



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

22-06

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Commissioner of Higher
Education*

*For the Two Fiscal Years Ended
June 30, 2022*

MAY 2023

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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 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, 2021, was issued June 21, 2022. The Single Audit Report for the two fiscal years ended June 30, 2023, will be issued by March 31, 2024.

AUDIT STAFF

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

May 2023

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 (office) for the two fiscal years ended June 30, 2022.

The office's financial schedules are generated from SABHRS, and management is responsible for the notes to the financial schedules. We issued unmodified opinions on the financial schedules for the two fiscal years ended June 30, 2022. Issuance of an unmodified opinion means the reader can rely on the information presented and the underlying accounting records for decision-making purposes.

Audit work focused on state appropriations to the university system, university-sponsored health insurance expenses and revenues, budget authority, and activity in the college savings plans. During this work, we also reviewed the five prior year audit recommendations. All five are fully implemented. This audit report includes no audit recommendations.

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

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ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

		<u>Location</u>	<u>Term Expires</u>
Board of Regents of Higher Education	Brianne Rogers, Chair	Bozeman	February 1, 2024
	Loren Bough	Big Sky	January 31, 2027
	Todd Buchanan	Billings	January 31, 2028
	Joyce Dombrowski	Missoula	February 1, 2026
	Casey Lozar	Helena	February 1, 2025
	Jeff Southworth	Lewistown	January 31, 2029
	Norris Blossom, Student Regent	Helena	June 30, 2023

Clayton Christian, Commissioner of Higher Education*

Greg Gianforte, Governor*

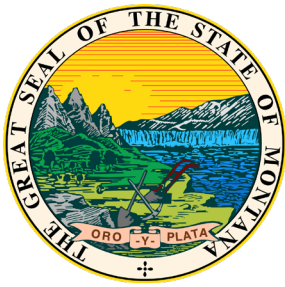
Elsie Arntzen, Superintendent of Public Instruction*

*Ex officio members

Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	Helen Thigpen	Deputy Commissioner for Government Relations and Public Affairs
	Joe Thiel	Interim Deputy Commissioner, Academic, Research & Student Affairs
	Tyler Trevor	Deputy Commissioner for Budget and Planning, Chief of Staff
	Kevin McRae	Deputy Commissioner, Human Resources
	Ali Bovingdon	Montana University System Chief Legal Counsel
	Shauna Lyons	Montana University System Director of Accounting & Budget
	Chad Lee	Montana University System Accountant
	Jamie Dushin	Accounting Manager
	Marcy Lachenbruch	Director of Insurance & Benefits
	Margaret Wallace	Director of Assurance and Enterprise Risk

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 TWO FISCAL YEARS ENDED JUNE 30, 2022

A report to the Montana Legislature

BACKGROUND

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 to support the MUS. The office also distributes the state's assistance to Montana's tribal colleges for the attendance of non-tribal 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 comprises seven appointed and confirmed members and three ex officio members. The Constitution directs the board to appoint a Commissioner of Higher Education to serve as its executive staff.

During the audit period, the office underwent a reorganization. The focus of the reorganization was to improve internal controls. The office administers and distributes state funds appropriated by the legislature for the support of the MUS. The MUS campuses received \$239.6 million in fiscal year (FY) 2022 and \$236.7 million in FY21, while the community colleges received \$13.8 million and \$14.5 million in FY21 and FY22, respectively. Further, the tribal colleges received \$702 thousand in FY21 and \$776 thousand in FY22. Additionally, the office administers the MUS Group Insurance Program, MUS Workers' Compensation Program, and a variety of small federal programs.

AUDITOR'S OPINION (page A-1): UNMODIFIED

We found the office's financial schedules and note disclosures presented fairly the activity of the office in all material respects and have issued unmodified opinions on the regulatory basis of accounting under which the financial schedules are presented. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the office's financial activity, see the financial schedules and notes beginning on page A-5.

RECOMMENDATIONS:

In this report, we issued no recommendations and determined the five recommendations in the prior audit were fully implemented.

SUMMARY OF AUDIT WORK:

During the audit, we reviewed distribution of state funds to the MUS campuses (see Table 1 on the next page), budget authority and unspent budget authority, college savings plan assets and revenues, and MUS group insurance assets, revenues, and expenses. Further, consideration of the board's control systems occurred throughout the audit. We reviewed financial schedules and note disclosures to determine if underlying accounting records supported them. Finally, we evaluated compliance with select laws and regulations governing the appropriation distributions.

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

leg.mt.gov/lad

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The following table breaks out state funding distributed to individual campuses across Montana.

Table 1
State Funding by College Campus
(in Millions)

Campus	FY22	FY21
Montana State University (MSU) Bozeman & Gallatin College	\$73	\$72.2
Agriculture Experiment Station	\$17.1	\$16.3
Extension Service	\$6.8	\$6.5
Fire Training	\$0.8	\$0.76
MSU Billings & City College	\$23.8	\$23.3
MSU Northern	\$10.2	\$10.6
MSU Great Falls	\$7.3	\$7.7
Total MSU Campuses	\$139	\$137.4
University of Montana (UM) Missoula	\$62.6	\$62
Missoula College	\$1	\$0.9
MT Tech & Highlands College	\$16	\$15.9
UM Western	\$8.5	\$8.4
Helena College	\$5.4	\$5.5
Forestry	\$1.4	\$1.3
Bureau of Mines	\$5.7	\$5.3
Total UM Campuses	\$100.6	\$99.3
Dawson Community College	\$2	\$1.9
Flathead Valley Community College	\$9.5	\$9.2
Miles Community College	\$3	\$2.7
Total Community College support	\$14.5	\$13.8
Aaniih Nakoda	\$0.04	\$0.04
Blackfeet	\$0.06	\$0.05
Chief Dull Knife	\$0.03	\$0.05
Fort Peck	\$0.15	\$0.11
Little Big Horn	\$0.02	\$0.03
Salish Kootenai	\$0.43	\$0.38
Stone Child	\$0.04	\$0.04
Total Tribal College support	\$0.77	\$0.70

Source: Compiled by Division of Legislative Audit from office records, unaudited for the community college and tribal colleges.

