



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

21-12

COMPLIANCE AUDIT

University of Montana

*For the Two Fiscal Years Ended
June 30, 2021*

JUNE 2022

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A compliance audit is a component of the biennial financial-compliance audit. In these audits, the compliance and financial audits are combined for a two-year period to constitute the financial-compliance audit. Financial-compliance audits are classified as financial audits according to *Government Auditing Standards*. The primary objectives of the compliance audits are to determine compliance with regulations relating to contract and grant expenditures, other governmental financial assistance, and to test compliance with requirements of selected state laws, regulations, and rules. 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 and many 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, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by September 30, 2022.

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June 2022

The Legislative Audit Committee
of the Montana State Legislature:

This is our compliance audit report of the University of Montana for the two fiscal years ended June 30, 2021. The audit focused on compliance with federal requirements of the Research and Development, Student Financial Assistance, and Education Stabilization Fund federal financial assistance programs. We also tested compliance with selected state laws and policies.

This audit report includes eight recommendations to the university. Seven of the eight recommendations address the university's compliance with federal regulations and internal controls over the Student Financial Assistance program. The other recommendation involves federal compliance and internal control requirements for tagging equipment purchased for the Research and Development Program.

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Figures and Tables.....	ii
Elected, Appointed and Administrative Officials.....	iii
Report Summary	S-1
CHAPTER I – INTRODUCTION AND BACKGROUND	1
Audit Objectives.....	1
Background.....	2
Enrollment and Staffing	2
University of Montana Funding.....	4
Prior Audit Recommendations.....	5
CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	7
Student Financial Assistance Program Recommendations.....	7
Cost of Attendance Calculations.....	8
Return of Title IV Funds	10
UM Missoula	10
UM Western	11
Summary	12
Enrollment Reporting.....	12
Direct Loan Reconciliations.....	14
Fiscal Operations Report and Application to Participate Reporting	15
Perkins Loans.....	16
Records Retention	17
Contractor Monitoring	18
Research and Development Program Equipment Tagging	19
UNIVERSITY RESPONSE	
University of Montana	A-1

FIGURES AND TABLES

Figures

Figure 1	University of Montana Student FTE by Campus	3
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Tables

Table 1	University of Montana Student FTE	2
Table 2	University of Montana Student FTE by Academic Level.....	3
Table 3	University of Montana Unrestricted Employee FTE.....	4
Table 4	Total Student Financial Aid for Fiscal Year 2020 and 2021 by Campus and Federal Program.....	8
Table 5	Instances of Incorrect or Unsupported Line Items	16
Table 6	Contracted Perkins Loans Service by Campus.....	18

ELECTED, APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Name</u>	<u>Location</u>	<u>Term Expires</u>
Board of Regents of Higher Education	Casey Lozar, Chair	Helena	February 1, 2025
	Loren Bough	Big Sky	January 31, 2027
	Todd Buchanan	Billings	January 31, 2028
	Joyce Dombrowski	Missoula	February 1, 2026
	Robert A. Nystuen	Lakeside	February 1, 2022
	Brianne Rogers	Bozeman	February 1, 2024
	Jeff Southworth	Lewistown	January 31, 2029
	Amy Sexton, Student Regent		June 30, 2022
	Clayton Christian, Commissioner of Higher Education*		
	Greg Gianforte, Governor* (as of January 4, 2021)		
	Steve Bullock, Governor* (through January 3, 2021)		
	Elsie Arntzen, Superintendent of Public Instruction*		

*Ex officio members

Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	Brock Tessman	Deputy Commissioner for Academic and Student Affairs
	Tyler Trevor	Deputy Commissioner for Budget & Planning, Chief of Staff
	Ali Bovingdon	Montana University System (MUS) Chief Legal Counsel, Deputy Commissioner
	Margaret Wallace	Director of Assurance and Enterprise Risk

University of Montana Missoula	Seth Bodnar	President
	Reed Humphrey	Executive Vice President and acting Provost
	Mary Kreta	Vice President for Enrollment Management and Strategic Initiatives
	Paul Lasiter	Vice President for Operations and Finance

University of Montana Missoula (con't)	Scott Whittenburg	Vice President for Research and Creative Scholarship
	Zach Rossmiller	Chief Information Officer
	Lucy France	Legal Counsel
	Dan Jenko	Controller
	Emily Williamson	Director, Student Financial Aid
Montana Technological University (Butte)	Les Cook	Chancellor
	Steve Gammon	Vice Chancellor for Academic Affairs and Provost
	Angela Lueking	Vice Chancellor for Research and Dean of the Graduate School
	Joe McClafferty (through 2/2022)	Vice Chancellor for Development and Alumni Engagement (Currently vacant)
	Carleen Cassidy	Director of Finance and Budget
	Craig Elliott	Vice Chancellor for Student Affairs and Dean of Students
	Shauna Savage	Director, Student Financial Aid
University of Montana Western (Dillon)	Michael Reid	Chancellor
	Ashley Carlson	Interim Provost and Vice Chancellor for Academic and Student Affairs
	Johnny MacLean	Vice Chancellor for Academic and Student Affairs (Effective January 2022)
	Tricia Fiscus	Vice Chancellor of Administration and Finance
	Debi Richardson	Director of Business Services and Controller
	Louise Driver	Director, Student Financial Aid
Helena College University of Montana	Sandra Bauman	Dean
	Tricia Fiscus	Assistant Dean of Administrative Affairs and Transfer
	Valerie Curtin	Executive Director of Compliance and Financial Aid
	Robyn Kiesling	Executive Director of General Education and Transfer

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University of Montana

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

BACKGROUND

The university includes four campuses which are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of the university are University of Montana–Missoula, Montana Technological University, University of Montana–Western, and Helena College of University of Montana. The campuses provide diverse programs leading to associate, undergraduate, and graduate degrees, as well as occupational certifications.

The University of Montana (university) receives federal funding for Student Financial Assistance (SFA). We audited the SFA program at University of Montana Missoula (UM Missoula), Montana Technological University (MT Tech), University of Montana Western (UM Western), and Helena College of University of Montana (Helena College). During the fiscal years 2020 and 2021 audit period, the university expended approximately \$187 million in SFA. Seven of the eight recommendations in this report address compliance with federal regulations and effective internal controls related to student financial assistance programs.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the university: 8

To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:

Fully Implemented: 2

Partially Implemented: 2

Not Implemented: 0

RECOMMENDATION #1 (page 8):

Internal Control and Federal Compliance

We recommend the university implement internal controls and comply with federal requirements governing the Student Financial Assistance programs for the Cost of Attendance calculations.

University response: **Concur**

RECOMMENDATION #2 (page 10):

Internal Control and Federal Compliance

We recommend the university implement internal controls and comply with federal requirements governing the Student Financial Assistance programs for calculating and returning unearned student financial aid.

University response: **Concur**

For the full report or more information, contact the Legislative Audit Division.

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RECOMMENDATION #3 (page 12):

Internal Control and Federal Compliance

We recommend the university implement internal controls and comply with federal requirements governing the Student Financial Assistance program related to required enrollment reporting.

