



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

LEGISLATIVE AUDIT  
DIVISION

18-06

FINANCIAL-COMPLIANCE AUDIT

*Office of the  
Commissioner of Higher  
Education*

*For the Fiscal Year Ended  
June 30, 2018*

JUNE 2019

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§5-13-202(2), MCA

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**FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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**AUDIT STAFF**

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# LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

June 2019

The Legislative Audit Committee  
of the Montana State Legislature:

This is the financial-compliance audit report of the Office of the Commissioner of Higher Education for the fiscal year ended June 30, 2018. This audit report covers one fiscal year. Due to changes in the Montana Guaranteed Student Loan program, the office no longer manages one of the state's larger federal programs. As such, we decided to move the audit of the office to the audit cycle that does not align with Montana's Single Audit report. The next financial-compliance audit will be for fiscal years 2019 and 2020.

The office's financial schedules are generated from the primary accounting system. The office's management is responsible for the notes to the financial schedules.

We issued an unmodified opinion on the financial schedules for the fiscal year ended June 30, 2018. The issuance of an unmodified opinion means the reader can rely on the information presented.

This audit resulted in seven audit recommendations. We identified a material weakness and five significant deficiencies in internal controls. We also identified instances of noncompliance with state, office, and Board of Regent's policies, as well as abuse of General Fund resources.

The office's written response to the audit is included in the audit report on page C-1. We thank the Commissioner and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver  
Legislative Auditor



## TABLE OF CONTENTS

|   |          |
|---|----------|
| Figures and Tables.....   | ii       |
| Appointed and Administrative Officials .....  | iii      |
| Report Summary .....  | S-1      |
| <b>CHAPTER I – INTRODUCTION.....</b>  | <b>1</b> |
| Introduction .....  | 1        |
| One-Year Audit .....  | 1        |
| Background.....   | 2        |
| Department Reorganization.....  | 4        |
| <b>CHAPTER II – FINDINGS AND RECOMMENDATIONS.....</b>   | <b>7</b> |
| Internal Control Deficiencies .....   | 7        |
| General Fund Expenditures for Travel and Seminar Fees .....   | 8        |
| Accommodations .....  | 8        |
| Most Economical Transportation .....  | 9        |
| Out-of-State Travel Authorization.....  | 10       |
| Air Travel From United Kingdom.....   | 10       |
| Itemized Receipt.....   | 11       |
| Summary .....   | 11       |
| Meals Purchased With General Fund Resources .....   | 12       |
| Meals in Travel Status .....  | 12       |
| Catered Food and Beverage Costs for Meetings.....   | 13       |
| Non-Employee Travel .....   | 14       |
| Excessive Conference Participation .....  | 15       |
| Repetitive Conference Participation .....   | 16       |
| Noncompliance With Telework Statutes.....   | 17       |
| Internal Controls Over Invested Assets.....   | 18       |
| Preparation of Notes to the Financial Schedules .....   | 20       |
| Census Data for Other Postemployment Benefits.....  | 21       |
| <b>INDEPENDENT AUDITOR’S REPORT AND OFFICE FINANCIAL SCHEDULES</b>  |          |
| Independent Auditor’s Report .....  | A-1      |
| Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2018 .....  | A-4      |
| Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2018.....  | A-5      |
| Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2018 .....  | A-6      |
| Notes to the Financial Schedules .....  | A-7      |
| <b>REPORT ON INTERNAL CONTROL AND COMPLIANCE</b>  |          |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters<br>Based on an Audit of Financial Schedules Performed in Accordance With <i>Government</i><br><i>Auditing Standards</i> ..... | B-1      |
| <b>OFFICE RESPONSE</b>  |          |
| Office of the Commissioner of Higher Education .....  | C-1      |

## FIGURES AND TABLES

### Figures

|          |   |   |
|----------|---|---|
| Figure 1 | Department of Budget, Administration, and Planning as of Fiscal Year 2018 .....   | 4 |
| Figure 2 | Department of Budget, Administration, and Operations as of Fiscal Year 2020 ..... | 5 |

## APPOINTED AND ADMINISTRATIVE OFFICIALS

|   | <u>Term Expires</u> |
|---|---------------------|
| <b>Board of Regents of Higher Education</b> Fran M. Albrecht, Chair | February 2019       |
| Robert A. Nystuen   | February 1, 2022    |
| Joyce Dombrowski (effective April 2019)                             | February 1, 2026    |
| Casey Lozar (Chair, effective May 2019)                             | February 1, 2025    |
| Brianne Rogers  | February 1, 2024    |
| Martha Sheehy   | February 1, 2021    |
| Paul Tuss (Vice Chair, effective May 2019)                          | February 1, 2020    |
| Dalton Johnson, Student Regent                                      | June 30, 2019       |
| Clayton Christian, Commissioner of Higher Education*                |                     |
| Steve Bullock, Governor*  |                     |
| Elsie Arntzen, Superintendent of Public Instruction*                |                     |

\*Ex officio members

|   |                   |  |
|---|-------------------|--|
| <b>Office of the Commissioner of Higher Education</b> | Clayton Christian | Commissioner of Higher Education                                   |
|   | Brock Tessman     | Deputy Commissioner, Academic, Research & Student Affairs          |
|   | Vivian Hammill    | Montana University System Chief Legal Counsel, Deputy Commissioner |
|   | Kevin McRae       | Deputy Commissioner, Human Resources                               |
|   | Tyler Trevor      | Deputy Commissioner for Budget and Planning, Chief of Staff        |
|   | Ron Muffick       | Director of Operations and Administration/Student Affairs          |
|   | Frieda Houser     | Director of Fiscal Affairs (through February 2019)                 |
|   | Sherrie Lindbo    | Financial Manager  |
|   | Jamie Dushin      | Accounting Manager   |

For additional information concerning the Office of the Commissioner of Higher Education, contact:

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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### Office of the Commissioner of Higher Education

For the Fiscal Year Ended June 30, 2018

JUNE 2019

18-06

REPORT SUMMARY

During the financial-compliance audit of the Office of the Commissioner of Higher Education for fiscal year 2018, we identified internal control issues relating to travel costs, documentation of purchases, meals and catered food costs, preparation of the notes to the financial schedules, and participant data for actuarial valuations.

### Context

The Office of the Commissioner of Higher Education (office) is the central administrative unit of the Montana University System (MUS) and the Board of Regents (board). The office is responsible for providing quality and timely services to the board, government entities, including the Executive and Legislative branches, the public, media, students, staff, and others in the educational community, when they request information or assistance. The office administers and distributes state funds appropriated by the legislature for the support of the MUS. The office also distributes the state's assistance to Montana's tribal colleges for attendance of nontribal Montana resident students.

The Montana Constitution confers governance authority over the MUS to the board, but vests the power to appropriate state funds to the legislature. The board consists of seven appointed and confirmed members and three ex officio members. The Constitution directs the board in appointing a Commissioner of Higher Education to serve as its executive staff.

In addition to distributions for the support of the MUS, the office also administers the MUS Group Insurance Program, MUS Workers'

Compensation Program, and Montana Guaranteed Student Loan program (GSL). As of October 1, 2017, the loan-servicing portion of the GSL program was transferred to a federally-approved national education loan servicing provider, as approved by the board in May 2017. The GSL program continues to offer other student financial aid-related activities.

### Results

We focused our audit effort on appropriation distributions to university units and transactions related to insurance premiums paid by employees of the universities for health-care coverage. We tested compliance with selected, applicable state laws and reviewed General Fund expenditures, including travel expenditures.

The report contains seven recommendations. We identified one material weakness in internal controls concerning invested assets. We identified five significant internal control deficiencies concerning employee and non-employee travel, documentation for purchases, meals and catered food costs, preparation of notes to the financial schedules,

*(continued on back)*

and participant data for actuarial valuations. We also identified instances we believe constitute abuse of General Fund resources concerning travel and meal expenditures. *Government Auditing Standards* state, "Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances."

We issued an unmodified opinion on the financial schedules for fiscal year 2018. The issuance of an unmodified opinion means the reader can rely on the information presented.

| Recommendation Concurrence                                     |   |
|--|---|
| Concur   | 7 |
| Partially Concur   | 0 |
| Do Not Concur  | 0 |
| <b>Source: Agency audit response included in final report.</b> |   |

For a complete copy of the report (18-06) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <https://leg.mt.gov/lad/audit-reports>  
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# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the Office of the Commissioner of Higher Education (office) for the fiscal year ended June 30, 2018. The objectives of our audit were to:

1. Obtain an understanding of the office’s internal control systems to the extent necessary to support our audit of the office’s financial schedules and, if appropriate, make recommendations for improvement in management and internal controls.
2. Determine whether the office complied with selected, applicable state laws and regulations.
3. Determine whether the office’s financial schedules present fairly the results of its operations and changes in fund equity for the fiscal year ended June 30, 2018.

We focused our audit effort on appropriation distributions to university units and transactions related to insurance premiums paid by employees of the universities for health-care coverage. We tested compliance with selected, applicable state laws and reviewed General Fund expenditures, including travel expenditures. The notes to the financial schedules were reviewed to determine whether required disclosures were present.

As part of the audit, we evaluated the findings and concluded certain costs incurred by the office involved what we consider to be abuse. *Government Auditing Standards* state, “Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.” These instances of abuse are further outlined in Chapter II and are summarized in the report on page B-1.

In accordance with §17-8-101(6), MCA, we analyzed the fees and charges for services and the fund equity balance in the office’s internal service fund. The internal service fund is used to record indirect costs. We concluded that charges for services were commensurate with costs, and fund equity in the office’s internal service fund is reasonable, as required by state law.

There were no prior audit recommendations.

## **One-Year Audit**

State law requires us to conduct a biennial financial-compliance audit of every state agency, unless otherwise provided by law. We assign most audits to one of two rotating

audit cycles. Audits of state agencies who manage larger state federal programs are assigned to the cycle that aligns with completion of Montana's Single Audit report. Due to changes in the Montana Guaranteed Student Loan (GSL) program, the office no longer manages one of the state's larger federal programs. As such, we decided to move the audit of the office to the cycle that does not align with Montana's Single Audit report. To accomplish this, we completed a one-year audit of the office for fiscal year 2018. The next financial-compliance audit for the office will be for fiscal years 2019 and 2020.