INTERNAL SERVICE FUND FEES COMMENSURATE WITH COST:

In accordance with §17-8-101(6), MCA, we analyzed the fees and charges for services and fund equity balance in the office's internal service fund. The internal service fund records indirect costs associated with the office's various federal programs, such as the Education Talent Search (ETS) grant and the Gaining Early Awareness and

(continued on next page)

Readiness for Undergraduate Programs (GEAR UP) awards. Using the Montana Operations Manual, we compared revenues to expenses and considered working capital at fiscal year-end to determine if fund equity was reasonable. Working capital is the amount of cash that would remain if all current assets were converted, and all current liabilities paid at their book value. Working capital is considered reasonable if it is less than 60 days, as required by federal regulation. The calculation in FY21 showed working capital was within the 60-day limit. In FY22, our calculation showed the office exceeded the 60-day limit by 2 days or about \$3,500. However, the office's monitoring of the fund showed they were compliant with the 60-day limit. Based on our calculation, review of their internal monitoring of the fund, and our consideration of the pandemic-related impacts on internal service funds, we determined the office was materially compliant with the internal service funds requirements.

PRIOR AUDIT RECOMMENDATIONS

The prior audit resulted in five recommendations to the office, one for noncompliance and four internal controls recommendations. We determined the office improved internal controls and fully implemented the five recommendations.

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 0

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Independent Auditor's Report and Office Financial Schedules

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

REPORT ON THE AUDIT OF FINANCIAL SCHEDULES

Opinions

We have audited the financial schedules of the Office of the Commissioner of Higher Education (office), which are comprised of the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2022, and 2021, and the related notes to the financial schedules.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the accompanying financial schedules present fairly, in all material respects, the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2022, and 2021, in conformity with the basis of accounting described in Note 1.

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" section of our report, 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, 2022 and June 30, 2021, or changes in financial position and cash flows for the years then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Schedules" section of our report. We are required to be independent of the office and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 of the financial schedules, the financial schedules are prepared by the office 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 and pervasive.

Responsibilities of Management 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.

In preparing the financial schedules, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the office's ability to continue as a going concern for 12 months beyond the financial schedule date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Schedules

Our objectives are to obtain reasonable assurance about whether the financial schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial schedules.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- ◆ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ Identify and assess the risks of material misstatement of the financial schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial schedules.
- ◆ Obtain an understanding of internal control relevant to the audit 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. Accordingly, no such opinion is expressed.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial schedules.

- ◆ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the office's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2023, on our consideration of the office'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 solely 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

March 22, 2023

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2021	\$ (830,349)	\$ 6,009,426	\$ 3,021,809	\$ 111,357,710	\$ (118,772)	\$ 231,501,765
ADDITIONS						
Budgeted Revenues & Transfers-In	1,657,066	3,923,003	14,364,256	115,422,591	562,496	
Nonbudgeted Revenues & Transfers-In	1,553,251	872,362	815,585	(1,264,944)		(2,427,106)
Prior Year Revenues & Transfers-In Adjustments	(5,007)	(290)	(837,072)	83,887		
Direct Entries to Fund Equity	244,159,359	26,708,119		1,468		
Total Additions	247,364,669	31,503,193	14,342,769	114,243,002	562,496	(2,427,106)
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	245,737,661	28,181,773	14,042,422	125,740,061	567,899	
Nonbudgeted Expenditures & Transfers-Out	1,553,126	616,636	817,335	(146,865)	172,548	24,068,843
Prior Year Expenditures & Transfers-Out Adjustments	124,961	(10,000)				
Total Reductions	247,415,748	28,788,410	14,859,757	125,593,196	740,447	24,068,843
FUND EQUITY: June 30, 2022	\$ (881,428)	\$ 8,724,209	\$ 2,504,822	\$ 100,007,515	\$ (296,723)	\$ 205,005,816

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-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2020	\$ 136,407	\$ 6,447,444	\$ 3,121,852	\$ 100,427,922	\$ (130,527)	\$ 199,563,322
ADDITIONS						
Budgeted Revenues & Transfers-In	1,599,016	2,998,742	48,574,235	119,800,883	647,532	
Nonbudgeted Revenues & Transfers-In	24,104	695,723	972	(289,957)		52,653,659
Prior Year Revenues & Transfers-In Adjustments	(10,259)	(1,991)	(1,172)	4,280,526		
Direct Entries to Fund Equity	242,764,554	23,327,936				
Total Additions	244,377,415	27,020,409	48,574,035	123,791,453	647,532	52,653,659
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	245,320,117	26,711,090	48,674,078	112,883,613	636,382	20,715,215
Nonbudgeted Expenditures & Transfers-Out	24,104	757,338		(21,948)	(605)	
Prior Year Expenditures & Transfers-Out Adjustments	(50)	(10,000)				
Total Reductions	245,344,172	27,458,428	48,674,078	112,861,665	635,777	20,715,215
FUND EQUITY: June 30, 2021	\$ (830,349)	\$ 6,009,426	\$ 3,021,809	\$ 111,357,710	\$ (118,772)	\$ 231,501,765