University response: **Concur**

RECOMMENDATION #4 (page 14):

Internal Control and Federal Compliance

We recommend the university implement internal controls and comply with federal requirements governing the direct loan reconciliations.

University response: **Concur**

RECOMMENDATION #5 (page 15):

Internal Control and Federal Compliance

We recommend the university implement internal controls and comply with federal requirements governing the Fiscal Operations Report and Application to Participate reports.

University response: **Concur**

RECOMMENDATION #6 (page 16):

Internal Control and Federal Compliance

We recommend the university implement internal controls and comply with federal requirements governing the Perkins Loans regulations to retain deferment requests, repayment schedules, and notification to the borrowers.

University response: **Concur**

RECOMMENDATION #7 (page 18):

Internal Control and Federal Compliance

We recommend the university implement internal controls and comply with federal requirements governing the Perkins Loans requirement to monitor their Perkins Loan servicer.

University response: **Concur**

RECOMMENDATION #8 (page 19):

Internal Control and Federal Compliance

We recommend the university implement internal controls to ensure all equipment is tagged and comply with federal requirements governing equipment for the Research and Development Cluster.

University response: **Concur**

Chapter I – Introduction and Background

Audit Objectives

We conducted a compliance audit of the University of Montana (university) for the two fiscal years ended June 30, 2021. The objectives of the audit were to:

1. Determine the university's compliance with federal regulations applicable to the following federal programs: Research and Development (R&D), Student Financial Assistance (SFA), and Education Stabilization Fund (ESF).
2. Provide recommendations to management for improvement in management and internal controls.
3. Determine whether prior audit recommendations were implemented.
4. Determine the university's compliance with selected state laws and regulations.

During the audit period, the university administered three major federal programs for Montana's federal Single Audit: R&D, SFA, and ESF. Our audit work over major federal programs is prescribed by federal regulations. We are required to conclude on compliance with applicable federal regulations and to determine whether effective internal controls over compliance with federal regulations were established and implemented.

The R&D program is comprised of a wide variety of individual research-based grants from different federal agencies administered by the university. The university expended approximately \$53 million in federal R&D expenditures in fiscal year 2020 and \$61 million in fiscal year 2021. We focused our audit efforts on grant activities at UM Missoula because approximately 92 percent of the expenditures for the program are at UM Missoula.

ESF grant funds were awarded under the Coronavirus Aid, Relief, and Economic Security Act; Coronavirus Response and Relief Supplemental Appropriations Act; and American Rescue Plan Act. In fiscal years 2020 and 2021 the university expended approximately \$4.7 million and \$25.8 million of ESF grant funds. This new program granted funds to assist students as a result of the pandemic and to help the university with lost revenues. We gained an understanding of controls at each of the four university campuses, but our audit effort focused on UM Missoula. UM Missoula expended 74 percent of the total for the university during the audit period.

The SFA program provides financial assistance to students pursuing postsecondary education and includes 11 individual programs. The largest of these programs at the university, comprising approximately 98 percent of total SFA expenses, are Direct Loans, Pell Grants, and Perkins Loans. The university had approximately \$100 million of SFA expenses in fiscal year 2020 and \$87 million in fiscal year 2021. We audited the SFA program at UM Missoula, MT Tech, UM Western, and Helena College.

An integral part of the administration of the SFA program is the Banner system, which is the university's accounting, human resources, and student account information system. The Legislative Audit Division conducted a separate Information System audit of *Information Security in the Montana University System* (20DP-03) jointly managed by the Office of the Commissioner of Higher Education,

University of Montana, and the Montana State University. This audit, issued in April 2022 addresses Banner security management, including the results of testing completed over select federal regulations applicable to the SFA program. The Information System audit should be considered in conjunction with this report to obtain a full understanding of the results of the SFA federal audit work.

Background

The University of Montana is accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of the University of Montana provide a diverse number of undergraduate and graduate academic degrees.

The University of Montana–Missoula campus offers four-year undergraduate programs along with masters and doctoral graduate programs. It includes professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System (MUS) and operates the only law school in the MUS. Other schools/colleges include Business Administration, Education and Human Sciences, Visual and Performing Arts, Forestry and Conservation, Health Professions and Biomedical Sciences, Honors, Graduate, and Journalism. In addition, the campus also includes the two-year Missoula and Bitterroot colleges, which provide a broad range of technical and occupational education and training courses. Approximately 50 centers and institutions are affiliated with UM Missoula, the oldest of which is the Flathead Lake Biological Station that was created in 1899. The Montana Forest and Conservation Experiment Station is also associated with this campus.

Montana Technological University (MT Tech), located in Butte, provides a variety of four-year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs. It also includes the Highlands College, which provides core education courses and two-year degrees in various occupational and technical programs, and the Bureau of Mines and Geology, which provides advisory, technical, and informational services on the state's geologic, mineral, energy, and water resources.

The University of Montana–Western, located in Dillon, provides undergraduate degrees in a number of liberal arts, professional, and pre-professional areas using a unique scheduling system in which students take one class at a time.

Helena College of University of Montana is a two-year college offering associate degrees and technical proficiency certificates. It also provides studies toward upper-level and graduate level programs.

Enrollment and Staffing

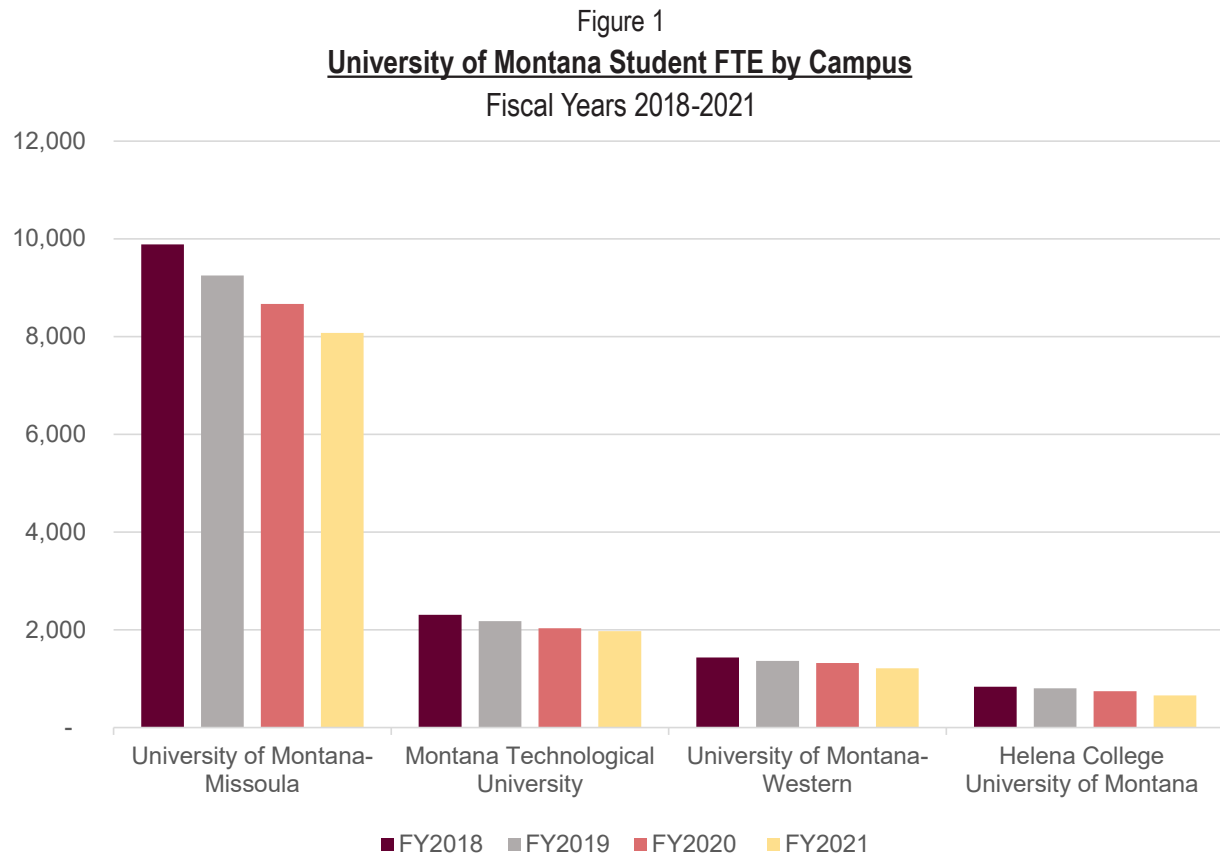
Table 1 presents student full-time equivalent (FTE) for fiscal year 2021 and Figure 1 (see page 3) presents the university FTE enrollment, by campus, for the past four years. In fiscal years 2020 and 2021, the university had FTE student