## **Background**

The office is the central administrative unit of the Montana University System (MUS) and the Board of Regents (board). The office is responsible for providing quality and timely services to the board, government entities, including the Executive and Legislative branches, the public, media, students, staff, and others in the educational community, when they request information or assistance. The office administers and distributes state funds appropriated by the legislature for the support of the MUS.

Per §2-15-1505, MCA, the board consists of seven members appointed by the Governor and confirmed by the Senate. One of the members is a registered full-time MUS student appointed by the Governor, who serves a one-year term. The other board members serve seven-year, overlapping terms. The Governor, Superintendent of Public Instruction, and the Commissioner of Higher Education are ex officio nonvoting members. Article X, Section 9 of the Montana Constitution gives the board the authority to appoint and prescribe the duties of the Commissioner of Higher Education.

The MUS is comprised of the University of Montana, which has four primary campuses along with three embedded two-year colleges, and Montana State University, which has four primary campuses and two embedded two-year colleges. MUS also includes three community colleges. The Montana Constitution extends governance authority over the MUS to the board. This authority includes supervising, coordinating, managing, and controlling the MUS, and supervising and coordinating other public educational institutions assigned by law.

The following programs or activities that are presented on the Schedule of Expenditures & Transfers-Out are explained below. The Agency Funds, Appropriation Distribution, Board of Regents-Administration, Community College Assistance, Improving Teacher Quality, and Tribal College Assistance programs do not have approved FTE. These programs are administered primarily through the Administration Program.

**Administration Program (23.28 FTE)** provides general administration for all office duties, including academic, student assistance, financial, human resources, legal, and labor relations.

**Appropriation Distribution and Agency Funds** accounts for the state's General Fund distributions and the State Special Revenue Fund millage distributions to the MUS campuses.

**Board of Regents Administration** provides administrative support, including travel and meals per diem for the board's members.

**Community College Assistance** accounts for the distribution of the state's assistance to the community colleges.

**Educational Outreach & Diversity (19.90 FTE)** includes programs intended to decrease the dropout rate of low-income and at-risk students at the secondary school level and increase enrollment in the post-secondary education level. The programs that provide these services are the Gaining Early Awareness & Readiness for Undergraduate Programs, Educational Talent Search, and the American Indian/Minority Achievement.

**Montana Guaranteed Student Loan Program (1.00 FTE)** promotes student financial aid, financial literacy, and affordability initiatives across the MUS. GSL administers financial literacy grants, targeted financial aid grants, the FAFSA Completion Initiative, and supports campus financial literacy education programs and other initiatives aimed at improving college affordability as determined by the board. As of October 1, 2017, the loan-servicing portion of the GSL program was transferred to a federally-approved national education loan servicing provider, as approved by the board in May 2017.

**Improving Teacher Quality** is a federal program that provides funding for professional development and training to improve teaching methods and skills in the classroom.

**MUS Group Insurance Program (7.00 FTE)** is a self-funded insurance plan available to eligible MUS employees and retirees. The plan provides group benefits; including medical, dental, vision, and life insurance, as well as, flexible spending accounts.

**MUS Workers' Compensation Program (1.00 FTE)** is a self-funded workers' compensation program provided to eligible MUS employees for work-related injuries that are incurred accidentally through the course of employment.

**Student Assistance Program (1.50 FTE)** consists of grants, loans, loan repayment programs, professional student exchange programs, and work-study programs; including state matching dollars for the federal Supplemental Education Opportunity Grant; the Perkins Federal Loan Program; the Western Montana Commission

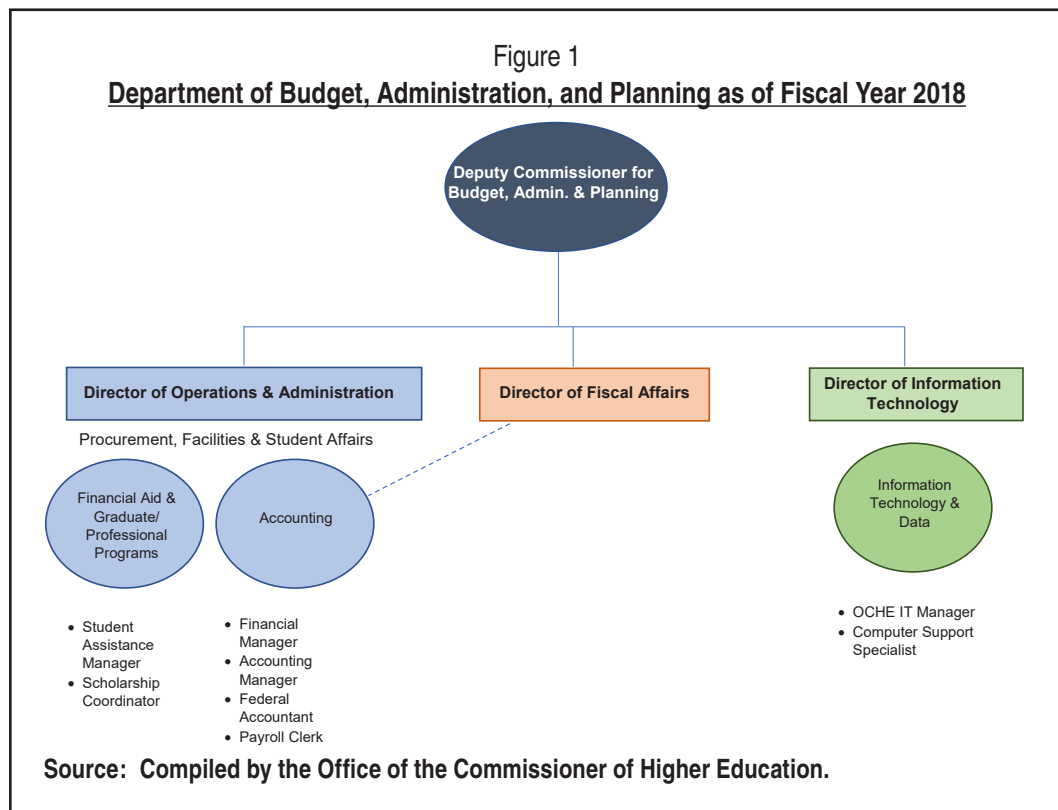
on Higher Education Professional Student Exchange Program; the Washington, Wyoming, Alaska, Montana, and Idaho Cooperative Medical Education Program; the Minnesota Dental Program; the Montana Rural Physician Incentive Program; the Montana Institutional Nursing Incentive Program; and the Washington, Idaho, Montana, Utah Regional Program in Veterinary Medicine.

**Tribal College Assistance Program** accounts for the distribution of the state’s assistance to the seven Montana tribal colleges for attendance of nontribal Montana resident students.

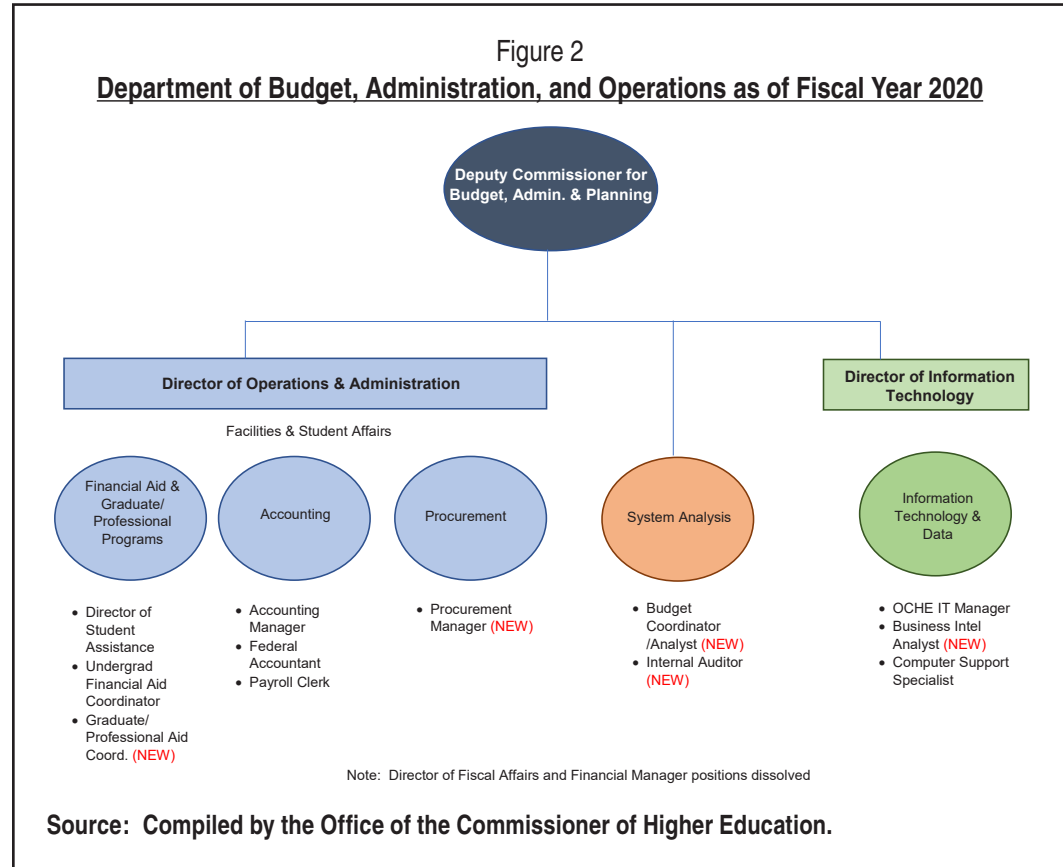
**Work Force Development Program (4.45 FTE)** supports vocational education at the secondary and post-secondary education levels. The office administers federal Vocational Education grants. The amounts used at the secondary level are sub-granted to the Office of Public Instruction.

**Department Reorganization**

In fiscal year 2018, the office began reorganizing the structure of its Department of Budget, Administration, and Planning (department). The figure below shows the structure of the department at the end of fiscal year 2018. The Financial Manager, Accounting Manager, Federal Accountant, and Payroll Clerk began reporting directly to the Director of Operations and Administration in February 2018.



The office plans to finish the reorganization of the department in fiscal year 2020. The chart below shows the planned structure of the department in fiscal year 2020. Office management noted it will likely change the name of the department to the Department of Budget, Administration, and Operations.