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-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
Taxes	\$ 1,638,745	\$ 109	\$ 30			\$	1,638,883
Charges for Services	125	1,564,450	246,886	\$ 16			1,811,477
Investment Earnings	13,369	7,559	3,699	(174,739)		(25,521,987)	(25,672,099)
Contributions and Premiums	(54)			107,293,431		23,094,880	130,388,258
Grants, Contracts, and Donations		881,703					881,703
Transfers-in		2,096,253					2,275,735
Intra-entity Revenue			179,482				985,600
Inception of Lease/Installment Contract	1,553,126		817,335				2,370,461
Federal Indirect Cost Recoveries					\$ 562,496		562,496
Miscellaneous		245,000	12	7,122,825			7,367,837
Federal			12,109,726				12,109,726
Total Revenues & Transfers-In	3,205,310	4,795,074	14,342,769	114,241,534	562,496	(2,427,106)	134,720,077
Less: Nonbudgeted Revenues & Transfers-In	1,553,251	872,362	815,585	(1,264,944)		(2,427,106)	(450,853)
Prior Year Revenues & Transfers-In Adjustments	(5,007)	(290)	(837,072)	83,887			(758,483)
Actual Budgeted Revenues & Transfers-In	1,657,066	3,923,003	14,364,256	115,422,591	562,496	0	135,929,412

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-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
Taxes	\$ 1,450,338	\$ 4	\$ 749			\$	1,451,090
Charges for Services		1,434,022	208,812				1,642,834
Investment Earnings	13,419	8,663	5,023	\$ 428,659		\$ 31,186,156	31,641,920
Contributions and Premiums				112,792,425		21,467,503	134,259,928
Grants, Contracts, and Donations		695,000					695,000
Transfers-in	125,000	1,484,785	38,055,819				39,665,604
Inception of Lease/Installment Contract	24,104				\$ 647,532		24,104
Federal Indirect Cost Recoveries							647,532
Miscellaneous				10,570,368			10,640,368
Federal		70,000					10,303,632
Total Revenues & Transfers-In	1,612,861	3,692,473	48,574,035	123,791,453	647,532	52,653,659	230,972,012
Less: Nonbudgeted Revenues & Transfers-In	24,104	695,723	972	(289,957)		52,653,659	53,084,501
Prior Year Revenues & Transfers-In Adjustments	(10,259)	(1,991)	(1,172)	4,280,526			4,267,103
Actual Budgeted Revenues & Transfers-In	1,599,016	2,998,742	48,574,235	119,800,883	647,532	0	173,620,408

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-11.