Table 1
University of Montana Student FTE
Fiscal Year 2021

Campus	FY 2021
University of Montana–Missoula	8,072
Montana Technological University	1,972
University of Montana–Western	1,214
Helena College University of Montana	657
Total	11,915

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

counts of 12,764 and 11,915, respectively. Over the past four years, the university has averaged declines in enrollment between 6 percent and 7 percent each year.



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

Table 2 presents the student FTE for fiscal year 2021 by academic level at each campus.

Table 2
University of Montana Student FTE by Academic Level
Fiscal Year 2021

Campus	Graduate	Undergraduate	Two-Year	Total
University of Montana–Missoula	1,856	5,292	924	8,072
Montana Technological University	157	1,520	295	1,972
University of Montana–Western		1,214		1,214
Helena College University of Montana			657	657
Total	2,013	8,026	1,876	11,915

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

Table 3 presents unrestricted FTE at each campus of the university for fiscal year 2021. Since fiscal year 2018, unrestricted employee FTE for the university have declined by approximately 7 percent.

Table 3
University of Montana Unrestricted Employee FTE
Fiscal Year 2021

Campus	Contract Faculty	Contract Administrative	Contract Professional	Classified	Graduate Teaching Assistance/ Graduate Research Assistance	Part-Time/ Other	Total
University of Montana–Missoula	506.39	24.19	158.91	447.43	143.9	49.72	1,330.54
Montana Technological University	141.54	8.2	40.48	77.95	12.4	11.24	291.81
University of Montana–Western	80.32	4.4	22.05	45		2	153.77
Helena College University of Montana	33.25	1.4	11.31	28.54		2	76.5
Bureau of Mines		1	16.96	6.75		0.73	25.44
Forestry Conservation Station	6.4		2.88	2.12		0.9	12.3
Total	767.9	39.19	252.59	607.79	156.3	66.59	1,890.36

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

University of Montana Funding

The level of state support for the MUS is determined by the Montana legislature. The legislature appropriates state funds, comprised of general fund and six-mill levy revenues, in a lump sum for the educational units and all other higher education programs except the research and public service agencies, community colleges, and tribal college assistance programs. The Board of Regents allocates the lump sum state funding to the various programs and campuses. The Board of Regents' allocation formula is based upon resident enrollment and certain base fixed cost of each campus. Total state appropriations to the university were approximately \$102 million and \$107 million for fiscal years 2020 and 2021, respectively.

Prior Audit Recommendations

The prior compliance audit of the university for the two fiscal year years ended June 30, 2019, contained four recommendations, of which two were fully implemented and two were partially implemented. The two recommendations fully implemented address concerns over Banner access reviews at UM Missoula and department pro-card approvals at MT Tech.

UM Missoula did not fully implement a recommendation to establish internal controls to verify vendors are not suspended or debarred from federal procurement transactions over \$25,000 using Research and Development federal assistance funds. We found UM Missoula did implement a comprehensive control in June 2021, but the control was not in place during most of our audit period. Additionally, one of the two vendors identified by the control as being on a federal sanction list was not inactivated on Banner until March of 2022. No payments over \$25,000 were made to either vendor. Because the university has established a control, we make no additional recommendation in this report. The recommendation will be subject to further follow-up in the next compliance audit because of federal audit requirements for the Research and Development federal program.

UM Western did not fully implement a recommendation regarding accurate inventory tagging and grouping of assets on their inventory record. We noted improvement in regard to tagging all assets as required by state accounting policy, but we noted some assets were still inconsistently grouped because the number of items on the property listing was not consistent with the actual number of items. Because the university has made improvements to implement this recommendation, we make no additional recommendation in this report, but it will be subject to follow up in the next compliance audit.

Chapter II – Findings and Recommendations

Student Financial Assistance Program Recommendations

Each campus of the University of Montana (university) receives funding from the U.S. Department of Education (ED) for the Student Financial Assistance (SFA) federal financial assistance program. The objective of the SFA program is to provide financial assistance to students pursuing postsecondary education.

The SFA program is comprised of 11 individual programs. Some of these programs are briefly described below:

- ♦ The **Direct Loan Program** makes direct subsidized and unsubsidized loans to undergraduate, graduate, or professional students and parents of dependent undergraduate students to pay for attending school. The Secretary of Education makes these direct loans.
- ♦ The **Pell Grant Program** awards grants to undergraduate students who display exceptional financial need and have not earned a bachelor's, graduate, or professional degree.
- ♦ The **Federal Work-Study (FWS) Program** provides part-time employment to eligible undergraduate and graduate students who need the earnings to help meet school costs. The institution determines the award amount, places the student in a job, and pays the student or arranges to have the student paid by an off-campus employer. Generally, institutions must provide matching funds.
- ♦ The **Federal Perkins Loan (Perkins Loans) Program** provided long-term low-interest loans to students who demonstrated the need for financial aid to pursue their course of study. Revolving loan funds were established and maintained at institutions through a combination of Federal and Institutional Capital Contributions. Repayments of principal and interest and new capital contributions were deposited in the revolving funds. As of June 30, 2018, no further disbursements of loans are allowed under the program. However, institutions continue servicing their Perkins Loans until the loans are paid in full or otherwise retired.
- ♦ The **Federal Supplemental Educational Opportunity Grant (FSEOG) Program** provides grants to eligible undergraduate students, prioritizing Pell grant recipients with the lowest expected family contributions. Federal funds are matched with institutional funds for the program.

Because they are administered at the institutional level, the FWS, Perkins Loans, and FSEOG programs are referred to collectively as the “campus-based programs.”

