

University System: Montana State University & University of Montana

Summary of Audit Work in Support of Statewide and Single Audits
Audit Periods Ending June 30, 2023

To: Legislative Audit Committee

From: Kelly Zwang, CPA, Financial-Compliance Audit Supervisor

Cc: Dr. Waded Cruzado, President, Montana State University
Brad White, Director, Office of Audit Services, Montana State University

Seth Bodnar, President, University of Montana
Jolene Crist, Interim Director of Internal Audit, University of Montana

Date: September 2024

Re: Single Audit and Statewide Audit Support Work: Montana State University & University of Montana

Introduction

The university system is made up of two flagship universities: Montana State University and the University of Montana. Each university also has smaller, affiliated campuses. The system also includes community colleges, which are not included in these audits. The campuses included in this audit work are outlined in the chart below:

	Montana State University	University of Montana
Flagship Campus	Montana State University – Bozeman (MSU Bozeman)	University of Montana – Missoula (UM Missoula)
Affiliate Campuses	Montana State University – Billings (MSU Billings) Montana State University – Northern (MSU Northern) Great Falls College – Montana State University (Great Falls College MSU)	Montana Technological University (MT Tech) University of Montana – Western (UM Western) Helena College University of Montana (Helena College)

Each campus is headed by a president or chancellor appointed by the Board of Regents on the recommendation of the Search and Screening Committee and the advice of the Commissioner of Higher Education (CHE). The president or chancellor acts as a liaison between the university and the Board of Regents. Campuses offer students the opportunity to earn associate, undergraduate, and graduate degrees in a variety of programs, as well as occupational certifications. Each campus is accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges.

Summary of Audit Work in Support of Single Audit

We audited three major federal programs administered by the campuses in the university system. All three of these programs are administered by multiple campuses within the system but are each considered one program for the state as a whole for audit purposes instead of individual programs at each campus. The following describes the purpose of each federal program and depicts grant expenditures at MSU versus UM.

Federal Program	Federal Expenditures		Purpose	UM vs MSU
	FY2022	FY2023		
Student Financial Assistance Programs reference: ALN 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.264, 93.342, 93.364, 93.925	\$206M	\$199M	Financial assistance to eligible students pursuing postsecondary education.	
Research and Development Programs reference: ALN Various	\$185M	\$214M	Sponsor research and development activities from various federal agencies.	
Education Stabilization Fund reference: ALN 84.425E and 84.425F	\$58M	\$19M	Provide assistance to institutions of higher education to respond to coronavirus.	

We identified the following issues related to the universities' administration of their federal programs.

Research and Development Programs

AUDITOR'S OPINION – QUALIFIED

Findings 2023-076 and 077

Material Weakness in Internal Control and Material Non-Compliance

Internal controls were not sufficient to ensure MSU Bozeman and UM Missoula performed a complete physical inventory of equipment every two-year period or that equipment purchased with federal Research and Development (R&D) funds were tagged as required by federal regulations and state policy during fiscal years 2022 and 2023. Additionally, UM Missoula could not provide information or documentation on the disposition of assets purchased with federal R&D funds once they were no longer needed.

University response: Concur

Finding 2023-078

Significant Deficiency in Internal Control

We observed multiple internal control deficiencies in UM Missoula's administration of the R&D program, including incomplete grant documentation, payments approved by inappropriate personnel, unperformed or untimely grant expense reviews, missing grant files, and unallowed grant expenses.

University response: Concur

AUDITOR'S OPINION – ADVERSE**Findings 2023-017 and 018***Material Weakness in Internal Control and Material Non-Compliance*

Internal controls at all MSU and UM campuses were insufficient to ensure review and approval of the cost of attendance (COA) calculations by someone not involved in creating it. Additionally, MSU Northern, Great Falls College MSU, and UM Western did not have supporting documentation for some amounts used in the calculations, and MSU Northern included one unallowable item in the calculation.