COMMISSIONER OF HIGHER EDUCATION SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT FOR THE FISCAL YEAR ENDED JUNE 30, 2022													
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	MUS Group Insurance Program	MUS Workers Comp Program	Student Assistance Program	Tribal College Assistance Program	Work Force Development Program	Total
Personal Services													
Salaries	\$ 2,539,870					\$ 820,347	\$ 148,566	\$ 525,776	\$ 79,564	\$ 271,455		\$ 216,596	\$ 4,602,174
Other Compensation				\$ 1,700									1,700
Employee Benefits	747,017					348,199	143,976	137,954	26,713	86,480		80,947	1,571,286
Personal Services-Other	(390)							2,773	(1,137)				1,246
Total	3,286,498			1,700		1,168,546	292,541	666,503	105,140	357,935		297,543	6,176,406
Operating Expenses													
Other Services	461,675			25,740		809,692	807,851	7,492,182	708,802	1,113,206		828	11,419,976
Supplies & Materials	26,188			3,078		86,628	99	2,491	302	553		170	119,509
Communications	41,267					19,611	3,453	25,416	818	3,093		6,501	100,159
Travel	34,723			19,633		124,371	1,447	39,487	665	2,908		4,616	227,850
Rent	2,472					8,728		1,183	71	106		51	12,612
Repair & Maintenance	24,936			159		3,180							28,274
Other Expenses	288,953			15,607		1,703,314	1,044,044	8,910,066	522,986	8,781		24,341	12,518,092
Total	880,215			64,217		2,755,523	1,856,893	16,470,825	1,233,644	1,128,647		36,507	24,426,471
Equipment & Intangible Assets													
Intangible Assets	1,429,151					604,942	88,418					247,950	2,370,461
Total	1,429,151					604,942	88,418					247,950	2,370,461
Local Assistance													
From State Sources					\$ 14,858,699					159,000			15,017,699
Total					14,858,699					159,000			15,017,699
Grants													
From State Sources										10,875,754	\$ 950,851		11,826,605
From Federal Sources						2,057,403						2,412,607	4,470,011
From Other Sources										1,045,630			1,045,630
Total						2,057,403				11,921,384	950,851	2,412,607	17,342,246
Benefits & Claims													
To Individuals									97,648				97,648
From Other Sources										23,273,480			23,273,480
Insurance Payments								107,128,906					107,128,906
Total								107,128,906	97,648	23,273,480			130,500,034
Transfers-out													
Fund transfers		\$ 125,000	\$ 914,769									3,622,721	4,662,490
Intra-Entity Expense	63,023	31,618,131	208,970,063										240,651,217
Total	63,023	31,743,131	209,884,832									3,622,721	245,313,707
Debt Service													
Lease Liability	138,486					57,332	8,380	5,991	855			23,499	234,542
Total	138,486					57,332	8,380	5,991	855			23,499	234,542
Post Employment Benefits													
Other Post Employment Benefits	48,843							(2,811)	183				46,215
Employer Pension Expense	152,309							(113,690)					38,618
Total	201,152							(116,501)	183				84,834
Total Expenditures & Transfers-Out	\$ 5,998,523	\$ 31,743,131	\$ 209,884,832	\$ 65,917	\$ 14,858,699	\$ 6,643,746	\$ 2,246,232	\$ 124,155,725	\$ 1,437,471	\$ 36,840,445	\$ 950,851	\$ 6,640,827	\$ 441,466,400
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 4,830,368	\$ 30,279,663	\$ 185,666,476	\$ 65,917	\$ 14,858,699	\$ 134,361				\$ 10,405,036	\$ 950,851	\$ 224,377	\$ 247,415,748
State Special Revenue Fund	248,226	1,463,468	24,218,356				\$ 491,793			2,366,566			28,788,410
Federal Special Revenue Fund	179,482					6,509,386	1,754,439					6,416,450	14,859,757
Enterprise Fund								\$ 124,155,725	\$ 1,437,471				125,593,196
Internal Service Fund	740,447												740,447
Private Purpose Trust Fund										24,068,843			24,068,843
Total Expenditures & Transfers-Out	5,998,523	31,743,131	209,884,832	65,917	14,858,699	6,643,746	2,246,232	124,155,725	1,437,471	36,840,445	950,851	6,640,827	441,466,400
Less: Nonbudgeted Expenditures & Transfers-Out	1,726,542					604,942	580,211	(146,690)	(174)	24,068,843		247,950	27,081,624
Prior Year Expenditures & Transfers-Out Adjustments	(0)	125,000								(10,039)			114,961
Actual Budgeted Expenditures & Transfers-Out	4,271,981	31,618,131	209,884,832	65,917	14,858,699	6,038,805	1,666,021	124,302,415	1,437,645	12,781,641	950,851	6,392,877	414,269,815
Budget Authority	4,781,722	31,618,132	210,251,958	67,350	14,858,699	9,720,951	2,354,425	165,735,627	4,671,721	14,097,690	1,012,875	6,461,415	465,632,565
Unspent Budget Authority	\$ 509,741	\$ 1	\$ 367,126	\$ 1,433	\$ 0	\$ 3,682,146	\$ 688,404	\$ 41,433,212	\$ 3,234,076	\$ 1,316,049	\$ 62,024	\$ 68,538	\$ 51,362,750
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 432,969	\$ 1	\$ 39,863	\$ 1,433		\$ 4,157				\$ 635,909	\$ 62,024		\$ 1,176,356
State Special Revenue Fund	34,117		327,263							680,140			1,041,520
Federal Special Revenue Fund						3,677,989	\$ 688,404					\$ 68,538	4,434,931
Enterprise Fund								\$ 41,433,212	\$ 3,234,076				44,667,287
Internal Service Fund	42,655				\$ 0								42,655
Unspent Budget Authority	\$ 509,741	\$ 1	\$ 367,126	\$ 1,433	\$ 0	\$ 3,682,146	\$ 688,404	\$ 41,433,212	\$ 3,234,076	\$ 1,316,049	\$ 62,024	\$ 68,538	\$ 51,362,750