The permanent positions in the office are filled by classified and contract employees. Classified employees have certain employment protections. Contract employees are contracted annually, and contracts are renewed at the discretion of the office. The office can choose not to renew a contract without cause.

The office decided to dissolve the Director of Fiscal Affairs and Financial Manager positions in the new department structure. The Financial Manager and Director of Fiscal Affairs were told their contracts would not be renewed for fiscal year 2020 in January and February, respectively. The Financial Manager was placed on administrative leave without cause until the end of her contract on June 30, 2019. The Director of Fiscal Affairs resigned on February 4, 2019. We believe these positions were two of the primary accounting positions.

We identified instances where management decisions were made and acted upon prior to completion of all necessary documentation to support the activity in accordance with state law and various policies. Additionally, during the audit we observed evidence where advice from accounting staff was disregarded.

In March 2019, the office hired a temporary Accounting Support Specialist, who provides general accounting support to all facets of the office's operations. The following positions have been filled in fiscal year 2019: Montana University System (MUS) Internal Auditor, Business Intelligence Analyst, and Procurement Manager. The Budget Analyst and Graduate/Professional Financial Aid Coordinator positions have not been filled. The MUS Internal Auditor is the lead internal auditor for the entire MUS, focusing primarily on campus-based audits and systemwide initiatives. The Business Intelligence Analyst will assist with data processes that relate to systemwide initiatives. The Budget Analyst position is designed to assist with systemwide budget analysis of the entire MUS.

Per office personnel, the purpose of the reorganization is to better define roles, so there is no duplication. The office also believes the reorganization will allow the department to operate more efficiently and effectively by maximizing the effect of the full-time equivalent positions allocated to the office by the legislature.



## Chapter II – Findings and Recommendations

### **Internal Control Deficiencies**

Article 10 of the Montana Constitution specifies the Board of Regents (board), as part of the state board of education, is responsible for long-range planning, and for coordinating and evaluating policies and programs for the state's educational systems. The objectives of the board are to supervise, coordinate, manage, and control the Montana University System (MUS) and to supervise and coordinate other public educational institutions assigned by law. The Office of the Commissioner of Higher Education (office) is the central administrative unit of the MUS. The commissioner, appointed by the board, is the chief executive officer of the MUS. The board discharges its constitutional responsibilities through policies adopted by the board and administrative rules and regulations established at various levels. Because the board, by policy, has chosen to follow state policies for certain activities, the office must maintain an awareness of several levels of authoritative guidance, including federal and state laws and regulations, state policy, board policy, and internal office policies and procedures.

State policy requires all state agencies to establish and maintain agency internal controls. Specifically, state policy notes that management's role includes establishing internal control policies and procedures which are designed to safeguard agency assets and verify the accuracy and reliability of financial data to ensure compliance with applicable laws and regulations. State policy indicates internal controls are necessary for accountability, sound financial practices, preparation for audits, and fraud prevention. It further notes internal controls provide reasonable assurance the objectives of the entity will be achieved.

This chapter addresses report findings concerning General Fund expenditures for travel and seminar fees, meals purchased with General Fund resources, non-employee travel, invested assets, preparation of notes to the financial schedules, and census data for other postemployment benefits caused by not following internal control procedures or inadequate internal controls. In certain instances, if applicable state, board, and office policies were fully considered and if management decisions were documented at the time the decision was made, we would not take issue with the activity.

In accordance with *Government Auditing Standards*, we classify internal control issues as either material weaknesses or significant deficiencies. We classified the report finding concerning invested assets as a material weakness. We classified the remaining issues as significant internal control deficiencies. These issues are included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Schedules Performed in Accordance with *Government Auditing Standards* starting on page B-1.

The following sections discuss the issues identified by our audit in more detail.

## **General Fund Expenditures for Travel and Seminar Fees**

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**The Office of the Commissioner of Higher Education paid travel costs and seminar fees not in compliance with state and office policies. We determined the payment of some costs indicate internal controls are inadequate.**

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We reviewed selected General Fund expenditures recorded by the office. The results of our review of fiscal year 2018 expenditures prompted us to review additional fiscal year 2019 expenditures. We noted various instances of noncompliance and inappropriate use of General Fund resources, which indicate inadequate internal controls.

### **Accommodations**

Historically, the board holds meetings in Bozeman or Missoula in advance of the annual University of Montana versus Montana State University football game. The agendas currently available on the office's website indicate the board conducted official business at meetings held on Thursday and Friday. The board and office management indicate there are community engagements held the Saturday mornings before these games. Office staff and Regents are invited to attend these events, as outlined on their personal "meeting and retreat" agendas. The board and office management indicated these events are significant, work-related events for Regents and office staff. However, the board has not adopted formal policy or otherwise documented the requirement for participation in the community event. Additionally, travel documentation did not describe the business need or benefit to the state for these events.

The following expenditures are not in compliance with the March 2017 and November 2018 Montana Operations Manual (MOM) travel policies. The March 2017 travel policy states, "Lodging expenses should be kept as low as possible." Both policies state, "No state agency shall pay an employee's travel cost to attend a function that does not benefit the state."

- ◆ The office paid for 14 nights at a hotel in Bozeman after the November 2017 board meeting. Eight nights were paid for Regents, and six were paid for office staff. The board meeting adjourned at approximately 10:30 in the morning on Friday, November 17, 2017. Ten of the room charges were for Friday night and four were for Saturday night. The total charges for 14 rooms were \$2,100.
- ◆ The office paid for 10 nights at a hotel in Missoula after the end of the November 2018 board meeting. The board meeting adjourned at

approximately 10:30 in the morning on Friday, November 16, 2018. Seven nights were paid for office staff, and three were paid for Regents. The rooms were paid for Friday night. The total charges for 10 rooms was \$1,518.

The board and office management agreed that the accommodations for Saturday night in November 2017 should not have been paid. We consider the use of state funds for the Saturday night stays to be abuse of state resources. We considered a variety of documentation in evaluating these costs.

The Regents and office staff are entitled to per diem for meals while working and in travel status. However, neither the Regents nor the office staff claimed per diem following the meetings on November 17, 2017, or November 16, 2018, or during the days of the community engagements on either year. We reviewed time sheets for some of the staff who attended the board meetings and subsequent community engagements. We noted only one employee for whom rooms were paid charged work and travel time for November 18, 2017, which was the day of the community engagement. None of the employees for whom we reviewed time sheets charged work or travel time for November 17, 2018, the day of the community engagement. This is inconsistent with the classification of the community engagements as significant work-related events.

## **Most Economical Transportation**

State travel policy requires the most economical method of travel be used. If an employee or Regent chooses a costlier mode of travel, they are only permitted reimbursement for the low-cost equivalent. During the audit, we noted instances where the office did not maintain documentation of costs of alternative modes of travel or their consideration of these alternatives when high cost transportation was conducted.

We identified the following instances of noncompliance with the January 2018 MOM travel policy.

- ◆ A group of office staff and Regents participated in a tour of Dawson and Miles Community Colleges in April 2018. Most traveled via state car or personal car. However, an office official and Regent whom both reside in Missoula incurred costs for a round trip flight from Missoula to Billings on an in-state airline, two separate rental cars, and airport parking fees. We estimate the General Fund was charged approximately \$1,000 more than it would have been charged compared with the most economical mode of travel.
- ◆ In June 2018, OCHE incurred costs for an office official to fly round-trip from Helena to Glasgow via a chartered flight. The official met with a delegation from MSU who were on a bus tour of northeast Montana, community leaders, local officials, alumni, staff, and students from a tribal college. Costs totaling \$3,996 were charged to the General Fund. Had the

official traveled via their personal vehicle, costs associated with this business travel would have been limited to the value of fuel, as per their employment contract. Round trip via car is 766 miles. At an estimated 20 miles per gallon, we estimate the cost for travel via automobile at \$115. The excess amount charged to the General Fund is approximately \$3,881.

The office contends the mode of travel chosen for these instances was the most economical, efficient, and beneficial, considering the significant distance and travel time associated with the trip and other business engagements requiring the official's attendance subsequent to the travel documented above. However, without sufficient documentation, the office cannot demonstrate a need for high cost in-state travel.

## **Out-of-State Travel Authorization**

We identified one instance of out-of-state travel not in compliance with the March 2017 MOM travel policy. The policy states, "The department head or designated approving authority must pre-approve all out-of-state and foreign travel." Travel authorization for an employee's travel to Minnesota in August 2017 was approved the day after the employee's departure.

## **Air Travel From United Kingdom**

The office purchased a one-way airline ticket from the United Kingdom to Colorado costing \$1,032 for an employee to attend a Western Interstate Commission for Higher Education (WICHE) Conference. Documentation of approval was not completed prior to making the purchase of the plane ticket, and the employee was in the United Kingdom for personal reasons.

State travel policy indicates travel must be for state business and foreign travel must be pre-approved by the department head or designated approving authority. Therefore, this purchase is not in compliance with state policy.

Additionally, the office documented justification for the cost of the flight from the United Kingdom to Colorado as being comparable to the cost of a round-trip ticket from Helena to Denver. The comparison was performed after the ticket from Birmingham, United Kingdom to Colorado had been purchased. The ticket was purchased in early January 2018 when the decision for the employee to attend the conference was made. The price comparison was performed in early February 2018, one week away from the travel date being used for the comparison. If the price comparison was conducted at the actual time the ticket from the United Kingdom to Colorado was purchased, the travel date would have been approximately three weeks before the travel date versus one week, and the cost for a flight from Helena to Denver would most likely have been less. We compared the price of a round-trip ticket from Helena to Denver and

a one-way ticket from Birmingham, United Kingdom to Denver. We conducted the comparison on May 12, 2019. We used June 2, 2019, as the departure date, which is three weeks from May 12, 2019. A round-trip ticket from Helena to Denver could be purchased for \$517. A one-way ticket from Birmingham, United Kingdom to Denver was \$725. Airline ticket prices generally increase as travel dates approach. We estimate the General Fund was overcharged approximately \$200.

## Itemized Receipt

We identified an expenditure, which was not fully supported by documentation. Therefore, the office is not in compliance with office policy. The office's procurement card (ProCard) policy states, "A ProCard user should request an itemized receipt from the vendor." The receipt attached to the ProCard statement for private university seminar fees for an incoming university official was not itemized in sufficient detail to determine what was purchased by the office. The office indicated the education course was part of a hiring decision made by the Commissioner, but no documentation of the need for the seminar was included in the documentation supporting the purchase. The transaction was for \$9,725.

