, and interest in natural history, history, art, and culture of the Northern Rocky Mountain region, and to advance the educational purposes and cultural interests of the university.

We reviewed various aspects of MoR, including the insured values of university-owned MoR collections, the accounting and financial reporting for additions to the university-owned MoR collections, and the agreement between the university and the affiliated organization that helps operate MoR. Our audit procedures identified instances of noncompliance with university and state insurance policy requirements, as well as a deficiency in internal controls. These items are discussed in the following three report sections.

Insured Values of University-Owned Collection Items

The insured values of museum and fine arts collections at the Museum of the Rockies are not supported by reasonable estimates of market value, as required by state policy.

The university-owned collections at the MoR are insured through the state's Risk Management Tort Defense Division (RMTD) at Department of Administration. The state's fine arts insurance program at RMTD requires participating entities to report annually the estimated market values for all insured items, by location. This information is used by RMTD as a basis in determining the value of property to insure each year. To comply with the RMTD insurance program requirements, MSU–Bozeman Safety and Risk Management guidance requires university departments to

report estimated market values of exhibited and stored items, along with a description of the insured objects.

In January 2015, MSU–Bozeman reported to RMTD approximately \$64.5 million as the market value for items in the MoR’s collections. Of this amount, \$60 million was reported as the value for various exhibited and stored fine arts and collectibles, dinosaur artifacts and skeletons, paleontology holdings, and loaned items that are part of the MoR’s permanent collections. The university was not able to provide us with documentation supporting the \$60 million estimated value of exhibited and stored items.

During our review, the university provided us with communications between MSU–Bozeman Safety and Risk Management, MoR, and RMTD staff occurring in December 2012 and January 2013, related to the insurance values for MoR collections to be reported in January 2013. In one of those communications, MoR staff indicated they did not believe it was ethical to assign values to collection items, and that the \$60 million reported value for exhibited and stored items was estimated several years prior and was no longer accurate. In response, RMTD staff advised MSU–Bozeman Risk Management and MoR staff that the purpose of estimating values was to provide the state’s insurance carriers with reasonably accurate values for insurance purposes, and that failure to do so may result in losses in excess of the limits of coverage in policy or coverage disputes after loss.

While the MSU–Bozeman Risk Management and MoR staff were provided with this guidance while reporting values for insurance purposes for the January 2013 reporting, the values reported during the January 2015 required reporting had not changed and were not supported by reasonable estimates of market value. Management stated the MoR does not currently have the resources necessary to maintain and report a list of items in the collections in accordance with policy requirements, and that doing so is beyond practicality due to the large number of items housed at the museum. In response to similar resource concerns expressed in 2013, RMTD personnel suggested several options to MSU–Bozeman Risk Management and MoR staff, including utilizing existing university staff, such as curators or student interns, to create the listing and periodically update it once it is established.

Without a reasonable basis for determining the value at which to insure museum collections, the university may be unable to support a claim. Additionally, the university may be over or under-insuring the collection, which could result in the university either incurring more insurance costs than necessary or not being financially able to

reestablish the collections, and continue to accomplish its cultural and educational purposes, in the event of a loss.

RECOMMENDATION #6

We recommend the university ensure the insurance valuations reported for museum and fine arts collections of the Museum of the Rockies are supported by documented, reasonable estimates of market value, in accordance with Risk Management Tort Defense insurance program requirements.

Internal Controls Over Accounting and Financial Reporting of Additions to the Museum Collections

Internal controls at Montana State University–Bozeman were not sufficient to ensure all items donated to the Museum of the Rockies were capitalized in accordance with state accounting policy.

State accounting policy requires the university to establish and maintain internal controls over financial reporting. MSU–Bozeman’s internal controls were not sufficient to ensure items donated to the MoR were communicated to university Financial Services staff for accounting and financial reporting purposes. This resulted in the misstatement discussed below.