University response: **Concur**

Findings 2023-019 and 020*Material Weakness in Internal Control and Material Non-Compliance*

Internal controls at MSU Bozeman, MSU Northern, MSU Billings, UM Western, MT Tech, and Helena College were not sufficient to ensure the Fiscal Operations Report and Application to Participate (FISAP) was complete and accurate in fiscal years 2022 and 2023. We identified multiple errors in the FISAP reports submitted by the six campuses.

University response: **Concur**

Findings 2023-021 and 022*Material Weakness in Internal Control and Material Non-Compliance*

None of the MSU and UM campuses have sufficient controls in place to ensure compliance with the requirements of the Gramm-Leach-Bliley Act (GLBA), and we identified multiple instances of noncompliance with the GLBA.

University response: **Concur**

Findings 2023-023 and 024*Significant Deficiency in Internal Control*

Federal regulations prohibit campuses from providing commissions, bonuses, or other incentives to staff and contractors based on securing student enrollments or financial aid. None of the MSU and UM campuses have sufficient controls to ensure employees do not receive compensation prohibited by federal regulations.

University response: **Concur**

Finding 2023-025*Material Weakness in Internal Control and Material Non-Compliance*

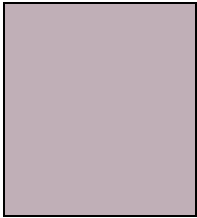
Internal controls at MSU Bozeman, MSU Northern, MSU Billings, and Great Falls College MSU were not sufficient to ensure the campuses were not maintaining excess cash balances of Title IV Higher Education Act funds. We identified multiple instances of excess cash balances at these campuses during the audit period.

University response: **Concur** (MSU Northern, MSU Billings, and Great Falls College MSU), **Conditionally Concur** (MSU Bozeman)

Finding 2023-026*Material Weakness in Internal Control and Material Non-Compliance*

Internal controls at UM Missoula and UM Western were not sufficient to ensure accurate calculations and timely returns of unearned Title IV aid for a significant portion of the audit period. During fiscal year 2022, UM Missoula failed to comply with federal regulations regarding these returns in multiple instances.

University response: **Concur**



Finding 2023-027

Material Weakness in Internal Control and Material Non-Compliance

Controls at UM Missoula were not sufficient to ensure that federal enrollment reporting was complete and accurate. We identified errors in the enrollment reporting for the academic years 2021-2022 and 2022-2023.

University response: **Concur**



AUDITOR’S OPINION – ADVERSE

Note: A portion of this program was administered and audited at the Office of Public Instruction. Findings there contributed to the adverse opinion.

Finding 2023-028 and 029

Material Weakness in Internal Control and Material Non-Compliance

Internal controls were not sufficient to ensure MSU Bozeman and UM Missoula accurately completed all required reports and maintained documentation of their review of those reports. We identified multiple instances where both MSU Bozeman and UM Missoula did not comply with the reporting requirements for the program.

University response: **Concur**

Finding 2023-030

Material Weakness in Internal Control and Material Non-Compliance

Internal controls were insufficient to ensure MSU Bozeman spent their institutional funds within the period of performance or that the university only drew and reported actual construction project expenses for their institutional funds. We identified multiple instances where MSU Bozeman did not comply with the period of performance, cash management, and reporting requirements for their institutional funds.

University response: **Concur**

Other Single Audit Related Information

We experienced significant delays throughout the audit. These ranged from one week to six and a half months. Sometimes staff would let us know they were working on compiling the information, but other times they simply did not respond to emails at all. In many cases, we had to request the information multiple times before receiving it. We talked with university system management, including CHE staff, to help resolve some of these delays. While we did eventually receive all requested information, these delays did extend the length of our audit and impacted the completion of our audit work in the originally scheduled timeframe.

Summary of Audit Work in Support of Statewide Audit

Financial Audit work at the universities is completed as part of separate audits of each UM and MSU’s financial statements. See reports #22-10 and 23-10 for UM and 22-11 and 23-11 for MSU for the audits over fiscal years 2022 and 2023, respectively.