We tested SFA at the University of Montana–Missoula (UM Missoula), the University of Montana–Western (UM Western), Montana Technological University (MT Tech), and the University of Montana Helena College (Helena College) in the current audit. In previous years, we focused our audit effort on the UM Missoula campus, as it makes up approximately 75 percent of the activity for the university. Since we last audited this program in 2017, ED has changed its audit guidelines to require testing at all campuses. The university had approximately \$100 million of SFA expenses in fiscal year 2020 and \$87 million in fiscal year 2021. Table 4 (see page 8) shows campus and federal program amounts for the audit period. As a result of the amount of expenses, the SFA program is considered a major federal program for Montana and is audited as part of the state's biennial Single Audit.

Table 4
Total Student Financial Aid for Fiscal Year 2020 and 2021 by Campus and Federal Program

Program	MT Tech	UM Western	Helena College	UM Missoula	Total
FSEOG	\$293,945	\$291,628	\$111,643	\$686,343	\$1,383,559
FWS	\$193,895	\$332,606	\$66,150	\$1,778,230	\$2,370,881
Perkins Loans*	\$1,938,854	\$842,907		\$14,007,594	\$16,789,355
Pell Grants	\$4,823,054	\$4,493,142	\$2,644,930	\$21,334,525	\$33,295,651
Direct Loans	\$14,859,679	\$9,306,690	\$4,753,754	\$104,628,318	\$133,548,441
Teacher Education Assistance for College and Higher Education Grants		\$7,924		\$1,876	\$9,800
Health Professions Student Loans				\$596,774	\$596,774
Total	\$22,109,427	\$15,274,897	\$7,576,477	\$143,033,660	\$187,994,461

Source: Compiled by Legislative Audit Division from Schedule of Expenditures of Federal Awards Information.

* These amounts are the outstanding balances of previous loans and not new loans issued each year.

Federal regulations require the university to establish and maintain effective internal control over the federal award that provides reasonable assurance that the university is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. The following sections summarize instances where the university did not have sufficient internal controls over the SFA program and the resulting noncompliance with federal regulations for the program.

Cost of Attendance Calculations

The university should improve internal controls to ensure accurate and supported cost of attendance calculations.

Each campus calculates and awards individual students financial aid awards based on the institution's cost of attendance (COA) and the individual's expected family contribution. Per federal law, the COA is primarily the total of:

- ♦ Tuition and fees,
- ♦ An allowance for books, supplies, transportation, and miscellaneous personal expenses,
- ♦ An allowance for room and board, where applicable, and
- ♦ Allowances for costs for dependent care, where applicable.

Although each campus uses slightly different methodology, the financial aid director at each campus creates the COA using historical costs, known or estimated tuition and fee increases, averages of meal plans and local rents, as well as consumer price index increases. If a student believes their COA is too low, they can appeal to the financial aid director at their campus, who can adjust using their judgement based on a student's individual circumstances.

A different COA is calculated for the different enrollment categories such as: resident vs nonresident; off campus vs on campus, graduate, undergraduate; and full-time vs $\frac{3}{4}$ time vs $\frac{1}{2}$ time. The number of yearly COAs calculated by each campus range from 76 to 294.

Through our testing, we determined UM Missoula, UM Western, and Helena College do not ensure review and approval of the COA is performed by someone not involved in the process of creating it. Without a review and approval process, there is risk the COA calculation may contain errors and/or may not be adequately supported and cause students to be awarded an incorrect amount of financial aid. Helena College has a process in place to provide the calculations to various other campus staff for review, but their review is not documented and thus untestable. MT Tech did not have these controls for fiscal year 2020, but controls were put in place and documented beginning in fiscal year 2021.

In addition to detailing what types of costs are allowed to be part of the COA, federal regulations also require institutions to maintain records demonstrating they are administering the SFA program under the federal requirements. UM Western did not have support for three and four of the five elements in the COA calculations for academic years 2019-20 and 2020-21, respectively. Additionally, the total COAs published on the campus website were \$1,020 less than the COA calculated by the campus on the spreadsheets provided to us as part of the audit. Due to this lack of support for the COA calculations, it is unclear if UM Western's COAs follow federal regulations. This means UM Western needs to keep documentation to support the COA calculations.

Some university staff indicated they believe their current practice is sufficient because any large errors would be noticed as they would significantly affect the amount of aid students are awarded. However, we believe the large number of COAs at each campus increases the risk that not all errors in the COA would be identified on a timely basis and may cause students' SFA amounts to be incorrect.

RECOMMENDATION #1

We recommend :

- A. *UM Missoula, UM Western, and Helena College implement internal controls as required by federal regulations to ensure the COA calculations are accurate and supported.*
 - B. *MT Tech continue to implement and document their review process over the COA.*
 - C. *UM Western comply with federal requirements governing the Student Financial Assistance programs by retaining required supporting documentation for the COA calculations.*
-

Return of Title IV Funds

UM Missoula and UM Western did not comply with the federal regulations for calculating and timely returning unearned student financial aid. We also determined the campuses' internal controls were not designed to ensure compliance with the federal requirements and they failed to ensure compliance.

As noted in the section above, each campus calculates and awards individual student's financial aid based on the cost of attendance at the institution and the individual's expected family contribution. The cost of attendance used to award the aid is based on the student's enrollment at the beginning of each term. If a student drops any courses or fully withdraws from the university, their aid must be adjusted. If a student fully withdraws, either by officially notifying the university or simply no longer attending classes, federal regulations require each campus to calculate the amount of aid the student earned for the time they attended. If a student attended less than 60 percent of the calendar days in a term, they did not earn the full amount of their initially disbursed financial aid, and federal regulations require the unearned funds be returned to the federal government.

The process of calculating the unearned aid and returning it must be completed within 45 days of the university becoming aware of a student's withdrawal. The university becomes aware of a student's withdrawal either by the student filling out an official withdrawal form or by university personnel running reports from Banner at the end of the semester to identify students who stopped attending classes.

Federal regulations outline what date to use as the student's last day of attendance and how to calculate the amount of aid the student earned vs how much must be returned to ED. These amounts are in turn split between the university and the student. The university must return the amount of costs charged to a student associated with the portion of the semester the student did not attend. For example, if the university charged a student \$5,000 for tuition and room and board for the semester, but the student withdrew 20 percent of the way through, the university must send \$4,000 back to ED. Much like the student did not earn the financial aid to cover those costs, the university also did not earn the right to incur those costs. Any remaining amount of unearned aid is the responsibility of the student to return to ED.

We tested a sample of 54 students who received aid and subsequently withdrew during the audit period. We identified multiple instances of noncompliance and systemic internal control issues related to the return of funds as described below.

UM Missoula

The campus's process is for one staff member in Student Accounts to complete the calculation of the aid to be returned. If the calculation indicates a portion of the student's aid must be returned, a second staff member in Student Accounts reviews and approves the calculation. If the calculation indicates no aid must be returned, this review and approval does not occur. After Student Accounts staff complete the calculation, Financial Aid staff are responsible for adjusting the student's Banner account and Business Services staff are responsible for returning the funds to ED.