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-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Administration Program	Agency Funds	Appropriation Distribution	Board of Regents- Administration	Community College Assistance	Education Outreach & Diversity	Guaranteed Student Loan Program	MUS Group Insurance Program	MUS Workers Comp Program	Student Assistance Program	Tribal College Assistance Program	Work Force Development Program	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT													
Personal Services													
Salaries	\$ 2,605,268					\$ 702,938	\$ 135,214	\$ 544,195	\$ 78,829	\$ 39,870		\$ 221,851	\$ 4,328,164
Other Compensation				\$ 950									950
Employee Benefits	785,693					289,641	43,558	128,653	25,245	9,837		83,589	1,366,217
Personal Services-Other	23,470							13,103	(823)				35,750
Total	3,414,431			950		992,579	178,772	685,950	103,251	49,707		305,440	5,731,081
Operating Expenses													
Other Services	2,130,705			22,404		1,518,834	438,958	7,932,867	655,478	1,313,369		31,317	14,043,933
Supplies & Materials	104,669			15,928		33,467	6,286	5,447	1,569	1,044		14,062	182,472
Communications	41,474			37		23,419	2,320	17,369	626			2,420	87,664
Travel	1,551			5,107		7,025		5,476					19,159
Rent	128,522					51,564	13,257	58,573	8,677			28,924	289,517
Repair & Maintenance	5,101			844		424	278	585	179			367	7,778
Other Expenses	423,989			2,606		302,193	17,671	842,120	261,284	59,897		52,133	1,961,892
Total	2,836,011			46,926		1,936,925	478,771	8,862,438	927,813	1,374,310		129,223	16,592,416
Equipment & Intangible Assets													
Capital leases - equipment	24,104												24,104
Total	24,104												24,104
Local Assistance													
From State Sources	1,513,387				\$ 13,776,022					159,000			15,448,409
Total	1,513,387				13,776,022					159,000			15,448,409
Grants													
From State Sources	1,372,600									11,786,157	\$ 877,047		14,035,804
From Federal Sources						2,050,124						1,654,100	3,704,224
From Other Sources										1,125,137			1,125,137
Total	1,372,600					2,050,124				12,911,293	877,047	1,654,100	18,865,164
Benefits & Claims													
To Individuals									2,374,366				2,374,366
Insurance Payments								99,893,482					99,893,482
Total								99,893,482	2,374,366				102,267,847
From Other Sources													
Distrib from Priv Purp Trusts										19,831,869			19,831,869
Total										19,831,869			19,831,869
Transfers-out													
Fund transfers			\$ 914,769									3,626,346	4,541,115
Intra-Entry Expense	33,799,565	\$ 30,229,742	208,352,003										272,381,310
Total	33,799,565	30,229,742	209,266,772									3,626,346	276,922,424
Debt Service													
Capital Leases	3,427						1,224						4,651
Total	3,427						1,224						4,651
Post Employment Benefits													
Other Post Employment Benefits	(16,630)							(1,992)	580				(18,042)
Employer Pension Expense	3,633							15,777					19,410
Total	(12,997)							13,785	580				1,368
Total Expenditures & Transfers-Out	\$ 42,950,529	\$ 30,229,742	\$ 209,266,772	\$ 47,876	\$ 13,776,022	\$ 4,979,628	\$ 658,767	\$ 109,455,655	\$ 3,406,010	\$ 34,326,179	\$ 877,047	\$ 5,715,108	\$ 455,689,334
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 3,863,224	\$ 28,834,434	\$ 185,936,370	\$ 47,876	\$ 13,776,022	\$ 140,585				\$ 11,772,323	\$ 877,047	\$ 96,291	\$ 245,344,172
State Special Revenue Fund	395,709	1,395,308	23,330,402				\$ 498,368			1,838,641			27,458,428
Federal Special Revenue Fund	38,055,819					4,839,043	160,398					5,618,817	48,674,078
Enterprise Fund								\$ 109,455,655	\$ 3,406,010				112,861,665
Internal Service Fund	635,777												635,777
Private Purpose Trust Fund										20,715,215			20,715,215
Total Expenditures & Transfers-Out	42,950,529	30,229,742	209,266,772	47,876	13,776,022	4,979,628	658,767	109,455,655	3,406,010	34,326,179	877,047	5,715,108	455,689,334
Less: Nonbudgeted Expenditures & Transfers-Out	282,454						498,368	(21,325)	(623)	20,715,230			21,474,104
Prior Year Expenditures & Transfers-Out Adjustments				(50)						(10,000)			(10,050)
Actual Budgeted Expenditures & Transfers-Out	42,668,074	30,229,742	209,266,772	47,926	13,776,022	4,979,628	160,398	109,476,980	3,406,633	13,620,949	877,047	5,715,108	434,225,279
Budget Authority	42,998,679	30,306,902	209,966,699	77,366	14,019,417	14,579,957	4,044,023	207,859,979	9,235,791	15,452,809	1,012,875	7,415,401	556,969,895
Unspent Budget Authority	\$ 330,604	\$ 77,160	\$ 699,927	\$ 29,440	\$ 243,395	\$ 9,600,329	\$ 3,883,624	\$ 98,382,999	\$ 5,829,158	\$ 1,831,860	\$ 135,828	\$ 1,700,292	\$ 122,744,616
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 77,730		\$ 2	\$ 29,440	\$ 243,395	\$ 758				\$ 63,153	\$ 135,828	\$ 90,169	\$ 640,474
State Special Revenue Fund	70,617	\$ 77,160	699,925							1,768,707			2,616,409
Federal Special Revenue Fund	182,257					9,599,571	\$ 3,883,624					1,610,123	15,275,576
Enterprise Fund								\$ 98,382,999	\$ 5,829,158				104,212,157
Unspent Budget Authority	\$ 330,604	\$ 77,160	\$ 699,927	\$ 29,440	\$ 243,395	\$ 9,600,329	\$ 3,883,624	\$ 98,382,999	\$ 5,829,158	\$ 1,831,860	\$ 135,828	\$ 1,700,292	\$ 122,744,616

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-11.

Office of the Commissioner of Higher Education

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2022

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. For this purpose, the office considers revenue available if it is expected to be collected within 60 days of the end of the current fiscal period.
- ♦ 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) 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.

Basis of Presentation

The financial schedule format was adopted by 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 Schedule of Changes in Fund Equity and Schedule of Total Revenues & Transfers-In are presented by major fund type. The Schedule of Total Expenditures and Transfers-Out is presented by organizational program, with a reconciliation to major fund types shown in the other schedules. For each fiscal year presented, major fund types' totals in the Schedule of Total Revenues and Transfers-In and Schedule of Total Expenditures and Transfers-Out tie to total amounts in the Schedule of Changes in Fund Equity.

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 colleges 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. Office State Special Revenue Funds include the University Millage Account for distributions to the campuses, the Rural Physicians Account for the Montana Rural Physicians Incentive Program, the STEM Scholarships Account which provides funding for STEM Scholarships, the Motorcycle Safety Training Account for the Montana Motorcycle Rider Safety Program, and the Family Ed Savings Admin Fee for the 529 College Savings Plan. In addition, there are several state special revenue accounts dedicated for research purposes.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Office Federal Special Revenue Funds include the Montana Guaranteed Student Loan Program (MGSLP) operating funds, the Vocational Education – Basic Grants to States (Carl D. Perkins Federal Grant), Educational Opportunity Center (EOC) grant, the Educational Talent Search (ETS) grant, the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) award, and the Coronavirus Aid, Relief, and Economic Security (CARES) Act funding through the Coronavirus Relief Fund (CRF) and Governor’s Emergency Education Relief (GEER) grant program.

Proprietary Fund Category

- ♦ **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. The office’s Internal Service Fund is used to fund internal central service type costs through an approved indirect cost rate.
- ♦ **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. Office Enterprise Funds include the MUS Group Insurance Program and the MUS Workers’ Compensation Program.