## Summary

The instances above were caused by not following existing internal controls or by inadequate internal controls. The result was either noncompliance with state or office policy or a lack of adequate supporting documentation.

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### **RECOMMENDATION #1**

*We recommend the Office of the Commissioner of Higher Education follow existing and establish additional internal controls to ensure compliance with state policy and employees' contracts including:*

- A. *Keeping lodging costs as low as possible and limited to functions that benefit the state.*
  - B. *Documenting the business need for all travel.*
  - C. *Ensuring the most economical mode of travel is used or reimbursement to the employee is limited to the low-cost travel method.*
  - D. *Ensuring out-of-state and foreign travel is approved by the department head prior to incurring the travel costs.*
  - E. *Maintaining documentation in sufficient detail to support costs incurred at the direction of the Commissioner.*
-

## **Meals Purchased With General Fund Resources**

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**We identified instances of noncompliance with state policy regarding meals resulting from inadequate internal controls. We believe this noncompliance constitutes abuse of General Fund resources.**

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The office coordinates systemwide groups to work on special projects. Based on our review of General Fund transactions, as well as discussion with office staff, we learned the office frequently provides meals during meetings for these projects. Additionally, while conducting work at the office, we observed multiple occasions where food was made available to staff.

Documentation supporting these meal purchases was not adequate to establish either the business need or the office's compliance with state policy meal reimbursement requirements. For office staff, there are no policies specific to food and meal purchases except those applicable for employees in travel status. We compared policy requirements applicable to the campuses as opposed to the office itself, and noted the cost of food is an area of inconsistency. There is board policy for campuses, which requires a documented costs/benefit analysis for all campus entertainment, including meetings, where costs of food will exceed \$30. There is no board policy currently applicable to the office itself.

Without consistent documentation supporting the business need, the office risks its ability to demonstrate compliance with applicable state and office policy. Risk is increased due to lack of office policy establishing parameters for nontravel food and beverage purchases. Additionally, payment in excess of the allowed per diem for Regents and university personnel in travel status resulted in noncompliance with state travel laws and policies.

The following sections discuss areas for improvement related to meal purchases.

### **Meals in Travel Status**

The following meal costs were not in compliance with state travel policy. The individuals in travel status should have paid for their meals and sought reimbursement at per diem rates or reimbursed the office for the difference between the cost of their meal and the per diem rate.

- ◆ In July 2018, the office used \$513.90 in General Fund dollars for dinner at a Helena restaurant for seven Regents and nine office staff. Regents were in travel status, and therefore, entitled to \$12 per diem. Cost of individual meals ranged from \$14 to \$32, with an average meal cost of \$21.90.

- ◆ One employee's January 2019 travel expense form included a meal for seven people at a Washington, D.C. restaurant, totaling \$285 which was paid from the General Fund. That is an average meal cost of \$40.71 per person. At least two of the individuals were office staff, and therefore, were allowed out-of-state per diem for dinner at \$34 per meal. The five other attendees were not employees.

## Catered Food and Beverage Costs for Meetings

In addition to noncompliance specified above, we reviewed the following food purchases. We were unable to determine compliance with state travel policies and office policies for all or part of these purchases. We believe these purchases, in aggregate, represent abuse of General Fund resources:

- ◆ In June 2018, the office hosted a two-day meeting for 102 people. Total cost to the General Fund was \$4,474. Food costs were \$12 for breakfast and \$14 for lunch, which accumulated to \$1,532 in costs in excess of in-state per diem rates in state policy. Meeting attendees included office, college, and university staff, approximately 85 of whom were in travel status and only eligible for meal reimbursement in the amount of per diem rates. Based on the documentation available at the office, we were unable to determine if college and university staff claimed per diem for their time in travel status.
- ◆ An office official's travel expense forms often include meals at cost for meetings. The meal costs included meals for other meeting participants, including Regents and university staff. We observed this practice for multiple months. Their November 2018 travel form included meals totaling \$93.90, which were charged to the General Fund.

Additional examples of food and beverage charges reviewed as part of the audit included:

- ◆ There was no documentation for the need for a lunch meeting in March 2018, where a ProCard was charged \$124 for lunch from a sandwich shop for a Montana University System Healthcare meeting. The documentation package does not include a list of meeting participants and whether they were in travel status. As such, we were unable to determine if the purchase complied with state law and board, office, and state policy.
- ◆ In May 2018, there was a meal catered for 20 people attending the Gen Ed Council Summit. In total, the General Fund was charged \$207 for this meal. The summit was scheduled from 10 a.m. to 3 p.m. Total meal cost per person was \$10.38. We identified two office staff in attendance. If all remaining participants were in travel status, the total cost would be \$79 in excess of allowable per diem for lunch.
- ◆ In October 2017, there was a meal for 20 people at a cost of \$10.74 per person. Documentation indicates ten MUS employees in travel status participated. Total cost charged to the General Fund was \$214.76, of which \$47.40 exceeded the allowable per diem for individuals in travel status. Based on the documentation available, we were unable to determine if MUS employees claimed per diem for their time in travel status.

The Regents and office management contend the costs of these meals were reasonable and per diem rates do not apply to catered meals. However, we do not believe the costs of meals were reasonable given the facts and circumstances surrounding them. Because the office has not developed policy for catered meal purchases, we evaluated the catered meal purchases against existing state law and state and board policy. An employee in travel status is only entitled to reimbursement for per diem rates. It is a reasonable assumption that the costs of meals for these individuals should be comparable to these rates.

Office policies outlining limitations and documentation expectations for catered food and beverage costs for meetings would strengthen internal controls and reduce the risk for abuse of General Fund resources.

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### **RECOMMENDATION #2**

*We recommend the Office of the Commissioner of Higher Education:*

- A. *Adopt policies outlining limitations and documentation expectations for catered food and beverage costs for the office.*
  - B. *Adhere to per diem rates for meals for Regents and employees in travel status, as required by state policy.*
- 

## **Non-Employee Travel**

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**The Office of the Commissioner of Higher Education did not limit travel of non-employees for conferences for federal programs to the absolute minimum, as required by office policy.**

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The office used federal Gaining Early Awareness and Readiness for Undergraduate Programs' (GEAR UP) funds to pay costs associated with both employee and non-employee travel.

The office did not follow office policy related to travel for non-employees. Office policy states, "Program managers should keep the number of non-employee personnel attending a program meeting/conference requiring travel to an absolute minimum." Office policy should define what constitutes the absolute minimum, or the office should document the expected number of non-employee participants per school and the number of meetings/conferences per participant each year for the GEAR UP programs.



The non-employees referenced in this section include GEAR UP liaisons, who are local school district employees, and members of the GEAR UP local school management teams, which includes school administrators, counselors, teachers, students, and parents, from 19 middle schools and their “receiving high schools” throughout the state. Receiving high schools are high schools expected to receive the students upon their completion of middle school. Conferences provide training for the programs.

The instances below are not in compliance with the office’s Non-Employee Travel Reimbursement policy, and as a result, the instances are in noncompliance with federal regulations.

### **Excessive Conference Participation**

Based on available documentation, we believe the office sent an excessive number of non-employees to GEAR UP conferences during fiscal year 2018.

- ◆ In February 2018, 5 office staff and 43 non-employees attended a conference for the GEAR UP programs in Las Vegas. Costs for airline tickets were incurred as early as November 2017 for employees and non-employees, which was prior to receiving federally required written approval from the United States Department of Education. Approval was received in January 2018. Total costs incurred for this conference, including room rental costs for an additional meeting for the Montana delegation, was \$63,646.
- ◆ Six office staff and 31 non-employees attended a conference for GEAR UP in Portland in October 2017. Total costs incurred for this conference, including room rental costs for an additional meeting for the Montana delegation, was \$35,723.

Federal regulation states that allowable travel costs for federal programs are defined as those costs which result in charges consistent with those normally allowed in like circumstances in the nonfederal entity’s nonfederally-funded activities and in accordance with the nonfederal entity’s written travel reimbursement policies. Since the office is not in compliance with the office’s Non-employee Travel Reimbursement policy, it is also not in compliance with federal regulations, and travel costs may not be allowable.

Federal regulation states, “The nonfederal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the nonfederal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of federal award.”

In addition, federal regulations state travel costs are allowable with prior written approval of federal awarding agency. Since the office purchased the airline tickets for the February 2018 conference prior to approval, the office is also not in compliance

with this federal regulation. Had the office received federal approval prior to incurring the travel costs and documented an exception to their policy, we would not have questioned the activity.

## Repetitive Conference Participation

Additionally, we identified repetitive conference participation on the part of employees and non-employees. Of the three conferences listed below, six individuals participated in all three conferences and 22 people participated in two conferences. Thirty-four people participated in a single conference.

- ◆ One employee and ten non-employees traveled to Washington, D.C. for a GEAR UP conference in July 2018.
- ◆ Two office staff and ten non-employees attended a conference in July 2017 in San Francisco.
- ◆ Six office staff and thirty-one non-employees attended the conference for GEAR UP in Portland in October 2017.

Office staff could develop a rotation for participation for non-employees for out-of-state training opportunities or limit participation to one non-employee per school for conferences. The office could also investigate the possibility of participating in online trainings.

The Regents and office management contend that subrecipients are required to attend these conferences as result of specific development criteria listed in the grant proposals. The subrecipients are the schools, so the attendees would be the GEAR UP liaisons, school personnel, and student representatives. We agree participation in conferences is listed in the grant application. However, it is unclear whether participation is required or expected to this degree.

Regardless of the grant's intent, the office must follow its own policies, including the requirement to keep the number of non-employee personnel attending a conference requiring travel to an absolute minimum and adhere to federal regulations stating travel costs are allowable only with prior written approval of federal awarding agency.

The office did not follow federal regulations nor office policy related to federal grant administration. As a result, we question \$11,770 of federal GEAR UP expenditures incurred by the office in fiscal year 2018.