Based on our review of the campus's processes and the results of our sample testing, we identified the following areas of internal control deficiencies and noncompliance:

- ♦ For instances where the initial return calculation indicates the student has attended at least 60 percent of the semester, and thus earned 100 percent of their aid, the campus does not have controls in place to verify the accuracy of the calculation. Staff stated they stop the return process once they have determined a student has attended at least 60 percent of the semester, so these items never make it to the review portion of the process discussed above. We tested 18 students whom staff determined had attended 60 percent or more of the semester and did not identify any instances where the determination was incorrect. While we did not identify any resulting noncompliance for these students, the university should have a process in place to verify the initial calculations as an error at this stage could result in the campus not returning federal funds as required.
- ♦ For three students reviewed in the sample, the university's controls did not ensure the calculation of funds to return was correct. For these instances, staff used an incorrect withdrawal date to determine how much of the semester the students attended, and the review process did not identify the errors. These items resulted in \$474 of costs charged to student financial assistance inappropriately, and we question those costs.
- ♦ The campus also does not have sufficient internal controls to ensure the aid is returned to ED timely once it has been calculated. We identified one instance where the campus completed the return 96 days after the student notified the campus of their withdrawal instead of within the 45 days required. We also identified two instances where the campus did not complete the return process once the amount had been calculated. These two items resulted in \$5,114 of questioned costs. Campus staff believe the items above were the result of an employee not completing assigned job duties who was ultimately relieved of those duties. The employee worked in the position from December 2019 through early January 2021. Because of the length of time the issues described above were occurring and the number of withdrawals processed during that time, we believe questioned costs are likely to exceed \$25,000 for the period.

UM Western

The campus does not have sufficient internal controls to ensure the amount of aid to be returned was calculated correctly. Staff use a calculation form on the Common Origination and Disbursement (COD) system mentioned in the Direct Loan Reconciliation section (Recommendation #4) to determine the amount of funds to be returned. The entire process is completed by a single staff member, without review and approval by another staff person. We identified the following errors in the calculations, indicating internal controls should be enhanced:

- ♦ We identified one instance where the campus used an incorrect tuition amount in the calculation and thus miscalculated the amount of aid to be returned by \$75.13. However, the campus ultimately returned the correct amount.
- ♦ We identified one instance where the campus used an incorrect withdrawal date in the calculation. However, the campus ultimately returned the correct amount.
- ♦ We also identified one instance where the campus was unable to provide support for a student's last day of attendance. As such, we were unable to determine whether the amount of funds returned was appropriate. Federal regulations require the campus to maintain support for the last day of attendance.

Campus staff believed the use of the COD form to complete the calculation was sufficient internal controls to ensure the calculation is correct. Additionally, without maintaining supporting documentation for key items in the calculation, such as the last date of attendance, the campus cannot demonstrate compliance with federal regulations.

Summary

The items discussed above indicate room for improvement in internal controls and compliance with federal regulations governing the return of Title IV funds for the Student Financial Assistance programs at UM Missoula and UM Western. Collectively, these campuses spent approximately \$158 million, or 84 percent of the program expenditures for the audit period.

RECOMMENDATION #2

We recommend:

- A. *UM Missoula enhance internal controls to ensure the amount of financial aid to be returned is calculated correctly and the aid is returned to ED timely.*
 - B. *UM Western implement internal controls to ensure the amount of financial aid to be returned is calculated correctly and supporting documentation is maintained.*
 - C. *UM Missoula and UM Western comply with the federal requirements governing the return of Title IV funds process.*
-

Enrollment Reporting

UM Missoula did not complete the required enrollment reporting for over 200 students receiving student financial aid, in violation of federal regulations.

To assist ED in administering the Pell Grant and Direct Loan Programs, each campus is required to complete student enrollment reporting throughout the year. Student enrollment information is housed in a central, federal database by ED: the National Student Loan Data System (NSLDS). Periodically, NSLDS provides a roster file of enrollment information for students who received Pell grants or Direct Loans to the campuses. Each campus must review, update, and verify student enrollment statuses, program information, and effective dates within 15 days of receiving the file. ED's administration of the student financial assistance programs depends heavily on the accuracy and timeliness of this information.

Although ultimately responsible for the reporting, all of the campuses use a third-party organization, the National Student Clearinghouse (clearinghouse), to complete the reporting. Campus staff extract the current enrollment information from Banner via standard reports and review it for errors and students who should not be included. Staff then send the report to the clearinghouse, who matches

it up to the roster file provided by ED and sends it back to NSLDS. If errors or inconsistencies are identified by NSLDS, they provide an error file that must be corrected and resubmitted within 10 days.

As part of our testing, we completed a sample of 69 students who received Pell grants or Direct Loans during the audit period across all campuses: with 37 at UM Missoula. This sample identified errors in the enrollment reporting for two students; and, through follow-up testing, we identified deficiencies in UM Missoula's enrollment reporting process and significant noncompliance with the federal reporting requirements, as outlined below:

- ♦ **Dual Enrollment Students:** Eligible Montana high school students can take college courses for credit for free or at a reduced cost at any campus in the Montana University System. At UM Missoula, these students are identified in Banner using a specific attribute code. As part of the enrollment reporting process, staff filter out students with the dual enrollment attribute code as they are not eligible to receive federal financial aid and are thus not entered in NSLDS. During our testing, we determined the dual enrollment attribute code was not being updated in Banner for students who became regularly enrolled after participating in the dual enrollment program. There were 147 students with this inaccurate code ranging from freshmen to doctoral students. Of these students, 28 received Pell grants or Direct Loans during the audit period, and thus should have been included in the enrollment reporting to NSLDS. Given the range of grade levels affected, this is a systemic internal control deficiency.
- ♦ **Missing Social Security Numbers (SSN):** Students are not required to provide SSNs as part of the admissions application process. Providing SSNs is, however, required to receive federal financial aid and SSNs are provided as part of the student's Free Application for Federal Student Aid (FAFSA) application process. When a student provides the SSN as part of the FAFSA but not the admissions application, their SSN is only housed in the financial aid Banner data. As of spring semester 2021, there were approximately 1,400 students enrolled at UM Missoula who had not provided their SSN as part of the enrollment application. When staff run the extract process for the enrollment reporting, the financial aid data is not included as the reporting is specific to enrollment data. Student's SSNs are used only as an identifier to match campus student records to the NSLDS student records. The SSNs themselves are not required to be reported to NSLDS. As a result, these students with no SSNs in the enrollment Banner data, are flagged by the clearinghouse and returned to campus staff as potential errors or students who do not need to be reported. UM Missoula staff do not resolve these errors when they are flagged by the clearinghouse because it is not required to be reported to NSLDS and they want to instead focus their time on resolving errors in the information that is. Because the errors are not resolved, these students are not reported to NSLDS by the clearinghouse. Of the 1,400 students with no enrollment SSN, 173 received Pell grants or Direct Loans during the audit period, and thus should have been included in the enrollment reporting to NSLDS. Given the number of students affected, this is a systemic internal control deficiency.

By not reporting these 201 students, UM Missoula is not in compliance with the federal requirements and is at risk of being fined by ED for their administration of the Pell Grant program. Additionally, it is like they are not enrolled at all from ED's perspective.