Fiduciary Fund Category

- ♦ **Private-Purpose Trust Fund** – to account for all fiduciary activities that are (a) not required to be reported in pension (and other employee benefit) trust funds or investment trust funds and (b) are held in a trust (or trust equivalent arrangement), where the principal and income benefit individuals, private organizations, or other governments. Office private-purpose trust funds include the Montana Family Education Savings Program.

Changes in Accounting Policy

Beginning in Fiscal Year (FY) 2022, the State of Montana implemented GASB 87 – Leases, which generally requires long-term leases to be recorded as a liability and a corresponding right-to-use lease asset. Since these leases are accounted for as long-term debt, governmental funds will show a Non-Budgeted, Inception of Lease/Installment Contract category on the Schedule of Revenues and Transfers-in and a corresponding Non- Budgeted Expenditure on the Schedule of Total Expenditures and Transfers-out for the purchase of the leased asset. In the Schedule of Total Expenditures and Transfers-out, readers may also see a shift from Operating Expenses - Rent to a Debt Service – Lease Liability.

2. Negative Fund Equity Balance

- ♦ **General Fund** - The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2021 and June 30, 2022.
- ♦ **Internal Service Fund** - The negative fund equity balance in the Internal Service Fund does not indicate overspent appropriation authority. The office has a federally approved indirect cost rate which is used to collect a percentage of revenues from various programs. For the fiscal years ended June 30, 2021 and June 30, 2022, noncash liabilities related to pension liability and OPEB created the negative fund equity presented in the Schedule of Changes in Fund Equity.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The office distributes General Fund and State Special Revenue Fund monies 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 Distributions 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 Total 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 Changes in Fund Equity to reflect this flow of resources.

4. 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. Actual results could differ from estimates.

In FY 2022, the office capitalized its building lease, recording intangible right-to-use assets and lease liabilities as of July 1, 2021 based on the present value of expected payments. The office's estimate of the present value of lease payments was based on fixed monthly lease payments, determination that it is reasonably certain that the office will exercise an option to extend the lease agreement to January 31, 2033, and an incremental borrowing rate of 1.65% in conformance with MOM 336.

The MUS Group Insurance Program and MUS Self-Funded Workers' Compensation Program, which are accounted for within the office's Enterprise Fund, utilize estimates based upon actuarial reports and external consultation to estimate unpaid claims liabilities and guide the setting of premium rates.

The office bases its liabilities for post-employment benefit obligations and expense accruals on actuarial valuation prepared by Actuaries Northwest, LLC, which performs its valuation as it relates to GASB 75 and is prepared using participant and financial data supplied by the office. Actuaries Northwest, LLC conducts its valuation in accordance with generally accepted actuarial principles and practices. The valuation relies upon the program's participant and financial data being substantially accurate and the supplied plan documentation being valid and complete. Key assumptions made by the actuary include the participation rate and discount rate used in present value calculations. The office relies upon assistance from the Department of Administration to correctly record OPEB related transactions.

The MUS Group Insurance Program, a fund in the office's Enterprise Fund, receives rebate revenue from its prescription plan provider. Prescription rebate revenue must be accrued at fiscal year-end because it is not readily determinable. The program estimates prescription rebate revenue based on estimates received from the prescription plan administrator, external consultation, and program staff judgement; the estimate is evaluated for reasonability by office accounting staff.

5. Lease Arrangements

With the implementation of GASB 87 in FY 2022, the accounting treatment of lease arrangements differs between the FY 2021 and FY 2022 financial schedules. Additionally, there are significant differences in accounting for lease arrangements between funds in the Governmental Fund category and the Proprietary Fund category because different bases of accounting are used for each.

The most significant impact to the FY 2022 financial schedules results from the recording of the commencement of the portion of the lease that is attributed to funds in the Governmental Fund category. The table below shows the present value of building lease payments allocated to funds in the Governmental Fund category and the Proprietary Fund Category in FY 2022.

GASB 87 Implementation – Building Lease Commencement in FY 2022

Governmental Fund Category	Administration Program	Education Outreach & Diversity	Guaranteed Student Loan Program	Workforce Development Program	Total
Present value of lease payments	\$1,429,151	\$604,942	\$88,418	\$247,950	\$2,370,461
Proprietary Fund Category (Internal Service Fund, Enterprise Funds)	Administration Program	MUS Group Insurance Program	MUS Workers Comp Program		Total
Present value of lease payments	\$209,630*	\$412,923*	\$58,950*		\$681,503*

* Lease Commencement for the Proprietary Fund Category is not reported in any of the financial schedules.

6. Prior Period Adjustments

A prior period adjustment was made in FY 2021 to the MUS Group Insurance Program Enterprise Fund that increased Enterprise Fund miscellaneous revenue by \$4.3 million. The adjustment was made to correct an error in a FY 2020 journal entry related to prescription rebates. The error caused FY 2020 Enterprise Fund miscellaneous revenue and fund equity to be understated by \$4.3 million. Had the prescription rebate accrual been recorded in FY 2020 without the error, the FY 2021 financial schedules would have been as follows:

	<u><i>FY 2021</i></u>
Schedule of Changes in Fund Equity, Enterprise Fund:	
<i>FUND EQUITY: July 1, 2020</i>	\$100,427,922 \$104,748,569
Schedule of Total Revenues & Transfers-In, Enterprise Fund:	
<i>Miscellaneous Revenue</i>	\$10,570,368 \$6,249,721

7. Coronavirus Aid, Relief, and Economic Security Act (CARES)

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The CARES Act was established to aid state, local, and tribal governments that were negatively impacted by the COVID-19 pandemic outbreak. During FY 2021 and FY 2022, the office received CARES Act funds from the Montana Governor's Office, which the office utilized for systemwide projects and transferred and granted to the university units, tribal, community, and private colleges in Montana in accordance with requirements of the Coronavirus Relief Fund (CRF) and Governor's Emergency Education Relief Fund (GEER). Funds were used to reduce barriers and increase access to higher education for resident students; ensure equal access; streamline application for admissions; fund remote learning enhancements and communications; enhance online instruction through ensuring adequate IT infrastructure; fund COVID-19 testing, contact tracing, enhanced cleaning and social distancing measures, public health costs, mental health services, and protective equipment; manage

quarantine locations; provide food and housing support; and upgrade campus electronic building access. These activities primarily occurred in FY 2021, causing a significant increase in federal special revenue fund revenue and expenditures for that fiscal year.