State accounting policy requires the university to capitalize museum and fine art collections acquired either by purchase or donation, valued at \$5,000 or more, at the time of acquisition. In the fiscal year 2014 financial statements, the university reported approximately \$5.3 million of capitalized museum and fine art assets. Of this amount, approximately \$4 million was for university-owned assets at the MoR.

Based on our review and discussion with university Financial Services staff during the audit, the reported \$4 million amount does not include a collection donated to MoR in fiscal year 2010. The donated collection was appraised at approximately \$1.4 million near the time of donation. While this collection exceeded the capitalization threshold in state accounting policy, university Financial Services personnel were not aware of the donation when it was made, and therefore did not consider the collection for accounting and financial reporting purposes. As a result, the university’s reported capital assets in the fiscal year 2014 financial statements did not include the collection. After we brought this issue to their attention, Financial Services staff reviewed

the collection for accounting and financial reprinting purposes, and capitalized approximately \$445 thousand for items in the collection that were valued at or above the capitalization threshold in state accounting policy.

RECOMMENDATION #7

We recommend MSU–Bozeman develop and implement internal controls to ensure additions to university-owned collections at the Museum of the Rockies are capitalized in accordance with state accounting policy.

Operating Agreement

The Museum of the Rockies operating agreement between the university and the affiliated organization that helps operate the museum does not contain all elements required by university policies.

The MoR's operations are governed by an operating agreement between the university and a nonprofit 501(c)(3) organization (corporation). The university identifies the corporation as an affiliated organization and a component unit of the university. Entities included as component units of the university are nonprofit, tax-exempt organizations operating exclusively for the purposes of encouraging, promoting, and supporting educational programs, research, scholarly pursuits, and athletics at, or in connection with, the university.

In 2004 and 2005, as directed by the Board of Regents, the university developed and implemented internal policies governing certain activities with affiliated organizations. These policies contain specific requirements related to formal agreements between the university and the affiliated organization, outlining what must be included in the agreements. We found that the museum's current operating agreement, signed in 1989, does not contain several provisions required under current university policies. Missing items include:

- ◆ The corporation's conflict of interest policy.
- ◆ The spending policy addressing the corporation's rules for payment to, or reimbursement of, university employees and departments.
- ◆ The corporation's compliance with federal, state, and other laws and regulations applicable to such organizations.
- ◆ A requirement for audit of the financial records of the corporation.

- ◆ A provision protecting both parties against conflict of interest in the performance of the agreement or contract.

The policy provisions, including those in the list above, are designed to align operating agreements with requirements in other university policies, define responsibilities of the parties involved, and mitigate conflicts that could arise in the normal course of business. As such, the operating agreement between the university and the corporation, governing the operation of the MoR, should include the provisions required under current university policy.

RECOMMENDATION #8

We recommend the university ensure the Museum of the Rockies operating agreement between the university and the corporation includes all provisions required by university policy.

Inadequate Documentation of Review Procedures

Fiscal manager review of expenses charged to Research and Development grant funds at MSU–Bozeman was not consistently documented during the audit period.

MSU–Bozeman’s Office of Sponsored Programs (OSP) provides centralized oversight and management activities for the university’s sponsored programs, including research and development (R&D) grants funded by the federal government. OSP staff include fiscal managers, who provide accounting, administrative, and financial functions for pre- and post-award activities on grants administered by the university. Fiscal managers are involved with grants from the proposal through close-out stages. OSP internal policies require fiscal managers to review certain transactions charged to grants they manage, prior to the costs being paid by the university. Reasons for fiscal manager review include: 1) the transaction being coded to a potentially sensitive account, as identified by OSP, including travel, equipment, advertising, and recruiting; 2) the grant not having adequate funding available for the expense; and 3) the expense being incurred outside the grant period. This transaction review process is one of the key ways in which fiscal managers monitor the reasonableness of expenses charged to the grants they manage.

As part of our audit work over the federal R&D program at MSU–Bozeman, we selected transactions charged to grant funds to review for proper approval in accordance with university policy. Through this work, we noted the fiscal manager review and approval required by OSP internal policy is not consistently documented, and in some instances, is not documented at all. While OSP policy requires fiscal manager review, policy does not address how the review is to be documented or require the review to be documented. This is a weakness in the design of the fiscal manager review internal control.