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**RECOMMENDATION #3**

We recommend the Office of the Commissioner of Higher Education comply with federal regulations and office policy by:

- A. Obtaining authorization for conference travel in advance of incurring related costs.
  - B. Limiting the number of non-employees attending conferences or programs to the absolute minimum.
  - C. Following existing internal control procedures and strengthening internal controls to ensure compliance with federal regulations and office policy regarding non-employee travel.
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## **Noncompliance With Telework Statutes**

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**The Office of the Commissioner of Higher Education allowed a temporary employee to telework from outside the United States, when state law limits telework to locations within the state of Montana.**

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In fiscal year 2018, a temporary employee of the office teleworked from outside the United States. This constitutes noncompliance with state policy.

The temporary employee worked from June 2017 through December 2017 outside of the United States. The employee earned approximately \$15,950 during this period. This is the only employee we identified who worked for the office while residing outside the state's borders.

Section 2-18-101 (27), MCA, defines telework as “a flexible work arrangement where a designated employee may work from home within the state of Montana or an alternative worksite within the state of Montana 1 or more days a week instead of physically traveling to a central workplace.”

Although §2-18-103 (8), MCA, exempts “academic and professional administrative personnel with individual contracts under the authority of the board of regents of higher education” from Part 1 of Chapter 18 of the Montana Code Annotated, it does not exempt temporary or classified employees.

The office concluded the employee was exempt from the telework statutes and state policy. Additionally, office personnel indicated they interpreted the telework statutes to

only apply when employees are working within the state's borders. Rather, the telework statutes, in fact, limit telework to being conducted within the state's borders, so the office was not in compliance with state law.

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***RECOMMENDATION #4***

*We recommend the Office of the Commissioner of Higher Education limit telework arrangements for classified and temporary staff to locations within the state's borders, as required by state law.*

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## **Internal Controls Over Invested Assets**

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**The Office of the Commissioner of Higher Education does not have adequate internal controls to ensure the financial information recorded on the Statewide Accounting Budget and Human Resources System for the Montana Family Education Savings Program - - Bank Plan is accurate and complete.**

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The office does not have adequate internal controls over \$60 million in assets invested in the private purpose trust fund for college savings plans. State policy notes that management's role includes establishing internal control policies and procedures which are designed to safeguard agency assets and verify the accuracy and reliability of financial data to ensure compliance with applicable laws and regulations. The lack of internal controls constitutes non-compliance with state policy.

The office administers approximately \$215 million in assets in its private purpose trust fund for college savings plans. The funds invested are comprised of investors' account balances. Approximately \$155 million of these assets are in the Montana Family Education Savings Trust (trust). The office receives a System and Organization Controls (SOC) 1 report from the service organization who serves as the program manager for the trust. A SOC 1 report is a report on controls at a service organization, which are relevant to user entities' internal control over financial reporting. The office has complementary user entity controls in place concerning this service organization's activities. Based on the positive results of the SOC 1 report and the office's existing complementary user entity controls, the office has adequate internal controls to ensure the financial information recorded on the Statewide Accounting Budget and Human Resources System (SABHRS) for the trust is accurate and complete.

The remaining \$60 million in assets are invested by private citizens in the Montana Family Education Savings Program - - Bank Plan (plan). The investments in this plan are nonnegotiable certificates of deposit.

Office management has contracted with a federally insured bank to provide custody, cash management, trade support, unitization, and account owner reconciliation services. Based on the services provided by the bank to the office, we consider the bank to be a service organization. The office does not receive a SOC 1 report for this plan. Therefore, we can not determine whether they have complementary user entity controls in place for this service organization's activities, nor do we have assurance of controls at the bank.

Office staff review monthly, quarterly, and year-end reports from the bank with whom the assets are invested and rely on these reports to record financial activity for the plan in SABHRS. The office has no basis for detecting errors in the reports provided by the bank, as none of the activity flows through the office.

The bank is a subsidiary of another financial institution. Office staff review the institution's consolidated financial statement audit reports. These reports provide an opinion on whether the consolidated financial statements present fairly, in all material respects, the financial position of the institution. The reports do not provide an opinion on the institution's or the bank's internal controls.

Office staff do not have a process for ensuring the information it receives from the bank is accurate and complete. Office staff also rely on account holders to determine whether account information is accurate. The responsibility to ensure there are adequate internal controls and ensure the financial information is complete and accurate lies with office staff. By solely relying on the bank and account holders, it is unlikely that office staff would identify errors or missing financial information.

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**RECOMMENDATION #5**

*We recommend the Office of the Commissioner of Higher Education comply with state policy by adopting adequate internal controls to ensure the financial information received for the Montana Family Education Savings Program - - Bank Plan is accurate and complete.*

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## **Preparation of Notes to the Financial Schedules**

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**The Office of the Commissioner of Higher Education does not have adequate internal controls to ensure the accuracy and completeness of the notes to the financial schedules.**

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The financial schedules contained in this report are considered special purpose financial statements. Per state policy, “Additional note disclosures may be necessary when special purpose financial statements contain items that are the same as, or similar to, those items included in financial statements prepared in accordance with GAAP.” The financial schedule note disclosures were not accurate and complete and did not comply with state policy.

The office did not include information in the notes to its financial schedules that completely or properly reflected disclosures required for disposal of government operations and related party transactions. Additionally, the office included in its notes to the financial schedules a going concern disclosure related to the Montana Guaranteed Student Loan program’s loan-servicing activity when the office is not at risk of going out of business.

The office’s internal review of its notes to the financial schedules did not identify these errors and omissions. The office did correct these errors and omissions in the notes after we identified and communicated the errors and omissions to the office.

The office could consider training for those employees responsible for note preparation and review.

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

*We recommend the Office of the Commissioner of Higher Education strengthen internal controls for preparation of the notes to the financial schedules to ensure accuracy and completeness.*

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## **Census Data for Other Postemployment Benefits**

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**The Office of the Commissioner of Higher Education does not have internal controls to ensure census data used for actuarial valuation of Other Post-Employment Benefits is accurate and complete.**

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We reviewed the census data used to complete actuarial valuation of other postemployment benefits (OPEB) for the Montana University System's (MUS) healthcare plan. Per our review of the census data provided to the office's contract actuary, we identified missing and duplicate census data. The incomplete census data was due to inadequate internal controls.

The office oversees the MUS's healthcare plan. The plan is offered to all employees of the university system. Since the office oversees the plan, they are responsible for the census data of the plan. Census data used for actuarial valuation includes items such as date of birth, plan ID, date of hire, eligibility, and employer. The office does not review the census data file before it is sent to the actuary. The data is used by the office's contract actuary when preparing the actuarial valuation of the plan's OPEB liability. The amount of OPEB liability recorded for the MUS at June 30, 2018, was approximately \$36 million.

The MUS does not have a centralized system to store their plan participant data. The data for the campuses and the office are stored in their respective payroll systems. The office has contracted with a vendor to provide eligibility management services for the MUS healthcare plan.

The campuses of the MUS and the office provide enrollment and eligibility data directly to the vendor. The vendor provides this enrollment and eligibility data to a healthcare purchasing organization who provides data aggregation and analysis services. The organization formats the information and provides this census data file to the office's actuary. The actuary uses this data to perform the actuarial valuation for OPEB.

Since the office oversees the MUS healthcare plan, it is ultimately their responsibility, not the responsibility of the vendor, organization, or actuary to ensure the census data is accurate and complete.

We performed testing of plan census data in response to the state's implementation of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, for fiscal year 2018. This testing included review of the census data for missing and duplicate data. During our review, we excluded dependents

other than spouses, as does the actuary. These plan participants are excluded as their information is not used for actuarial valuation for OPEB. For the remaining 11,655 plan participants, we identified the following issues in the census data provided to the actuary:

- ◆ The employer for 361 plan participants was missing.
- ◆ The census data contained 114 duplicated plan participants.

An outdated matching routine at the organization caused several of the blanks. In addition, some retirees do not have a campus listed in healthcare plan data, which results in blanks. We were unable to determine the cause for the duplicates.

The actuary contacted the office and worked with staff to identify the respective campuses for plan participants. For those plan participants for whom a campus could not be identified, the actuary attributed the plan participant to Montana State University (MSU) Bozeman, as MSU Bozeman is the largest employer in the MUS. This means some of the total OPEB liability allocated to MSU Bozeman may not belong to the campus. We do not believe that the allocation of the fiscal year 2018 OPEB liability between the office, community colleges, and universities is materially misstated.

Continuing to provide the actuary with inaccurate or incomplete census data could result in inaccurate or incomplete valuation of other postemployment benefits and misstatements in accounting records.

The office stated the census data file is a snapshot in time and can change drastically between days, so there is not an effective way to determine if the census data file itself is accurate. The office believes the review of invoices and historical trends provides adequate internal controls over the information used to create the census data file. We believe review of invoices and historical trends does not properly address the accuracy and completeness of the census data.

Office staff could review the census data file prior to its provision to the actuary for completeness. In addition, office staff could select specific employees from campuses and ask for information, such as date of birth, plan ID, date of hire, and eligibility documentation, from personnel files and verify the information on the census data file is correct for these employees.



The office is implementing a benefits enrollment and administration system, which will be used by the office and all the campuses. The office stated the new eligibility system will allow for reconciliation processes over the census data. The office anticipates the new system will be fully in operation in late fiscal year 2019.

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**RECOMMENDATION #7**

*We recommend the Office of the Commissioner of Higher Education, as part of the benefits enrollment and administration system development, adopt internal controls to ensure census data provided to the actuary for Other Postemployment Benefits valuation is accurate and complete.*

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# **Independent Auditor's Report and Office Financial Schedules**



## LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### *Introduction*

We have audited the accompanying Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Office of the Commissioner of Higher Education for the fiscal year ended June 30, 2018, and the related notes to the financial schedules.

### *Management's Responsibility for the Financial Schedules*

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the office's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles***

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinions on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the office as of June 30, 2018, or changes in financial position or cash flows for the year then ended.

***Unmodified Opinions on Regulatory Basis of Accounting***

In our opinion, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity of the Office of the Commissioner of Higher Education for the fiscal year ended June 30, 2018, in conformity with the basis of accounting described in Note 1.