CARES Act Revenue & Expenditures	FY 2021	FY 2022
CARES Act – CRF	\$31,089,306	\$0
CARES Act - GEER	\$6,966,513	\$179,482
CARES Act - Total	\$38,055,819	\$179,482

8. MUS Group Insurance Health Plan Temporary State Share Holiday

MUS Group Insurance suspended employer contributions to the university system employee health insurance plan for two months in coordination with the Department of Administration in FY 2022 as authorized by MCA 2-18-703(2)(f), which was amended by Senate Bill 110 during the 2021 Montana Legislative Session. The \$8.4 million state share holiday cost is included in the MUS Group Insurance Program's Other Expenses line of Operating Expenses in the Schedule of Total Expenditures and Transfers-Out for the Year Ended June 30, 2022. Premiums for the MUS Group Health Plan account for \$102.1 million of the Enterprise Fund's Contributions and Premiums line of the Schedule of Total Revenues and Transfers-In for the Fiscal Year Ended June 30, 2022.

In recording the MUS Group Insurance Health Plan Temporary State Share Holiday, the office erred by not making an adjusting entry to reclassify the \$8.4 million state share holiday cost as a reduction of premium revenue, resulting in the following overstatements. The Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2022 overstates contributions and premiums for the Enterprise Fund by \$8.4 million. The Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2022 overstates other operating expenses for MUS Group Insurance by \$8.4 million. The Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2022 overstates budgeted revenues and transfers-in for the Enterprise Fund by \$8.4 million and overstates budgeted expenditures and transfers-out for the Enterprise Fund by \$8.4 million; these overstatements offset and thereby do not change the Enterprise Fund June 30, 2022 fund equity balance.

9. MUS Workers' Compensation Program Premium Holiday

The MUS Workers' Compensation Management Committee sets adequate and sustainable premium rates for the MUS Self-Funded Workers' Compensation Program (MUS WC Program) through annual actuary review and compliance with regulatory benchmarks. The committee enacted an 18-month premium holiday beginning January 1, 2022. During the premium holiday, campuses and the office will not pay workers compensation premiums to the MUS WC Program. The committee made the decision in response to the MUS WC Program outperforming actuarial expectations and having more resources than reasonably anticipated need. The premium holiday is intended to reduce the MUS WC Program's net position and should be considered a one-time event. MUS WC Program premium revenues were \$3.9 million and \$1.6 million in FY 2021 and FY 2022, respectively. The premium holiday accounted for \$1.2 million of the decrease in revenues in FY 2022.

10. Negative Investment Earnings in Fiscal Year 2022

In FY 2022, the Enterprise Fund and Private-Purpose Trust Fund had negative investment earnings. For both funds, investment values depreciated due to volatility in global markets driven by inflationary pressures, global supply-chain issues, the impact of the invasion of Ukraine by Russia on global commodity supplies, tight labor markets, and continued impact of COVID and other disease.

The Schedule of Total Revenues and Transfers-In for the Fiscal Year Ended June 30, 2022 shows negative nonbudgeted revenue and transfers-in of \$1.3 million for the Enterprise Fund, primarily from investment value depreciation in the investment accounts of the MUS Group Insurance Program and MUS Workers' Compensation Program, which are managed by the Montana Board of Investments (MBOI). Trust Funds Investments Pool (TFIP), a portfolio of diversified income-producing assets, accounts for most of the investment value depreciation. The Short-Term Investment Pool (STIP), which is designed to preserve capital and maintain liquidity, accounts for a smaller portion of the investment value depreciation. Overall, the Enterprise Fund had negative net investment earnings of \$0.2 million because income from STIP and TFIP investments offset much of the investment value depreciation. On June 30, 2022, Enterprise Fund investments exceeded \$104.1 million.

The Schedule of Total Revenues and Transfers-In for the Fiscal Year Ended June 30, 2022 shows negative investment earnings of \$25.5 million for the Private-Purpose Trust Fund, which accounts for the Montana Family Education Savings Program. The program is a voluntary college savings plan whose participants select investments from several investment portfolios to suit participants' time horizon, risk tolerance, and investment style. On June 30, 2022, Private-Purpose Trust Fund investments exceeded \$205.0 million.

11. Unspent Budget Authority

The MUS Group Insurance Program, which is funded with proprietary funds, had \$98.4 million and \$41.4 million in unspent budget authority in FY 2021 and FY 2022, respectively. The program includes the group insurance fund and the flex spending fund. To manage the program effectively and be proactive, the program has maintained higher level of authority to cover the projections of rising health care costs; cover catastrophic claims, such as occurred in FY 2015; and have sufficient authority for the flexible spending fund if all eligible employees utilize the benefit. The level of unspent budget authority in FY 2021 reflects a large carryover balance from FY 2020, since the program's appropriation is biennial. Since there were not catastrophic claims in FY 2021 or FY 2022, there was remaining unspent budget authority.