Federal regulations require the university to establish and maintain internal controls designed to reasonably ensure compliance with regulations and program compliance requirements. Because fiscal manager review procedures are not consistently documented, OSP management cannot demonstrate the control was consistently applied throughout the audit period. Additionally, since documentation of review is not required, there is risk that transactions requiring review may not actually be reviewed prior to payment and the related expenses charged may not be reasonable. In our review of grant expenditures, we identified one unallowable charge, for approximately \$15.00.

RECOMMENDATION #9

We recommend MSU–Bozeman modify internal control procedures to ensure fiscal manager transaction review is consistently documented.

Controls Over Invoicing and Revenue Collection at the Wool Laboratory

Internal controls over revenue activities at the Wool Laboratory were not adequately designed to ensure all payments received were deposited and amounts invoiced to clients were reasonable.

The Wool Laboratory (lab) is established in state law, and is a part of the Agricultural Experiment Station at Montana State University (university). The purpose of the lab is to perform scientific and practical research and testing, in order to develop a complete and accurate knowledge of wools. As part of accomplishing this purpose, the lab performs testing of wool and fabric samples. The lab has a standard fee schedule for testing, and allows customers to either pay their fees prior to testing or be invoiced after testing.

Under state accounting policy, the university is required to establish and maintain a system of internal controls over activities at the lab, including revenue activities such as invoicing, payment collection, and deposit of payments received. Policy states, at a minimum, internal controls should ensure certain duties within the revenue collection cycle be segregated. For example, policy notes individuals who are responsible for performing billing activities should not be involved in collecting or processing cash receipts. Policy further advises that in an operation where a large volume of payments are received by mail, more than one person should be assigned to the mail opening process.

We performed a procedural review of the lab's invoicing and revenue collection activities, and determined internal controls were not adequate to ensure all payments received by mail were deposited and amounts invoiced to clients were reasonable. Lab management did not recognize the weaknesses in internal controls, discussed in greater detail below.

During the audit period, a lab employee, either the lab manager or a student worker, opened the lab's mail. If the mail contained a payment, the employee made a copy of the payment to be filed with the paperwork for the related sample. Payments were then given to the Animal Range Sciences accountant for deposit. No supporting documentation was provided to the accountant. Therefore, the accountant had no expectation of the dollar amount that should have been received and deposited, and could not verify all mailed-in payments were remitted for deposit. Similarly, management could not verify whether all payments remitted to the accountant were actually deposited. Under these procedures, both the staff opening the mail and the accountant preparing the deposit were in a position to misappropriate customer payments. The lab's customers commonly mail in cash payments, which are especially susceptible to theft.

For clients who did not pre-pay, the lab sent invoices after the tests had been completed. The lab manager, who performed or oversaw the tests and was responsible for the overall operations of the lab, prepared the invoices. The invoices were not reviewed by anyone for reasonableness or accuracy. The manager, therefore, was in a position to over- or under-bill customers for services performed. Additionally, the lab manager was involved in both billing activities and processing payments received via the mail. In order for duties to be adequately segregated, the individual responsible for billing activities should not be involved in collecting or processing payments.

RECOMMENDATION #10

We recommend the university implement internal control procedures at the Wool Laboratory to ensure all payments received by mail are deposited and adequate segregation of duties exists between the customer invoicing and subsequent payment processing functions.

Controls Over Computer Access Termination**Internal controls were not sufficient to ensure cancellation of Banner access upon employee termination.**

The Banner system (Banner) is a comprehensive computer information system used to assist in the administration of financial, human resource, student, and financial aid records. Banner is critical in supporting the university's operations, and as such, access to the system should be restricted to those individuals who have a business need. Access to Banner for all university locations is controlled by information technology staff at MSU–Bozeman. Access for employees at all campuses is granted and terminated by MSU–Bozeman staff, based on requests submitted from the specific campus. Banner is accessible on any computer on the campus network.