RECOMMENDATION #3

We recommend UM Missoula improve internal controls to ensure all required students are reported to NSLDS and comply with the federal requirements governing the enrollment reporting process.

Direct Loan Reconciliations**The university did not complete all federally-required monthly reconciliations for the Direct Loan Program during the audit period.**

Campuses calculate and award individual students Direct Loan awards based on the COA at the institution and the individual's expected family contribution. Once accepted, these loans are applied to the students' bills and any excess is disbursed directly to students. The university is then required to report these disbursements to ED via the Common Origination and Disbursement (COD) System within 15 days of applying to the students' accounts. Each month, the COD system provides institutions with School Account Statement (SAS) data files consisting of financial information related to the Direct Loan disbursements. Institutions are required to reconcile these files to their financial records monthly. Federal regulations also require institutions to maintain records for the reports and forms used to administer the SFA program and any records needed to verify data in those reports and forms for three years.

The university's controls over these monthly reconciliations are not sufficient to ensure the required monthly Direct Loan reconciliations are completed, accurate, and any differences are followed up on in compliance with the federal regulations, as outlined below:

- ♦ **UM Missoula:** The campus was missing reconciliations for five of the 24 months in fiscal years 2020 and 2021. The campus maintained some supporting documentation for the reconciliations, but not enough to fully tie them back to support for the three reconciliations we sampled. UM Missoula also had a difference of \$910 noted on the reconciliation from January through June 2021 with no documentation of any follow-up being performed. Because a reconciliation process involves both comparing amounts and then following up on any differences, when unresolved differences exist it indicates the campus did not fully complete the process. The campus staff stated the staff member responsible for these reconciliations retired and thus they were unsure why the differences were not followed up on and where any remaining supporting documentation was located.
- ♦ **UM Western:** The campus did not complete any of the required monthly reconciliations during fiscal years 2020 and 2021. Campus staff stated they were not aware they needed to complete these monthly reconciliations.
- ♦ **MT Tech:** The campus did not complete the June 2021 monthly reconciliation and did not have supporting documentation for the other 23 reconciliations completed during fiscal years 2020 and 2021. The campus also had a difference of \$982 noted on the reconciliations for February, March, and April of 2020. Campus staff indicated the difference was due to a

computer issue and they worked closely with their software provider to investigate and resolve the difference. However, as the work was not documented, we were unable to confirm. As noted earlier, when unresolved differences exist it indicates the campus did not fully complete the process. The campus staff stated that the June 2021 reconciliation might not have been saved because no differences were identified. However, in our testing, we observed other monthly reconciliations with no differences saved during the audit period.

- ♦ **Helena College:** The campus did not complete any of the required monthly reconciliations during fiscal years 2020 and 2021. Campus staff stated the previous employee responsible for these reconciliations left abruptly in January 2020 and did not leave behind any documentation of processes or completed reconciliations. The current staff is developing a process to complete the reconciliations in the future.

Some university officials indicated that due to limited staff resources, the reconciliations are not always a priority; instead, they focus on activities directly impacting students. However, by not completing the required monthly reconciliations and maintaining the supporting documents, the university has violated one of the requirements in their program participation agreements with ED and is not in compliance with federal regulations for the SFA program. This noncompliance indicates that university internal controls for this federal requirement are not adequate.

RECOMMENDATION #4

We recommend UM Missoula, UM Western, Helena College, and MT Tech:

- A. *Implement internal controls to ensure the required monthly Direct Loan reconciliations are completed, accurate, supported, and any differences are followed up on in compliance with the federal regulations, and*
 - B. *Comply with federal requirements governing the Direct Loan Program by reconciling the SAS data files monthly.*
-

Fiscal Operations Report and Application to Participate Reporting

Internal controls over completing the federally required Fiscal Operations Report and Application to Participate (FISAP) reports were insufficient to ensure the reports submitted were complete and accurate at UM Western and Helena College, as required by federal regulations.

Each campus is required to complete the FISAP yearly for its campus-based programs. The institution uses the Fiscal Operations Report portion of the FISAP to report its expenditures and students served in the previous award year and the Application to Participate portion of the FISAP to apply for funding for the following year. ED uses the information each campus provides in the FISAP to determine the amount of funds they will receive for the FWS and FSEOG programs in the next year, manage the Perkins Loans Program, and monitor expenditures in the campus-based programs.

For program review and audit purposes, federal regulations require each campus retain accurate and verifiable records for three years following the end of the award year in which the FISAP is submitted.

Internal controls over the completion of the FISAP were not sufficient to ensure the reports submitted were complete, accurate, and supported for the UM Western and Helena College campuses for the audit period. As outlined in Table 5, our testing identified instances of incorrect or unsupported line items in the FISAP reports reviewed.

Table 5 <u>Instances of Incorrect or Unsupported Line Items</u>		
Campus	Incorrect	Unsupported
UM Western	8	12
Helena College	0	138

Source: Compiled by the Legislative Audit Division.

Helena College staff stated they were not aware they needed to keep the supporting documents for these reports. UM Western staff stated the report preparation process was manual and prone to mistakes and other counting errors.

By not accurately completing and keeping the required support for the FISAP reports, the campuses have violated one of the requirements in their program participation agreements with ED and are not in compliance with the federal regulations for the SFA program. The noncompliance is indicative controls were not adequate related to this federal reporting.

RECOMMENDATION #5

We recommend UM Western and Helena College:

- A. *Implement internal controls to ensure the Fiscal Operations Report and Application to Participate (FISAP) reports submitted are accurate and supported in compliance with the federal regulations, and*
- B. *Comply with federal requirements governing the Federal Perkins Loan, the Federal Work-Study, and Federal Supplemental Educational Opportunity Grant programs by accurately completing the FISAP reports and maintaining the required supporting documentation.*

Perkins Loans

The UM Missoula, UM Western, and MT Tech campuses participate in the Perkins Loan Program. While new loans are no longer made under the program, the three campuses still service outstanding loans. As of June 30, 2021, the balance for these loans was approximately \$7.7 million. As part of this servicing, the university is required to complete the following:

- ♦ Transition borrowers into repayment as they leave the university; including providing borrower exit counseling and creating repayment schedules for each loan.
- ♦ Process and maintain borrower repayment records, including cancellation and deferment requests.
- ♦ Provide written “paid in full” notice to borrowers once the loan is satisfied.

Documents generated as part of the servicing described above must be kept while the loan is in repayment and for three years after the loan has been paid in full, cancelled, or assigned back to ED.

Each campus contracted with a third-party to perform some of the servicing and record retention requirements for these loans. However, the ultimate responsibility for these requirements still lies with the university. ED allows institutions to use third-party servicers for the program but requires the university to perform due diligence to ensure the servicer is in compliance with the requirements for the pieces it is performing for the school.

The two sections below describe instances where the campuses did not complete their servicing requirements during fiscal year 2021. While the audit period for the other SFA testing was fiscal years 2020 and 2021, ED only required this Perkins Loans testing for fiscal year 2021.