Prior Audit Recommendations

Our prior compliance audits of the universities contained ten recommendations. We determined the implementation status of these recommendations as follows:

	Montana State University (#21-13)	University of Montana (#21-12)
Fully Implemented:	1	3
Partially Implemented:	1	4
Not Implemented:		1

The 2019 compliance audit of the University of Montana had one recommendation still outstanding through the 21-12 audit. We determined the recommendation was fully implemented.



July 22, 2024

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

RECEIVED
July 22, 2024
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

On behalf of the University of Montana, I want to extend our appreciation to you and your staff for their work on the University of Montana's compliance audit for the two fiscal years ended June 30, 2023. We value the input of the legislative audit staff as we continue to strengthen our compliance with federal requirements, state laws, and state policies.

Again, thank you and your staff for their assistance and attentive efforts.

Sincerely,

A handwritten signature in black ink, appearing to read "Seth Bodnar".

Seth Bodnar,
President, University of Montana

c: Todd Buchanan, Chair, Montana Board of Regents
Clay Christian, Commissioner of Higher Education

University of Montana
Response to Compliance Audit Recommendations

Finding Number 2023-028

Recommendation - We recommend the University of Montana – Missoula:

- A. Enhance internal controls to ensure the University complies with reporting requirements for any new federal programs received.*

University Response: Concur. UM Missoula has already implemented procedures to ensure compliance with reporting requirements. Those procedures include an additional review of all reports by at least one other person for accuracy and completeness, utilizing calendar reminders to ensure all deadlines are met, and retaining all records in a central location.

- B. Comply with reporting federal regulations for future federal programs.*

University Response: Concur. UM Missoula will ensure compliance with reporting federal regulations for future federal programs using the internal controls that have been implemented.

Finding Number 2023-077

Recommendation - We recommend the University of Montana – Missoula:

- A. Enhance internal controls to ensure compliance with the federal and state requirements governing equipment for the Research and Development Program.*

University Response: Concur. Internal controls have been strengthened and an Account Analyst has been hired to manage asset tagging and to conduct comprehensive reviews to ensure all assets are tagged and accounted.

- B. Perform a complete physical inventory of capital assets at least every two years.*

University Response: Concur. An Account Analyst has been hired to manage asset tagging and conduct a comprehensive review to ensure all assets are tagged and accounted. The Account Analyst will be assisted by an intern and will verify and update the status of all assets by September 30, 2024.

- C. Tag all capital assets when feasible.*

University Response: Concur. An Account Analyst has been hired to manage asset tagging and to conduct a comprehensive review to ensure all assets are tagged and accounted. The Account Analyst will be assisted by an intern and will verify and update the status of all assets by September 30, 2024.

Finding Number 2023-078

Recommendation - We recommend the University of Montana – Missoula follow established internal controls to provide reasonable assurance the university is managing federal Research and Development Program awards in compliance with all applicable federal statutes and regulations.

University Response: Concur. UM Missoula will train all new staff members and ensure sufficient staffing levels to manage the workload effectively. UM Missoula has established a dedicated training position within the Office of Sponsored Programs to ensure all employees have the training and resources needed to manage federal Research and Development Program awards in compliance with all applicable federal statutes and regulations. The training position is currently posted and is waiting to be filled.

Finding Number 2023-018

Recommendation - We recommend:

A. *UM Missoula, UM Western, and Helena College continue to implement internal controls to ensure the Cost of Attendance calculations are fully documented and supported.*

University Response: Concur. UM Missoula, UM Western, and Helena College have implemented their remediation plan as noted in the prior audit, and will continue to implement internal controls to ensure the Cost of Attendance calculations are fully documented and supported.

B. *UM Western comply with federal requirements governing the Student Financial Assistance programs by retaining required supporting documentation for the Cost of Attendance calculations.*

University Response: Concur. Beginning with the 2022-2023 academic year, UM Western has implemented a new process for maintaining thorough documentation to support CoA calculations in which the Director of Financial Aid has taken responsibility.