Internal controls were not sufficient to ensure timely cancellation of Banner system access for terminated employees at MSU–Bozeman and MSU–Northern. We identified the following Banner access issues:

- ◆ Nine former MSU–Bozeman employees, with termination dates ranging between February 2011 and May 2015, had active Banner accounts as of August 2015.
- ◆ For five former MSU–Northern employees, with termination dates in fiscal year 2015, Banner access cancellation occurred between 1 week and 8 months after termination.

For both campuses, university procedures were not sufficient to ensure employee terminations were communicated to the information technology personnel at MSU–Bozeman. At MSU–Northern, there were no procedures in place to require this type of communication. For one MSU–Northern employee, MSU–Bozeman personnel indicated they did not receive notification of the employee's termination from MSU–Northern, but rather became aware of the termination through other means. For two employees, one at MSU–Bozeman and one at MSU–Northern, access was cancelled when audit staff inquired as to the date of the access cancellation.

Untimely cancellation of Banner access increases the risk of unauthorized use and could result in a compromise of the systems and its data integrity. Industry best practices indicate an institution's controls over access to information systems should be designed to notify account managers when accounts are no longer required and when users are terminated or transferred. Additionally, the university's internal Banner security procedures require Banner access to be reviewed at least annually. Based on that policy, the review is intended, in part, to ensure access remains appropriate according to users' job duties and responsibilities.

RECOMMENDATION #11

We recommend the university develop and implement internal controls to ensure access to Banner is cancelled promptly upon employee termination.

Board of Regents' Policy Related to Donations

Montana State University–Northern procedures over processing donations do not comply with Board of Regents' policy requirements.

Board of Regents' (board) policy requires cash donations received by any campus and made payable to that campus be deposited as university assets and recorded on the university's accounting records unless documentation clearly provides evidence of other donor intent or identifies the donation is a result of campaigns or solicitations from a separately incorporated foundation acting on behalf of the campus. If this is the case, the campus can forward the donations to its foundation, but is required to maintain copies of the documentation supporting the transfer.

In the prior audit, we noted MSU–Northern did not have policy in place related to this board policy, and procedures over processing donations did not comply with the requirements in board policy. All donations received by MSU–Northern were forwarded to the MSU–Northern Foundation, with no documentation supporting the transfer to the Foundation. Our prior audit report included a recommendation that MSU–Northern develop policy and procedures to comply with this board's policy.

During the current audit, we noted MSU–Northern has not changed its procedures related to processing donations received. University staff indicated they were not aware their procedures were not in compliance with policy. They believed the recommendation

in the prior audit report required them to implement written policies governing their practices, not that their practices were contrary to policy requirements.

RECOMMENDATION #12

We recommend MSU–Northern comply with Board of Regents’ policy requirements governing the deposit of donations.

MONTANA STATE
UNIVERSITY

UNIVERSITY RESPONSE



October 12, 2015

RECEIVED

OCT 13 2015

LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
Post Office Box 201705
Helena, Montana 59620-1705

Dear Ms. Hunthausen:

Enclosed you will find Montana State University's responses to the recommendations from the Legislative Audit Division Compliance Audit report for the two fiscal years ended June 30, 2015. MSU appreciates the Legislative Audit Divisions' work, and its identification of areas for improving the university's operations.

Montana State University thanks you and your staff for your efforts.

Sincerely,

A handwritten signature in black ink, appearing to read 'Waded Cruzado'.

Waded Cruzado
President

Enclosure

Office of the President

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Tel 406-994-2341
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MONTANA STATE UNIVERSITY
Response to Legislative Audit Division Compliance Audit
For the Two Fiscal Years Ended June 30, 2015

RECOMMENDATION #1

We recommend:

- A. MSU-Bozeman implement internal control procedures to ensure accurate and timely submission of student enrollment status changes to the National Student Loan Data System.*
- B. MSU-Bozeman and MSU-Billings comply with requirements governing the Federal Perkins Loan, Federal Direct Loan, and Federal Pell Grant programs by reporting accurate student enrollment status changes to the National Student Loan Data System within prescribed time periods.*

A. MSU-Bozeman concurs with the recommendation.

B. MSU-Bozeman and MSU-Billings concur with the recommendation.

MSU-Bozeman understands the importance of accuracy and timeliness in complying with the Federal regulations related to enrollment reporting.