Records Retention

Our testing identified multiple instances where the campuses did not comply with federal regulations to retain cancellation and deferment requests, repayment schedules, and notification to the borrower the loan obligation is paid in full.

We tested a sample of 65 borrowers with loans in repayment or deferment status and a sample of 61 borrowers with paid in full, cancelled, or assigned loans status. We identified significant noncompliance and systemic internal control issues related to retaining records as described below:

- ♦ **UM Missoula:** We identified 22 loans where the campus was unable to provide documentation that the written “paid in full” notification was sent. Per Student Accounts staff, they stopped sending the notification in January 2021 due to limited staffing resources due to the COVID pandemic and instead focused on higher priority work. Fourteen of the loans we identified fell after this decision. However, the remaining eight occurred before and staff indicated the notifications were sent but they were unable to find them during our testing. They were not sure why the letters weren’t filed in the student files, but it could be because they are behind with filing and the office is moving.
- ♦ **UM Western:** We identified four loans where the campus was unable to provide cancellation or deferment requests and three loans where they could not provide documentation that the written “paid-in-full” notification was sent. Campus staff stated their loan servicer is responsible for processing and retaining the cancellation and deferment requests and “paid-in-full” notices and they were unable to retrieve them from the servicer’s system.
- ♦ **MT Tech:** We identified five loans where the campus was unable to provide the repayment schedule and seven loans where they could not provide documentation that the written “paid in full” notification was sent. Campus staff stated the missing repayment schedules were not transferred when they switched servicers. For the written “paid in full” notifications, the servicer does not keep copies of these letters but rather considers memos on the borrower’s account in their system to suffice as documentation. Additionally, the servicer indicated there were two borrowers who did not have the letters sent at all and they are unsure why.

As noted above, both UM Western and MT Tech staff indicated the reason they were unable to provide the necessary documents during our testing was because their third-party servicer completed them. However, as the ultimate responsibility for complying with the federal regulations belongs to

the university, this is noncompliance. Additionally, the federal regulations are clear the documents themselves need to be retained, not just an indication in a system that they were completed. By not completing the “paid-in-full” notifications, there is the potential for borrowers to continue paying on satisfied loans, resulting in the university having to issue refunds.

RECOMMENDATION #6

We recommend:

- A. *UM Missoula comply with the federal requirements to notify the borrower in writing that the loan is paid in full and retain a copy for the prescribed period.*
- B. *UM Western comply with the federal requirements to retain cancellation and deferment requests and written notification to the borrower that the loan is paid in full for the prescribed period.*
- C. *MT Tech comply with the federal requirements to retain repayment schedules and written notification to the borrower that the loan is paid in full for the prescribed period.*
- D. *UM Missoula, UM Western, and MT Tech implement internal controls to ensure compliance with the record retention requirements for Perkins Loans.*

Contractor Monitoring

The campuses do not monitor their Perkins Loan servicer.

As mentioned above, each campus contracts with a third-party to perform some of the servicing and record retention federal requirements for these loans. These are outlined in the table below:

Table 6
Contracted Perkins Loans Service by Campus

Key Compliance Requirement	UM Missoula	MT Tech	UM Western
Creating and retaining borrower repayment schedules.		✓	✓
Processing and maintaining borrower repayment records.	✓	✓	✓
Processing and maintaining borrower cancellation and deferment requests.	✓	✓	✓
Providing “paid-in-full” notice to borrowers.		✓	✓

Source: Compiled by the Legislative Audit Division.

Also as noted above, although contracting with a third-party is allowed, the ultimate responsibility for these requirements still lies with the university. Additionally, ED requires the campuses to perform due diligence to ensure their servicer is in compliance with the requirements for the pieces it is performing for the school. This due diligence could take many forms, including, but not limited to the items we've suggested below.

- ♦ **Service Organization Controls (SOC) Report review:** A SOC I Type II report is used to evaluate the design and operating effectiveness of the contractor's internal controls over achieving compliance requirements. This report focuses on controls at the service organization that are useful to user entities and their auditors and is an efficient way for the campuses to monitor the loan servicer. The loan servicer does receive a SOC report and makes it available to clients, however none of the campuses currently review it. This leaves them at risk of being unaware of system issues affecting the services it receives and not implementing all of the necessary compensating user entity controls.
- ♦ **Compliance Audit Report review:** Some contractors who perform services for federal programs receive a compliance audit. Similar to this audit report, the audit is designed to determine whether the servicer is performing its services in compliance with the federal regulations for the SFA program.
- ♦ **Loan records review:** Campus staff could perform a review of the documentation for a selection of borrowers to ensure all the required items are present.

Whatever the campuses choose to do, they need to cover all the compliance requirements they have contracted out to the loan servicer. Per campus staff, they were not aware they needed to perform monitoring of their contractor beyond their normal day-to-day contacts. By not performing any due diligence over their third-party loan servicer, the university is not only in noncompliance with the requirement to do so, but also was not aware of the noncompliance with the Perkins Loans record retention federal requirements as discussed in the previous recommendation.

RECOMMENDATION #7

We recommend UM Missoula, MT Tech, and UM Western implement internal controls to ensure they perform due diligence over their Perkins Loans servicer and comply with the federal requirements governing Perkins Loans.

Research and Development Program Equipment Tagging

The university's internal controls are not sufficient to ensure equipment purchased with federal Research and Development (R&D) funds are tagged as required by federal requirements.

As mentioned in the introduction of the report, we audited the R&D Program at UM Missoula as required by federal regulations. During fiscal years 2020 and 2021, the campus purchased approximately \$3.5 million of equipment through the R&D Program. One of many federal regulations require the university to use, manage, and dispose of equipment acquired under a federal award in

accordance with state laws and procedures. State policy requires all major equipment be identified in the manner that promotes easy identification and requires property tags be placed in plain sight on the equipment. While state policy does allow some discretion based on the physical nature of some equipment for situations where property tags may not be feasible, it does require that “whenever possible, the tag number will still be identified on the item by some means such as etching, decal, indelible ink, etc.”

We sampled ten equipment purchases during the audit period out of approximately 111 equipment purchases over \$5,000, to determine whether the assets were tagged and easily identifiable, as required by state policy. For eight of the items selected, there were no property tags or other permanent identification affixed to the assets that corresponded to university property records. As such, the assets were not easily identifiable by state policy, and we were unable to confirm the assets we observed were those purchased by the federal grant funds. For all eight items, we believe tagging or labeling of the assets was feasible. The items not tagged included network servers, weather stations, cameras, and traveling museum equipment with costs ranging from \$5,054 to \$69,347.

While completing this work, we visited the data center used to house network servers and estimate asset tag numbers were present on only 5 percent of installed units. Additionally, while looking for a high-speed camera at a field station, we observed three other high-speed cameras, none of which had asset tags. Both locations contained visibly identical equipment and university personnel struggled or were unable to differentiate them. One university personnel responsible for some of the equipment we tested indicated they did not know the process for obtaining asset tags and conceded that although some equipment is difficult to tag without interfering with its function, labeling the equipment is still necessary and possible.