Finding Number 2023-020

Recommendation - We recommend UM Western, MT Tech, and Helena College:

A. *Enhance internal controls to ensure the Fiscal Operations Report and Application to Participate (FISAP) reports submitted are accurate and supported in compliance with federal regulations.*

University Response: Concur. UM Western, MT Tech, and Helena College have implemented their remediation plan for creating and maintaining folders with supporting documentation for each year of FISAP reporting as noted in the prior audit. Additionally, UM Western has trained their Business Services staff to run and document this information for future reporting, MT Tech conducts a third review of each FISAP, and Helena College has put additional controls in place to run reports directly out of Banner in addition to another report for quality assurance.

B. Comply with federal requirements governing the Federal Perkins Loan, the Federal Work-Study, and Federal Supplemental Education Opportunity Grant programs by accurately completing the FISAP reports.

University Response: Concurs. UM Western, MT Tech, and Helena College have implemented their remediation plan for creating and maintaining folders with supporting documentation for each year of FISAP reporting as noted in the prior audit. Additionally, UM Western has trained their Business Services staff to run and document this information for future reporting, MT Tech conducts a third review of each FISAP, and Helena College has put additional controls in place to run reports directly out of Banner in addition to another report for quality assurance.

Finding Number 2023-022

Recommendation - We recommend the University of Montana:

A. Continue to develop and implement internal controls to comply with the GLBA requirements.

University Response: Concurs. UM Missoula has implemented and will continue to implement internal controls to comply with the GLBA requirements. The IT department will collaborate with the Financial Aid Data Stewards to conduct an inventory of financial aid data, which will be completed by 12/31/2024.

B. Continue to work towards GLBA compliance.

University Response: Concurs. UM Missoula has implemented and will continue to implement internal controls to comply with the GLBA requirements. The IT department will collaborate with the Financial Aid Data Stewards to conduct an inventory of financial aid data, which will be completed by 12/31/2024.

Finding Number 2023-024

Recommendation - We recommend all of the University of Montana campuses enhance internal controls to ensure employees do not receive compensation prohibited by federal regulations.

University Response: Concurs. University of Montana plans to amend its human resource policy on staff compensation to incorporate the provisions of the U.S. Department of Education incentive compensation regulation. The amendment to the policy will be implemented by 08/30/2024. The Office of the Commissioner of Higher Education is also considering a similar revision to the MUS Staff Compensation Plan.

Finding Number 2023-027

Recommendation - We recommend the University of Montana – Missoula:

A. Enhance internal controls to ensure all required students are reported to NSLDS and staff are aware of BANNER programming rules.

University Response: Concurs. UM Missoula has implemented its remediation plan from the prior audit. Additional controls have also been implemented and an Academic Program Manager with a firm grasp on the accreditation standards surrounding CIP code changes was hired in early summer 2023.

B. Comply with the federal requirements governing the enrollment reporting process.

University Response: Concur. UM Missoula has implemented its remediation plan from the prior audit. Additional controls have been implemented and an Academic Program Manager with a firm grasp on the accreditation standards surrounding CIP code changes was hired in early summer 2023.

Finding Number 2023-026

Recommendation - We recommend:

A. UM Missoula and UM Western continue to follow their improved processes to ensure accurate calculations and timely return of unearned Title IV aid.

University Response: Concur. UM Missoula and UM Western implemented their remediation plan from the prior audit. Additional controls have been implemented, including the creation of a template guide, documentation of each calculation, and an additional review, to ensure accurate calculations and timely return of unearned Title IV aid.

B. UM Missoula comply with federal regulations to accurately calculate and timely return unearned Title IV aid.

University Response: Concur. UM Missoula implemented their remediation plan from the prior audit in November 2022. Additional controls have been implemented, including the creation of a template guide, documentation of each calculation, and an additional review, to ensure accurate calculations and timely return of unearned Title IV aid.



July 22, 2024

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

RECEIVED
July 22, 2024
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver,

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, 2023. MSU appreciates the Legislative Audit Division's work and its identification of opportunities for improving the university's operations.