MSU-Bozeman will develop, document, and implement internal control procedures to ensure accurate and timely submission of student enrollment status changes to the National Student Loan Data System. In doing so MSU-Bozeman will ensure compliance with requirements governing the Federal Perkins Loan, Federal Direct Loan, and Federal Pell Grant programs by reporting accurate student enrollment status changes to the National Student Loan Data System within prescribed time frames.

MSU-Billings will continue to research why enrollment status changes were not reported consistently within the federally-prescribed time frames to the National Student Loan Data System.

MSU-Billings will implement procedures to comply with requirements governing timely reporting of student enrollment information.

RECOMMENDATION #2

We recommend:

- A. MSU-Bozeman and MSU-Billings implement internal control procedures to ensure accurate student separation dates are provided to the loan servicer in a timely manner.*
- B. MSU-Billings modify internal control procedures to ensure exit counseling occurs prior to a student's separation from the institution.*

C. MSU-Bozeman and MSU-Billings comply with requirements of the Federal Perkins Loan Program by conducting exit counseling prior to students' separation from the university and providing three notices during students' grace periods.

A. MSU-Bozeman and MSU-Billings concur with the recommendation.

B. MSU-Billings concurs with the recommendation.

C. MSU-Bozeman and MSU-Billings concur with the recommendation.

For MSU-Bozeman, in response to Recommendation #2A, the implementation of changes in response to Recommendation #1 will result in loan servicers receiving accurate student separation dates through the National Student Loan Data System (NSLDS).

In response to Recommendation #2C, MSU-Bozeman is manually computing the dates of separation, rather than relying on data provided to the NSLDS, to ensure that students receive adequate and timely communications.

MSU-Billings found there is an inconsistency of the separation dates entered into the national clearing house and the loan service company. The university is looking into alternatives for identifying the separation dates, ensuring exit interviews are completed prior to the student leaving the institution, and completing a minimum of three notifications within the grace period.

RECOMMENDATION #3

We recommend MSU-Bozeman comply with federal compliance requirements by returning Title IV funds within the prescribed time frame for students who unofficially withdraw from the university.

MSU-Bozeman concurs with the recommendation.

Corrective action has been taken to ensure that unofficial withdrawal calculations are performed within the mandated timeframe.

RECOMMENDATION #4

We recommend MSU-Bozeman comply with federal compliance requirements governing the Direct Loan Program by reconciling the Direct Loan data files on a monthly basis.

MSU-Bozeman concurs with the recommendation.

We have always intended to reconcile on a monthly basis, but fell behind due to significant staff turnover. We have compensating controls through our daily and weekly reconciliation activities which kept us in compliance with cash management and disbursement rules. Per instructions from the US Department of Education, we will document the reason for the delay as we return to a regular and timely monthly reconciliation process. We completed all monthly reconciliations

for the 13/14 award year and closed-out by the July 31, 2015 deadline. We are now working on 14/15 and will be current very soon.

RECOMMENDATION #5

We recommend MSU-Billings:

- A. *Implement internal control procedures to ensure the Direct Loan data files are reconciled monthly.*
- B. *Comply with federal regulations governing the Direct Loan program by reconciling the Direct Loan data files on a monthly basis.*

A. MSU-Billings concurs with the recommendation.

B. MSU-Billings concurs with the recommendation.

The necessary steps were taken by the MSU-Billings Office of Financial Aid & Scholarships and the Financial Services Office to ensure compliance with 34 CFR 685.300(b)(5), and monthly reconciliation has been and continues to be completed using the School Account Statement (SAS).