***Emphasis of Matter—Change in Loan Servicing***

As disclosed in Note 6, the loan servicing portion of the Montana Guaranteed Student Loan Program was transferred to a federally approved national education loan servicing provider, effective October 1, 2017. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2019, on our consideration of the Office of the Commissioner of Higher Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope

of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control over financial reporting and compliance.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

April 19, 2019

COMMISSIONER OF HIGHER EDUCATION  
 SCHEDULE OF CHANGES IN FUND EQUITY  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

|   | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Internal Service Fund | Private Purpose Trust Fund |
|---|--------------|----------------------------|------------------------------|-----------------|-----------------------|----------------------------|
| FUND EQUITY: July 1, 2017                           | \$ (246,450) | \$ 4,299,711               | \$ 13,210,974                | \$ 59,585,481   | \$ (199,513)          | \$ 217,285,823             |
| <b>ADDITIONS</b>                                    |              |                            |                              |                 |                       |                            |
| Budgeted Revenues & Transfers-In                    | 1,360,372    | 1,374,149                  | 23,098,691                   | 116,654,011     | 471,015               |                            |
| Nonbudgeted Revenues & Transfers-In                 | 28           | 1,268,666                  | 2,417                        | (261,950)       | 5,748                 | 25,995,207                 |
| Prior Year Revenues & Transfers-In Adjustments      | 5,177        | (750)                      | (1,698)                      | (9,204)         |                       |                            |
| Direct Entries to Fund Equity                       | 222,920,928  | 21,745,520                 |                              | (527,798)       | (94,186)              |                            |
| Total Additions                                     | 224,286,505  | 24,387,585                 | 23,099,410                   | 115,855,059     | 382,578               | 25,995,207                 |
| <b>REDUCTIONS</b>                                   |              |                            |                              |                 |                       |                            |
| Budgeted Expenditures & Transfers-Out               | 223,533,665  | 23,581,956                 | 31,282,110                   | 103,481,177     | 458,348               |                            |
| Nonbudgeted Expenditures & Transfers-Out            | 3,050        | 612,704                    | 2,938                        | 57,053          | 36,366                | 28,369,557                 |
| Prior Year Expenditures & Transfers-Out Adjustments | (127,399)    |                            |                              | (250,000)       |                       |                            |
| Total Reductions                                    | 223,409,316  | 24,194,660                 | 31,285,048                   | 103,288,230     | 494,714               | 28,369,557                 |
| FUND EQUITY: June 30, 2018                          | \$ 630,739   | \$ 4,492,636               | \$ 5,025,337                 | \$ 72,152,310   | \$ (311,650)          | \$ 214,911,473             |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-7.



COMMISSIONER OF HIGHER EDUCATION  
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

|   | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Internal Service Fund | Private Purpose Trust Fund | Total        |
|---|--------------|----------------------------|------------------------------|-----------------|-----------------------|----------------------------|--------------|
| <b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>                           |              |                            |                              |                 |                       |                            |              |
| Taxes   | \$ 1,354,297 | \$ (986)                   | \$ 2,071                     |                 |                       |                            | \$ 1,355,382 |
| Charges for Services  | 28           | 1,074,267                  | 11,896,061                   |                 | 9                     |                            | 12,970,365   |
| Investment Earnings   | 11,252       | 64,758                     | 127,336                      | 1,141,646       |                       | 9,334,490                  | 10,679,483   |
| Contributions and Premiums  |              |                            |                              | 111,665,187     |                       | 16,660,717                 | 128,325,904  |
| Grants, Contracts, and Donations  |              | 1,047,024                  |                              | 17,706          | 5,739                 |                            | 1,070,469    |
| Transfers-in  |              | 449,376                    |                              |                 |                       |                            | 449,376      |
| Federal Indirect Cost Recoveries  |              |                            |                              | 3,558,318       | 471,015               |                            | 471,015      |
| Miscellaneous   |              | 7,625                      |                              |                 |                       |                            | 3,565,943    |
| Federal   |              |                            | 11,073,942                   |                 |                       |                            | 11,073,942   |
| Total Revenues & Transfers-In   | 1,365,577    | 2,642,064                  | 23,099,410                   | 116,382,857     | 476,764               | 25,995,207                 | 169,961,879  |
| Less: Nonbudgeted Revenues & Transfers-In                                   | 28           | 1,268,666                  | 2,417                        | (261,950)       | 5,748                 | 25,995,207                 | 27,010,115   |
| Prior Year Revenues & Transfers-In Adjustments                              | 5,177        | (750)                      | (1,698)                      | (9,204)         |                       |                            | (6,475)      |
| Actual Budgeted Revenues & Transfers-In                                     | 1,360,372    | 1,374,149                  | 23,098,691                   | 116,654,011     | 471,015               | 0                          | 142,958,239  |
| Estimated Revenues & Transfers-In   | 1,360,372    | 1,374,149                  | 23,098,691                   | 116,654,011     | 471,015               | 0                          | 142,958,239  |
| Budgeted Revenues & Transfers-In Over (Under) Estimated                     | 0            | 0                          | 0                            | 0               | 0                     | 0                          | 0            |
| <b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b> |              |                            |                              |                 |                       |                            |              |
| Budgeted Revenues & Transfers-In Over (Under) Estimated                     | \$ 0         | \$ 0                       | \$ 0                         | \$ 0            | \$ 0                  | \$ 0                       | \$ 0         |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-7.