We thank you and your staff for your efforts.

Sincerely,

Waded Cruzado
President

Enclosure

Office of the President

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Bozeman, MT 59717-2420
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MONTANA STATE UNIVERSITY
Response to Legislative Audit Division Compliance Audit Findings
For the Two Fiscal Years Ended June 30, 2023

Finding 2023-017: Student Financial Aid Cluster – Cost of Attendance (COA)

Montana State University–Bozeman concurs with the recommendation.

MSU Bozeman has complied since the 2022-23 academic year as indicated in the chart.

Montana State University–Billings concurs with the recommendation.

For the 24-25 COA creation process MSU Billings (MSUB) implemented a second reviewer of the COA and development documentation before finalizing and creation in Banner. The Associate Director now reviews and checks for errors in the COA after the creation process. Additionally for the 25–26-year MSUB is implementing the inclusion of a third reviewer within the Financial Aid office to review COAs before finalization.

Montana State University–Northern concurs with the recommendation.

MSU Northern put into place the internal controls of the COA preparation for the 2023-2024 award year. We will have a review sheet that will be signed off by a Student Accounts representative, a member of the Executive Team and the Financial Aid Director. After the signatures are in place, a copy will be sent to the Chancellor’s Office for final review. Records will be retained for seven years under AACRAO record retention guidelines.

Great Falls College Montana State University concurs with the recommendation.

Great Falls College MSU has taken action to adjust and document the Books and Supply and Other Living Expense components of our cost of attendance calculations. The adjustment for Other Living Expense was implemented for the 2023-24 school year and the Books and Supplies adjustment will be implemented in 2024-25.

Finding 2023-019: Student Financial Aid Cluster – FISAP Reporting

Montana State University–Bozeman concurs with the recommendation.

For the cycle transition between the 2017/18 and 2018/19 years, MSU Bozeman had reports that displayed a different number of borrowers in Section A #4b. Section A #4b is not an editable field in the FISAP and is the resulting total of other inputs. Determining that no change existed as we were no longer awarding Perkins funds, we determined that the initial reported number of 41,430 is the accurate number from the original report. Since we do not want to change the number of borrowers assigned to the Department, we adjust another line in the section to reconcile back to the 41,430. We rationalized that alternating one of two lines would be better reflection over time without realizing the inconsistency of the report and the audit implication. Action to be taken: Financial Aid will report consistently the student count.

Montana State University–Billings concurs with the recommendation.

MSU Billings will implement a multiple-departmental review of provided information during the FISAP correction period. The MSUB Financial Aid office has implemented a review process for the completed FISAP before submission or during the FISAP correction period. The Associate Director of Financial Aid will review the full completed FISAP for any errors before submission.

Montana State University–Northern concurs with the recommendation.

MSU Northern will put into place internal controls over FISAP preparation. Prior to submission the FISAP report will be reviewed and signed off by a member of the Executive Team and the final review by the Chancellor. This will ensure the accuracy of the data entered into the FISAP report as it appears the data on the Banner reports do not match the data entered into the FISAP report. This will be put into place for the 2025-2026 award year. Records will be retained for seven years under AACRAO record retention guidelines.

Finding 2023-021: Student Financial Aid Cluster – Gramm-Leach-Bliley Act (GLBA) Information Security

Montana State University concurs with the recommendation.

MSU has made significant progress in meeting GLBA requirements and has already completed the majority of the components. Active efforts are underway to quickly complete the implementation of the remaining GLBA internal controls as recommended.

Finding 2023-023: Student Financial Aid Cluster – Incentive Compensation

Montana State University concurs with the recommendation.

MSU plans to amend its human resource policy on staff compensation to incorporate the provisions of the U.S. Department of Education incentive compensation regulation and will evaluate potential revisions to our compensation approval processes.

Finding 2023-025: Student Financial Aid Cluster – Cash Management

Montana State University–Bozeman conditionally concurs with the recommendation.