RECOMMENDATION #6

We recommend the university ensure the insurance valuations reported for museum and fine arts collections of the Museum of the Rockies are supported by documented reasonable estimates of market value, in accordance with Risk Management Tort Defense Insurance Program requirements.

MSU-Bozeman conditionally concurs with the recommendation.

The Museum of the Rockies will continue to catalog its collection over time and will obtain market values as time and resources permit in order to improve its estimate of the market value of the collection.

RECOMMENDATION #7

We recommend MSU-Bozeman develop and implement internal controls to ensure additions to university-owned collections at the Museum of the Rockies are capitalized in accordance with state accounting policy.

MSU-Bozeman concurs with the recommendation.

MSU-Bozeman has previously developed and implemented internal controls with respect to donated assets, including adoption of a policy requiring reporting of donated capital assets. The property management office has provided training for staff to clarify that collection items donated to the Museum of the Rockies qualify as assets to be reported in accordance with the policy.

RECOMMENDATION #8

We recommend the university ensure the Museum of the Rockies operating agreement between the university and the corporation includes all provisions required by university policy.

MSU-Bozeman concurs with the recommendation.

MSU-Bozeman will ensure that arrangements between the university and the corporation are in compliance with university policy.

RECOMMENDATION #9

We recommend MSU-Bozeman modify internal control procedures to ensure fiscal manager transaction review is consistently documented.

MSU-Bozeman concurs with the recommendation.

We concur that the documentation of fiscal manager review is not consistent, but this does not imply that a thorough review has not taken place. We will have an approval stamp made that will be permanently affixed/stamped to each Banner Payment Authorization that will delineate consistent signature/approval line for the fiscal manager so that approvals are clearly documented and easy to locate. The Office of Sponsored Programs will modify our current written procedures to reflect this change.

RECOMMENDATION #10

We recommend the university implement internal control procedures at the Wool Laboratory to ensure all payments received by mail are deposited and adequate segregation of duties exists between the customer invoicing and subsequent payment processing functions.

MSU-Bozeman concurs with the recommendation.

To ensure that all payments received are deposited, payments to the Wool Lab will be directed to the Department of Animal & Range Sciences accountant. The accountant will use a pre-numbered cash receipt book that is dedicated to Wool Lab revenue and will create a separate receipt for each payment. The top copy of each receipt will be provided to the Wool Lab to reconcile with its invoice records, and middle copies will be attached to deposits.

To ensure that amounts invoiced to customers are reasonable, a Wool Lab faculty member will review invoices for reasonableness and accuracy.

Since the Wool Lab manager will no longer be receiving payments, the Wool Lab will have adequate segregation of duties between issuing bills and collecting or processing cash receipts.

RECOMMENDATION #11

We recommend the university develop and implement internal controls to ensure access to Banner is cancelled promptly upon employee termination.

MSU-Bozeman and MSU-Northern concur with the recommendation.

For MSU-Bozeman, the “Termination Checklist” process is under review and will be modified to include additional controls, specifically the inclusion of student employees, to ensure timely and appropriate action is taken on Banner accounts when employment is terminated. Additionally, a new account reconciliation report has been developed which will provide a list of any active accounts belonging to individuals that do not have an active job in Banner. This automated report will inform a new monthly procedure that will supplement the Termination Checklist to ensure proper account management.

MSU-Northern’s Human Resources office was unaware that request for Banner removal had to be directed to MSU-Bozeman’s IT Center. As a result of this finding, Northern has incorporated an additional step in the “MSUN Employee Check Out List” that alerts Northern’s Registrar’s Office to submit processing requests to MSU-Bozeman’s IT Center to remove departing employees from the Banner system.

RECOMMENDATION #12

We recommend MSU-Northern comply with Board of Regents’ policy requirements governing the deposit of donations.

MSU-Northern concurs with the recommendation.

To correct this deficiency, Northern has created a new policy, “807.2 Acceptance and Processing of Gifts.” In addition, the Business Office has established a file for all donations that are forwarded to the Foundation to ensure the donor’s intent is verified through Foundation correspondence.