**COMMISSIONER OF HIGHER EDUCATION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT              | Administration Program | Agency Funds         | Appropriation Distribution | Board of Regents-Administration | Community College Assistance | Education Outreach & Diversity | Guaranteed Student Loan Program | Improving Teacher Quality | MUS Group Insurance Program | MUS Workers Comp Program | Student Assistance Program | Tribal College Assistance Program | Work Force Development Program | Total                 |
|---|------------------------|----------------------|----------------------------|---------------------------------|------------------------------|--------------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------------|--------------------------------|-----------------------|
| <b>Personal Services</b>                                |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                |                       |
| Salaries  | \$ 2,105,227           |                      |                            |                                 |                              | \$ 672,377                     | \$ 328,174                      | \$ 29                     | \$ 661,883                  | \$ 74,688                | \$ 33,357                  |                                   | \$ 256,788                     | \$ 4,132,523          |
| Other Compensation                                      |                        |                      |                            | \$ 3,800                        |                              |                                |                                 |                           |                             |                          |                            |                                   |                                | 3,800                 |
| Employee Benefits                                       | 524,286                |                      |                            |                                 |                              | 261,760                        | 128,059                         | 11                        | 152,024                     | 24,821                   | 12,370                     |                                   | 80,555                         | 1,183,888             |
| Personal Services-Other                                 | 7,203                  |                      |                            |                                 |                              |                                |                                 |                           | (33,144)                    | 155                      |                            |                                   |                                | (25,786)              |
| <b>Total</b>  | <b>2,636,715</b>       |                      |                            | <b>3,800</b>                    |                              | <b>934,138</b>                 | <b>456,233</b>                  | <b>41</b>                 | <b>780,763</b>              | <b>99,664</b>            | <b>45,727</b>              |                                   | <b>337,344</b>                 | <b>5,294,425</b>      |
| <b>Operating Expenses</b>                               |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                |                       |
| Other Services  | 462,171                |                      |                            | 32,240                          |                              | 316,360                        | 789,623                         |                           | 7,329,084                   | 630,786                  | 900,162                    |                                   | 5,047                          | 10,465,473            |
| Supplies & Materials                                    | 68,885                 |                      |                            | 2,752                           |                              | 132,926                        | 7,112                           |                           | 28,988                      | 516                      |                            |                                   | 2,191                          | 243,371               |
| Communications  | 42,525                 |                      |                            | 137                             |                              | 19,677                         | 16,240                          |                           | 91,074                      | 466                      | 39                         |                                   | 1,164                          | 171,321               |
| Travel  | 88,326                 |                      |                            | 26,030                          |                              | 274,238                        | 5,742                           |                           | 52,536                      | 634                      | 1,437                      |                                   | 16,498                         | 465,442               |
| Rent  | 161,087                |                      |                            |                                 |                              | 53,396                         | 47,615                          |                           | 60,330                      | 7,778                    |                            |                                   | 28,657                         | 358,863               |
| Utilities   |                        |                      |                            |                                 |                              |                                | 11,010                          |                           |                             |                          |                            |                                   |                                | 11,010                |
| Repair & Maintenance                                    | 11,010                 |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                | 11,010                |
| Other Expenses  | 172,944                |                      |                            | 1,790                           |                              | 1,194,462                      | 7,239,818                       | 2                         | 755,179                     | 484,374                  | 182,999                    |                                   | 37,074                         | 10,068,641            |
| <b>Total</b>  | <b>1,006,948</b>       |                      |                            | <b>62,949</b>                   |                              | <b>1,991,059</b>               | <b>8,117,160</b>                | <b>2</b>                  | <b>8,317,191</b>            | <b>1,124,554</b>         | <b>1,084,637</b>           |                                   | <b>90,631</b>                  | <b>21,795,131</b>     |
| <b>Local Assistance</b>                                 |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                |                       |
| From State Sources                                      |                        |                      |                            |                                 | \$ 12,666,644                |                                |                                 |                           |                             |                          |                            |                                   | 149,000                        | 12,815,644            |
| <b>Total</b>  |                        |                      |                            |                                 | <b>12,666,644</b>            |                                |                                 |                           |                             |                          |                            |                                   | <b>149,000</b>                 | <b>12,815,644</b>     |
| <b>Grants</b>   |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                |                       |
| From State Sources                                      |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          | 9,452,187                  | \$ 837,875                        |                                | 10,290,062            |
| From Federal Sources                                    |                        |                      |                            |                                 |                              | 1,836,831                      |                                 | 280,183                   |                             |                          |                            |                                   | 1,995,368                      | 4,112,382             |
| From Other Sources                                      |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          | 910,108                    |                                   |                                | 910,108               |
| <b>Total</b>  |                        |                      |                            |                                 |                              | <b>1,836,831</b>               |                                 | <b>280,183</b>            |                             |                          | <b>10,362,294</b>          | <b>837,875</b>                    | <b>1,995,368</b>               | <b>15,312,551</b>     |
| <b>Benefits &amp; Claims</b>                            |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                |                       |
| To Individuals  |                        |                      |                            |                                 |                              |                                |                                 |                           | 373,585                     | 1,263,273                |                            |                                   |                                | 1,636,858             |
| Insurance Payments                                      |                        |                      |                            |                                 |                              |                                | 11,046,861                      |                           | 91,178,549                  |                          |                            |                                   |                                | 102,225,409           |
| <b>Total</b>  |                        |                      |                            |                                 |                              |                                | <b>11,046,861</b>               |                           | <b>91,552,133</b>           | <b>1,263,273</b>         |                            |                                   |                                | <b>103,862,267</b>    |
| <b>From Other Sources</b>                               |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                |                       |
| Distrib from Priv Purp Trusts                           |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          | 27,547,613                 |                                   |                                | 27,547,613            |
| <b>Total</b>  |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          | <b>27,547,613</b>          |                                   |                                | <b>27,547,613</b>     |
| <b>Transfers-out</b>                                    |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                |                       |
| Fund transfers  | 8,973                  |                      | \$ 910,429                 |                                 |                              | 1,455,781                      | 2,091                           |                           |                             |                          |                            |                                   | 3,317,171                      | 5,694,446             |
| Mandatory Transfers                                     | 16,500                 |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                | 16,500                |
| Intra-Entity Expense                                    | (109,119)              | \$ 28,447,884        | 190,158,683                |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                | 218,497,448           |
| <b>Total</b>  | <b>(83,645)</b>        | <b>28,447,884</b>    | <b>191,069,112</b>         |                                 |                              | <b>1,455,781</b>               | <b>2,091</b>                    |                           |                             |                          |                            |                                   | <b>3,317,171</b>               | <b>224,208,395</b>    |
| <b>Debt Service</b>                                     |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                |                       |
| Capital Leases  | 3,050                  |                      |                            |                                 |                              |                                | 2,938                           |                           |                             |                          |                            |                                   |                                | 5,987                 |
| <b>Total</b>  | <b>3,050</b>           |                      |                            |                                 |                              |                                | <b>2,938</b>                    |                           |                             |                          |                            |                                   |                                | <b>5,987</b>          |
| <b>Post Employment Benefits</b>                         |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                |                       |
| Other Post Employment Benefits                          | 378                    |                      |                            |                                 |                              |                                |                                 |                           | 960                         | 118                      |                            |                                   |                                | 1,456                 |
| Employer Pension Expense                                | 48,482                 |                      |                            |                                 |                              |                                |                                 |                           | 149,574                     |                          |                            |                                   |                                | 198,056               |
| <b>Total</b>  | <b>48,860</b>          |                      |                            |                                 |                              |                                |                                 |                           | <b>150,534</b>              | <b>118</b>               |                            |                                   |                                | <b>199,512</b>        |
| <b>Total Expenditures &amp; Transfers-Out</b>           | <b>\$ 3,611,928</b>    | <b>\$ 28,447,884</b> | <b>\$ 191,069,112</b>      | <b>\$ 66,749</b>                | <b>\$ 12,666,644</b>         | <b>\$ 6,217,808</b>            | <b>\$ 19,625,283</b>            | <b>\$ 280,225</b>         | <b>\$ 100,800,621</b>       | <b>\$ 2,487,609</b>      | <b>\$ 39,189,271</b>       | <b>\$ 837,875</b>                 | <b>\$ 5,740,515</b>            | <b>\$ 411,041,525</b> |
| <b>EXPENDITURES &amp; TRANSFERS-OUT BY FUND</b>         |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                |                       |
| General Fund  | \$ 2,793,053           | \$ 27,132,916        | \$ 170,345,121             | \$ 66,749                       | \$ 12,666,644                | \$ 125,803                     |                                 |                           |                             |                          | \$ 9,351,087               | \$ 837,875                        | \$ 90,067                      | \$ 223,409,316        |
| State Special Revenue Fund                              | 323,768                | 1,314,968            | 20,723,991                 |                                 |                              |                                | \$ 363,306                      |                           |                             |                          | 1,468,626                  |                                   |                                | 24,194,660            |
| Federal Special Revenue Fund                            | 393                    |                      |                            |                                 |                              | 6,092,005                      | 19,261,976                      | \$ 280,225                |                             |                          |                            |                                   | 5,650,448                      | 31,285,048            |
| Enterprise Fund   |                        |                      |                            |                                 |                              |                                |                                 |                           | \$ 100,800,621              | \$ 2,487,609             |                            |                                   |                                | 103,288,230           |
| Internal Service Fund                                   | 494,714                |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                | 494,714               |
| Private Purpose Trust Fund                              |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          | 28,369,557                 |                                   |                                | 28,369,557            |
| <b>Total Expenditures &amp; Transfers-Out</b>           | <b>3,611,928</b>       | <b>28,447,884</b>    | <b>191,069,112</b>         | <b>66,749</b>                   | <b>12,666,644</b>            | <b>6,217,808</b>               | <b>19,625,283</b>               | <b>280,225</b>            | <b>100,800,621</b>          | <b>2,487,609</b>         | <b>39,189,271</b>          | <b>837,875</b>                    | <b>5,740,515</b>               | <b>411,041,525</b>    |
| Less: Nonbudgeted Expenditures & Transfers-Out          | 110,313                |                      |                            |                                 |                              |                                | 366,244                         |                           | 56,986                      | 67                       | 28,548,057                 |                                   |                                | 29,081,667            |
| Prior Year Expenditures & Transfers-Out Adjustments     | (108,747)              |                      |                            |                                 |                              |                                |                                 |                           |                             | (250,000)                | (18,652)                   |                                   |                                | (377,399)             |
| <b>Actual Budgeted Expenditures &amp; Transfers-Out</b> | <b>3,610,362</b>       | <b>28,447,884</b>    | <b>191,069,112</b>         | <b>66,749</b>                   | <b>12,666,644</b>            | <b>6,217,808</b>               | <b>19,259,039</b>               | <b>280,225</b>            | <b>100,743,635</b>          | <b>2,737,543</b>         | <b>10,659,865</b>          | <b>837,875</b>                    | <b>5,740,515</b>               | <b>382,337,257</b>    |
| Budget Authority  | 3,911,760              | 28,447,884           | 191,960,379                | 67,350                          | 12,666,644                   | 8,971,836                      | 53,348,776                      | 517,390                   | 123,336,885                 | 4,561,666                | 12,382,908                 | 837,875                           | 6,495,308                      | 447,506,661           |
| Unspent Budget Authority                                | \$ 301,398             | \$ 0                 | \$ 891,267                 | \$ 601                          | \$ 0                         | \$ 2,754,028                   | \$ 34,089,737                   | \$ 237,165                | \$ 22,593,250               | \$ 1,824,124             | \$ 1,723,043               | \$ 0                              | \$ 754,793                     | \$ 65,169,404         |
| <b>UNSPENT BUDGET AUTHORITY BY FUND</b>                 |                        |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                |                       |
| General Fund  | \$ 169,757             |                      | \$ 854,834                 | \$ 601                          |                              | \$ 67                          |                                 |                           |                             |                          | \$ 70,509                  |                                   |                                | \$ 1,095,767          |
| State Special Revenue Fund                              | 45,659                 |                      | 36,433                     |                                 |                              |                                |                                 |                           |                             |                          | 1,652,534                  |                                   |                                | 1,734,626             |
| Federal Special Revenue Fund                            | 17,328                 |                      |                            |                                 |                              | 2,753,961                      | 34,089,737                      | 237,165                   |                             |                          |                            |                                   | 754,793                        | 37,852,984            |
| Enterprise Fund   |                        |                      |                            |                                 |                              |                                |                                 |                           | \$ 22,593,250               | \$ 1,824,124             |                            |                                   |                                | 24,417,374            |
| Internal Service Fund                                   | 68,654                 |                      |                            |                                 |                              |                                |                                 |                           |                             |                          |                            |                                   |                                | 68,654                |
| Unspent Budget Authority                                | \$ 301,398             | \$ 0                 | \$ 891,267                 | \$ 601                          | \$ 0                         | \$ 2,754,028                   | \$ 34,089,737                   | \$ 237,165                | \$ 22,593,250               | \$ 1,824,124             | \$ 1,723,043               | \$ 0                              | \$ 754,793                     | \$ 65,169,404         |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-7.

**Office of the Commissioner of Higher Education**  
**Notes to the Financial Schedules**  
**For the Two Fiscal Years Ended June 30, 2018**

## **1. Summary of Significant Accounting Policies**

### **Basis of Accounting**

The Office of the Commissioner of Higher Education (office) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue and Federal Special Revenue). In applying the modified accrual basis, the office records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

The office uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

### **Reporting Entity**

The office is an agency of the State of Montana. As such, generally accepted accounting principles (GAAP) do not require a complete set of financial statements because the office is only a portion of the State of Montana financial statements (i.e. department level GAAP does not exist). The financial schedules contained in this report were extracted from the state's primary accounting records and represent the financial activity of the Office of the Commissioner of Higher Education.

### **Basis of Presentation**

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the

state's accounting system without adjustment, except that amounts are rounded to the nearest dollar and; therefore, may not total due to rounding.

The office uses the following funds:

### Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. This includes funds appropriated for general operations of the office and distributions to the university units, tribal and community college for their general operations.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. The majority of this activity is related to the mill levy distributions to the university units.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. This includes the Federal Family Education Loan Program (FFELP) as administered by the Guaranteed Student Loan (GSL) Program, the Vocational Education – Basic Grants to States (Carl D. Perkins Federal Grant), the Educational Talent Search (ETS) grant, and the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) award.

### Proprietary Fund Category

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. This includes the MUS Workers' Compensation Program and MUS Group Insurance Program.
- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. This includes revenue collected from the MUS Group Insurance Program that is used to fund the central services provided by the administration program such as payroll and accounting.

### Fiduciary Fund Category

- ♦ **Private-Purpose Trust** - to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other

governments. This fund accounts for the Montana Family Education Savings Program.

- ♦ **Agency Fund** – to account for pass through funds held purely in a custodial capacity. This fund accounts for the Montana University System Retirement Plan employee/employer contributions remitted to Teachers Insurance and Annuity Association-College Requirement Equities Fund (TIAA-CREF).

## **2. General Fund Equity**

The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office's total assets placed in the fund exceeded the outstanding liabilities, resulting in a positive ending General Fund equity balance for the fiscal year ended June 30, 2018. This balance reflects the results of the activity of the office and not the fund equity balance of the statewide General Fund.