MSU Bozeman concurs that that excess cash exists in the account consistent with 34 CFR 688.166(a). MSU Bozeman agrees with the conditions related to Federal Work-Study (FWS) and Federal Supplemental Educational Opportunity Grant (FSEOG) but not with the instance related to Federal Direct Loan Program (FDL).

- For FWS, a rollover balance has existed in the account since 2000 of \$51,541.36. These could be errors from a system conversion or unreconciled funds. Documentation does not exist to allow for a thorough review of activity going that far back. We do not concur that the balances represent excess cash that should

have been returned long ago. We believe however that since the FISAP has been successful filed for all years in question, that the funds in the account are not the result of federal draws exceeding expenditures. We can reconcile that for the years of the audit review, funds were not drawn in excess of expenditures.

Action to be taken: Financial Aid will work with University Business Services to remove these funds from the activity account. MSU Bozeman will also return the interest earned in the accounts per prescribed method.

- For FSEOG, a rollover balance has existed in the account since 2000 of \$25,552.85. These could be errors from a system conversion or unreconciled funds. Documentation does not exist to allow for a thorough review of activity going that far back. We do not concur that the balances represent excess cash that should have been returned long ago. Additionally, the account includes a deposit each Fall from the state of Montana in support of our institutional match. MSU Bozeman has not proactively spent the match funds ahead of the federal funds, so a balance exists in the account most of the year. Additionally, we incorrectly deposited some ACA funds into this account that were not reconciled in a timely manner. We do not concur that the balances represent excess cash that should have been returned long ago. We believe however that since the FISAP has been successful filed for all years in question, that the funds in the account are not the result of federal draws exceeding expenditures. We can reconcile that for the years of the audit review, funds were not drawn in excess of expenditures.

Action to be taken: Financial Aid will work with University Business Services to remove these funds from the activity account. MSU Bozeman will also return the interest earned in the accounts per prescribed method.

- For FDL, we cannot exactly duplicate the balance activity for accounts with the instance cited but come close. Our records do show that on the third day we still had a positive cash balance but by day four and within the seven-day tolerance, our cash was negative.

Montana State University–Billings concurs with the recommendation.

MSU Billings will implement additional steps to improve the cash management process. We will run a daily report showing fund balances for all federal financial aid funds. Positive fund balances will be returned before the 7th day to comply with 34 CFR 668.166 (a) and (b).

Montana State University–Northern concurs with the recommendation.

MSU Northern Business Services will run a daily report showing cash balances for all federal financial aid funds. If a positive balance is found that will not be distributed by the Financial Aid office within the allowable timeframe, a refund will be processed by Business Services.

Great Falls College Montana State University concurs with the recommendation.

Great Falls College MSU will now monitor fund balances in all federal aid funds daily. Positive fund balances will be allowed for no more than four calendar days. At that point a return of funds will be processed by an accountant in the business office. Verification of return of funds will be completed the following day by the controller.

Finding 2023-029: Education Stabilization Fund – HEERF Quarterly Reporting

Montana State University concurs with the recommendation.

MSU will enhance the internal controls to comply with the reporting process for any new federal programs. The university will utilize current resources within university business services and the office of research to develop employee skillsets and build competencies to enhance controls with the reporting process.

Finding 2023-030: Education Stabilization Fund – HEERF Period of Performance, Cash Management, and Reporting.

Montana State University concurs with the recommendation.

MSU will enhance internal controls to comply with federal regulations surrounding cash management and reporting requirements for new Federal programs and intends to use existing resources and controls within the university to strengthen the review and reporting requirements for new programs. MSU is corresponding with the Department of Education to resolve the use of outstanding HEERF dollars.

Finding 2023-076: Research and Development Cluster – Equipment Inventory

Montana State University concurs with the recommendation.

MSU will enhance the internal controls surrounding the capital asset inventory and tagging process, including accessing research space to count and tag new assets. The university has been able to hire all budgeted employees in Property Management and expects the challenges presented by the pandemic to be minimal moving forward. This will enable the university to meet physical inventory requirements.