We believe the results of our testing are indicative university internal controls for tagging of equipment are not adequate. Equipment tagging is necessary to maintain an accurate physical inventory and to facilitate timely identification of lost or missing equipment. In addition, for equipment purchased using federal funds, there are added requirements related to asset disposals. The primary asset disposal requirement is the university must obtain disposition instructions from the federal awarding agency. To ensure compliance with state policy and federal regulations governing equipment, the university should enhance its internal controls and begin tagging or otherwise identify assets.

RECOMMENDATION #8

We recommend UM Missoula implement internal controls to ensure all equipment is tagged and comply with federal requirements governing equipment for the Research and Development Program.

UNIVERSITY OF MONTANA

UNIVERSITY RESPONSE



May 13, 2022

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

RECEIVED
May 13, 2022
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

On behalf of the University of Montana, I want to extend our appreciation to you and your staff for their work on the University of Montana's compliance audit for the two fiscal years ended June 30, 2021. We value the input of the legislative audit staff as we continue to strengthen our compliance with federal requirements, state laws, and state policies.

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

Sincerely,

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

Seth Bodnar,
President, University of Montana

c: Casey Lozar, Chair, Montana Board of Regents
Clay Christian, Commissioner of Higher Education

University of Montana
Response to Compliance Audit Recommendations

Recommendation #1 - We recommend:

- A. UM Missoula, UM Western, and Helena College implement internal controls as required by federal regulations to ensure the Cost of Attendance (COA) calculations are accurate and supported.*

University Response: Concur. UM Missoula, UM Western, and Helena College will ensure that individuals not involved in the COA process review all calculations for accuracy and completeness. This remediation plan will be implemented by December 30, 2022.

- B. Montana Tech continue to implement and document their review process over the COA.*

University Response: Concur.

- C. UM Western comply with federal requirements governing the Student Financial Assistance programs by retaining required supporting documentation for the COA calculations.*

University Response: Concur. UM Western will create a template including amounts listed under each eligible COA category. The template will be used to support COA calculations starting by September 5, 2022.

Recommendation #2 - We recommend:

- A. UM Missoula enhance internal controls to ensure the amount of financial aid to be returned is calculated correctly and the aid is returned to the Education Department timely.*

University Response: Concur. UM Missoula will automate the process in Banner, revise its policy and procedures manual, and ensure that staff is adequately trained by December 30, 2022.

- B. UM Western implement internal controls to ensure the amount of financial aid to be returned is calculated correctly and supporting documentation is maintained.*

University Response: Concur. UM Western will ensure that an individual not directly involved in the process reviews all Title IV returns calculations for completeness and accuracy. The Financial Aid Office will work with the Office of the Registrar to ensure that student withdrawal lists are run consistently and documented appropriately. Both action plans will be implemented by July 31, 2022.

- C. UM Missoula and UM Western comply with the federal requirements governing the return of Title IV process.*

University Response: Concur. UM Missoula will automate the process in Banner, revise its policy and procedures manual, and ensure that staff is adequately trained by December 30, 2022.

Recommendation #3 - *We recommend UM Missoula improve internal controls to ensure all required students are reported to the National Student Loan Data System and comply with the federal requirements governing the enrollment reporting process.*

University Response: Concur. Sometime between Academic Year (AY) 2019-20 and AY 2020-21, the process that updated SSNs from FAFSA to Banner malfunctioned. The Offices of the Chief Information Officer and the Registrar will restore this process by June 30, 2022.

Recommendation #4 - *We recommend UM Missoula, UM Western, Helena College, and Montana Tech:*

- A. *Implement internal controls to ensure the required monthly Direct Loan reconciliations are completed, accurate, supported and any differences are followed up on in compliance with the federal regulations.*

University Response: Concur. UM Missoula, UM Western, Helena College, and Montana Tech will ensure that reconciliations are completed monthly and reviewed by individuals not involved in the process. This corrective action plan will be implemented by December 30, 2022.

- B. *Comply with federal requirements governing the Direct Loan Program by reconciling the SAS data files monthly.*

University Response: Concur. UM Missoula, UM Western, Helena College, and Montana Tech will ensure with federal requirements governing the Direct Loan Program by reconciling the SAS data files monthly. This corrective action plan will be implemented by December 30, 2022.

Recommendation #5 - *We recommend UM Western and Helena College:*

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

University Response: Concur. UM Western and Helena College will create and maintain folders including supporting documentation for each year of FISAP reporting. This corrective action plan will be implemented by December 30, 2022.

- B. *Comply with federal requirements governing the Federal Perkins Loan, the Federal Work-Study, and the Federal Supplemental Educational Opportunity Grant programs by accurately completing the FISAP reports and maintaining the required supporting documentation.*

University Response: Concur. UM Western and Helena College will create and maintain folders including supporting documentation for each year of FISAP reporting. This corrective action plan will be implemented by December 30, 2022.

Recommendation #6 - *We recommend:*

- A. *UM Missoula comply with the federal requirements to notify the borrower in writing the loan is paid in full and retain a copy for the prescribed period.*

University Response: Concurs. UM-Missoula contracted with Educational Computer Systems, Inc (ECSI) to send “paid-in-full” letters to eligible borrowers. UM-Missoula will also create and implement monitoring controls to ensure that ECSI’s process operates effectively.

- B. UM Western comply with the federal requirements to retain cancellations, deferment requests, and written notifications to the borrower that the loan is paid in full.*

University Response: Concurs. UM Western also contracted with ECSI to administer cancellation and deferments requests. UM Western will send “paid-in-full” notifications to all eligible borrowers. This corrective action plan will be implemented by December 30, 2022.

- C. Montana Tech comply with the federal requirements to retain repayment schedules and written notification to the borrower that the loan is paid in full.*

University Response: Concurs. Montana Tech contracted with ECSI to send the exit materials and updated its procedures related to exit counseling. Montana Tech will now confirm that exit counseling was completed by verifying the exit coding and separation date in ECSI’s systems. The University will also print all related materials and add them to the student’s file. This corrective action plan will be implemented by December 30, 2022.

- D. UM Missoula, UM Western, and Montana Tech implement internal controls to ensure compliance with the record retention requirements for Perkins Loans.*

University Response: Concurs. UM Missoula, UM Western, and Montana Tech implement internal controls to ensure compliance with the record retention requirements for Perkins Loans. This corrective action plan will be implemented by December 30, 2022.

Recommendation #7 - *We recommend UM Missoula, UM Western, and Montana Tech implement internal controls to ensure they perform due diligence over their Perkins Loan servicer and comply with federal requirements governing the Perkins Loans.*

University Response: Concurs. UM-Missoula will ensure that formal reviews of SOC reports are added to Business Services/Student Accounts year-end procedures. Because the University of Montana affiliation uses the same loan servicer, these annual reviews of SOC reports will address the gaps identified at UM Western and Montana Tech. This corrective action plan will be implemented by December 30, 2022.

Recommendation #8 - *We recommend UM Missoula implement internal controls to ensure all equipment is tagged and comply with federal requirements governing equipment for the Research and Development Cluster.*

University Response: Concurs. UM Missoula will implement internal controls to ensure all equipment is tagged and comply with federal requirements governing equipment for the Research and Development Cluster by December 30, 2022.