## **3. Direct Entries to Fund Equity**

Direct entries to fund equity in the General and Special Revenue funds include entries generated by the state's accounting system to reflect the flow of resources within individual funds shared by separate agencies. The office distributes General Fund and State Special Revenue Fund resources to the units of the university system, the community colleges, and the tribal colleges. These expenditures are shown on the Schedules of Total Expenditures & Transfers Out as Intra-Entity Expense in the Agency Funds Program and the Appropriations Distribution Program; as Local Assistance from State Sources Expense in the Community College Assistance Program, and Grants from State Sources in the Tribal College Assistance Program. However, the activity that collects the cash to make the distributions is the responsibility of another state agency, resulting in a direct entry to fund balance to reflect the use of the same fund by separate agencies.

Section 15-10-108, MCA, directs the legislature to levy property taxes to support, maintain, and improve the Montana University System. The state treasurer collects university property tax revenue and records it in a shared State Special Revenue Fund between the office and the Department of Revenue. These collections do not appear on the Schedule of Revenues & Transfers-In, but are the source of the distributions. As a result, a direct entry to fund equity is reported on the Schedule of Fund Equity and Property Held in Trust to reflect this flow of resources.

## **4. Related Party Transactions**

The Montana Board of Regents, which governs the Montana Guaranteed Student Loan Program (MGSLP) guaranteed loans, prior to transferring its portfolio, owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a

nonprofit corporation operating exclusively for the purpose of acquiring student loans. MHESAC has no employees and its business operations are managed by the Student Assistance Foundation (SAF). A Board of Regents board member is also a MHESAC Board of Directors member, an OCHE staff member is a MHESAC officer, and the Commissioner of Higher Education is an Ex-Officio member of the board.

There is no effect on the financial schedules as a result of the activities with the MHESAC.

## **5. Use of Estimates**

State law requires the office to record financial transactions in conformity with generally accepted accounting principles (§17-1-102, MCA) and this requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## **6. Disposal of Government Operations**

Effective October 1, 2017, the loan servicing portion of MGSLP was transferred to a federally approved national education loan servicing provider. The original principal balance of guaranteed loans outstanding transferred by MGSLP was approximately \$1,062,504,391. This transfer was approved by the Montana Board of Regents in May 2017. MGSLP will continue to exist in the office but at a much smaller level. The program will continue to offer other student financial aid related activities for the benefit of Montana students as determined by the Montana Board of Regents.

At the direction of the U.S. Department of Education, MGSLP transferred \$275,600 to Great Lakes Higher Education Loan Corporation for an operating expense for a Default Aversion Fee reserve fund and transferred the balance of Federal Student Loan Reserve Fund, \$6,656,605, to the U.S. Department of Education. MGSLP FY2018 operating fund revenues totaled \$743,790. MGSLP FY2018 operating fund expenses were \$456,233 for Personal Services, \$1,058,263 for Operating Expenses and \$2,938 for Debt Services for a total of \$1,517,434. MGSLP FY2018 governmental fund revenues totaled \$11,249,222. MGSLP FY2018 governmental fund expenses were \$6,697,682 for Operating Expenses and \$11,046,861 for Claims for a total of \$17,744,543.

# Report on Internal Control and Compliance





# LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Office of the Commissioner of Higher Education (office) for the fiscal year ended June 30, 2018, and the related notes to the financial schedules, and have issued our report thereon dated April 19, 2019.

### *Internal Control over Financial Reporting*

In planning and performing our audit of the financial schedules, we considered the office's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control. Accordingly, we do not express an opinion on the effectiveness of office's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement

of the entity’s financial schedules will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency below described in the following table to be a material weakness.

| Subject of Material Weakness  | Page in Report |
|---|----------------|
| Internal controls over the assets invested for the Montana Family Education Savings Program - - Bank Plan | 18             |

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We consider the deficiencies described in the following table to be significant deficiencies. The significant deficiencies related to employee travel and meals and catered food costs for meetings factor into abuse of General Fund resources.

| Subject of Significant Deficiency   | Pages in Report | Related Instance of Abuse  |
|---|-----------------|--|
| Internal controls to prevent or detect and correct in a timely manner noncompliance related to employee and non-employee travel.  | 8, 14           | State funds used to pay for accommodations not needed for business purposes. (Page 8)                |
| Internal controls over adequate documentation for purchases from vendors.   | 11              |  |
| Internal controls over limitations and documentation expectations for meals and catered food and beverage costs for meetings.     | 12              | Paid excessive costs for meals and catered food costs for meetings purchased for meetings. (Page 12) |
| Internal controls over the preparation process of notes to the financial schedules to ensure the notes are accurate and complete. | 20              |  |
| Internal controls over participant data used for actuarial valuations.  | 21              |  |

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the office’s financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on noncompliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, the results of our tests disclosed other matters that are required to be reported under *Government Auditing Standards*. The identified instances of other matters are described in the table above in the Internal Control over Financial Reporting section.

***Office of the Commissioner of Higher Education’s Response to Findings***

The Office of the Commissioner of Higher Education’s response to the findings identified in our audit are described on page C-1 of this report. The office’s response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

*Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

April 19, 2019



OFFICE OF THE  
COMMISSIONER OF  
HIGHER EDUCATION

OFFICE RESPONSE





**MONTANA UNIVERSITY SYSTEM**  
OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION

C-1

560 N. Park – PO Box 203201 – Helena, Montana 59620-3201  
(406) 449-9124 - FAX (406) 449-9171

June 5, 2019

Angus Maciver  
Legislative Auditor  
PO Box 201705  
Helena, MT 59620-1705

**RECEIVED**

JUN 06 2019

**LEGISLATIVE AUDIT DIV.**

Dear Mr. Maciver,

Please find attached the response from the Office of the Commissioner of Higher Education (OCHE) to the financial-compliance audit report on OCHE for fiscal year 2018.

We want to express our appreciation for the hard work and professionalism of your staff throughout this audit. The recommendations of this financial audit will help OCHE to improve critical operations related to internal controls and compliance monitoring.

We look forward to working with your office in the future.

Sincerely,

Clayton T. Christian  
Commissioner of Higher Education

## OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION

**Response to Financial & Compliance Audit Recommendations**June 6, 2019

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This document represents the response from the Office of the Commissioner of Higher Education to the Financial and Compliance Audit for the fiscal year ending June 30, 2018.

**RECOMMENDATION #1**

We recommend the Office of the Commissioner of Higher Education follow existing and establish additional internal controls to ensure compliance with state policy and employee's contracts including:

- A. Keeping lodging costs as low as possible and limited to functions that benefit the state.
- B. Documenting the business need for all travel.
- C. Ensuring the most economical mode of travel is used or reimbursement to the employee is limited to the low-cost travel method.
- D. Ensuring out-of-state and foreign travel is approved by the department head prior to incurring the travel costs.
- E. Maintaining documentation in sufficient detail to support costs incurred at the direction of the Commissioner.

**CONCUR.** OCHE concurs with this recommendation and began a review of its existing internal controls related to travel in June 2019. The office is also establishing new procedures for monitoring compliance with internal controls, as well as federal and state laws and regulations, state policy, and board policy. Onboarding processes for new employees will also be reviewed and improved to ensure new staff is aware of policy and procedures. As adjustments are made to internal controls and processes, training schedules for employees will be reviewed and updated. Work related to this area will be completed by December 31, 2019, with an ongoing compliance and monitoring mechanism in place.

**RECOMMENDATION #2**

We recommend the Office of the Commissioner of Higher Education:

- A. Adopt policies outlining limitations and documentation expectations for catered food and beverage costs for the office.
- B. Adhere to per diem rates for meals for Regents and employees in travel status, as required by state policy.

**CONCUR.** OCHE concurs with this recommendation and began developing an office policy governing the use of state funds for meals provided at meetings, work sessions, and conferences in June 2019. The office is committed to adhering to per diem rates when seeking reimbursement for meals for Regents and employees in travel status. New procedures for monitoring compliance will be developed by December 31, 2019.

**RECOMMENDATION #3**

We recommend the Office of the Commissioner of Higher Education comply with federal regulations and office policy by:

- A. Obtaining authorization for conference travel in advance of incurring related costs.



- B. Limiting the number of non-employees attending conferences or programs to the absolute minimum.
- C. Following existing internal control procedures and strengthening internal controls to ensure compliance with federal regulations and office policy regarding non-travel.

**CONCUR.** OCHE concurs with this recommendation. As part of a broader review of internal controls and compliance monitoring, the office will include an analysis of federal regulations related to its federally funded programs. New and existing staff will participate in ongoing training, and compliance monitoring procedures will be enhanced. Work related to this area will be completed by December 31, 2019.

#### **RECOMMENDATION #4**

We recommend the Office of the Commissioner of Higher Education limit telework arrangements for classified and temporary staff to locations within the state's borders, as required by state law.

**CONCUR.** OCHE concurs with this recommendation and will follow state telework laws. Internal controls specific to telework will be established by December 31, 2019.

#### **RECOMMENDATION #5**

We recommend the Office of the Commissioner of Higher Education comply with state policy by adopting adequate internal controls to ensure the financial information received for the Montana Family Education Savings Program Bank Plan is accurate and complete.

**CONCUR.** OCHE concurs with this recommendation. A complete evaluation of the internal controls related to the Montana Family Education Savings Program will be undertaken within the next six months. Procedures will be established to ensure all internal controls meet the requirements of state policy by December 31, 2019.

#### **RECOMMENDATION #6**

We recommend the Office of the Commissioner of Higher Education strengthen internal controls for preparation of the notes to the financial schedules to ensure accuracy and completeness.

**CONCUR.** OCHE concurs with this recommendation. OCHE will strengthen internal controls to ensure the accuracy and completeness of the notes to the financial schedules, including ensuring staff responsible for completing the notes receive annual training. Internal control improvement will be completed by December 31, 2019.

#### **RECOMMENDATION #7**

We recommend the Office of the Commissioner of Higher Education, as part of the benefits enrollment and administration system development, adopt internal controls to ensure census data provided to the actuary for OPEB valuation is accurate and complete.

**CONCUR.** OCHE concurs with this recommendation. OCHE will adopt internal controls to ensure census data provided to the actuary is accurate and complete. OCHE implemented a new IT platform in March 2019, which will allow direct access to census data without reliance on external entities to provide the information. OCHE will update processes and outline appropriate procedures to ensure accurate and complete information is provided. Work related to this area will be completed by December 31, 2019.