The MUS Workers' Compensation Insurance Program, which is funded with proprietary funds, had \$5.8 million and \$3.2 million in unspent budget authority in FY 2021 and FY 2022, respectively. To manage the program effectively and be proactive, the program has maintained higher level of authority to cover catastrophic claims. The level of unspent budget authority in FY 2021 reflects a large carryover balance from FY 2020, since the program's appropriation is biennial. The large carryover from FY 2020 was driven by a decrease in estimated claim liability. Fewer claims were experienced during FY 2021 due to remote work options during the COVID-19 pandemic. In FY 2022, the program experienced the lowest number of claims since its start.

The Educational Outreach Program had \$9.6 million and \$3.7 million in unspent budget authority in FY 2021 and FY 2022, respectively. The federally-funded Gaining Early Awareness & Readiness for Undergraduate Program (GEAR UP), accounts for most of the unspent budget authority. The level of unspent budget authority in FY 2021 reflects a large carryover balance from FY 2020. Due to the COVID-19 pandemic, several activities planned for GEAR UP participants and schools were cancelled in FY 2020 and FY 2021. In FY 2022, many activities resumed, but at a slower pace than anticipated during 2023 biennium budget planning.

The Guaranteed Student Loan Program had \$3.9 million in unspent budget authority at the end of FY 2021. This is due to much lower expenditures by the program due to COVID- 19 since activities were reduced and since other sources of federal funding were provided to the university system to provide services that would otherwise have been funded by the program. The level of unspent budget authority in FY 2021 also reflects a significant carryover balance from FY 2020.

12. Related Party Transactions

There are campus-affiliated foundations within the Montana University System (MUS) as identified in the Montana Board of Regents of Higher Education Policy 901.9. The private foundations affiliated with campuses of the MUS provide support to their respective campuses, consistent with the mission and priorities of such campus. As such, transactions occur between the Commissioner of Higher Education and said foundations as reimbursements for hosting MUS constituents and other related events and gatherings. Amounts differ each year based on the number of activities and events hosted in each fiscal year. Transactions totaled \$1,979 in FY 2021 and \$6,039 in FY 2022.

The MUS Group Insurance Program offers insurance coverage and receives insurance premiums from related parties such as community colleges and campus-affiliated foundations. The MUS Group Insurance Program ceased providing campus-affiliated foundations coverage after December 31, 2021. Premium revenue from related parties totaled approximately \$6.9 million and \$5.7 million in FY 2021 and FY 2022, respectively. These amounts are reported as Contributions and Premiums in the Enterprise Fund column on the Schedule of Total Revenues & Transfers-In financial schedule. The Enterprise Fund column also includes MUS Workers Compensation Program revenues; none of the related parties participate in the MUS Workers Compensation Program.

The Montana Higher Education Student Assistance Corporation (MHESAC), is a nonprofit corporation which shares common goals and interconnected missions with the Montana University System, including college access and student success for Montana Students. 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 office staff member is a MHESAC officer; and the Commissioner of Higher Education is an Ex-Officio member of the board. The Montana University System, MHESAC, and the Student Assistance Foundation entered into a joint project for an online college and career planning portal. The portal and its content were being jointly developed by MUS and MHESAC, with SAF performing the majority of the daily portal revisions on behalf of the organizations. The intent of the portal was to house a single application to apply to all of Montana's public colleges and also includes information about scholarships, financial aid, trade schools, dual enrollment, and career planning. The office paid \$5,954 toward the project in FY 2021, however a decision was made in the middle of FY 2021 to find an alternative solution to the project.

13. Reorganization

The office implemented personnel reorganization initiatives in FY 2021 and early FY 2022, particularly to enhance the capacity of its finance and accounting function. There were staffing changes, and several positions and workflows were changed to reflect increased responsibility and adjustments in focus. No major changes were made to the organizational structure. Revamped position description and responsibilities resulted in the reclassifying the Budget Analyst position to be the MUS Director of Accounting & Budget; the addition of the Accountant position, filled by a certified public accountant; and changing the Accounting Specialist position to be a full-time position. Other personnel changes included retitling and adjusting the position description of the Accounting and Student Assistance Analyst position to be the Student Assistance Analyst position and replacing the MUS Internal Auditor position with the Director of Assurance and Enterprise Risk position. Subsequently, in FY 2023, the office's Federal Accountant retired following nearly 20 years of service in the position; duties of the position have been assigned to the Accounting Specialist and other staff.

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
William Soller

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 Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Commissioner of Higher Education (office) for each of the fiscal years ended June 30, 2022, and 2021, and the related notes to the financial schedules, and have issued our report thereon dated March 22, 2023.

Report on Internal Controls Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the office's internal control over financial reporting as a basis for designing 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 the office's internal control.

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. 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 attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on 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 financial schedules. However, providing an opinion on compliance 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

March 22, 2023

OFFICE OF THE
COMMISSIONER OF
HIGHER EDUCATION

OFFICE RESPONSE



Montana University System
Office of the Commissioner of Higher Education

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(406) 449-9124 - FAX (406) 449-9171

May 3, 2023

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

RECEIVED
MAY 03 2023
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

Please accept our genuine appreciation for your efforts in conducting the biennial financial-compliance audit of the Office of the Commissioner of Higher Education. We are grateful for the careful examination of our financial resources and processes.

While we are pleased and encouraged that the audit resulted in no recommendations, we appreciate the guidance and education provided by your team. Our office will continue to improve internal controls, enhance processes, and ensure that we are exemplary stewards of state resources is ongoing.

Lastly, we would like to express our appreciation for the hard work and professionalism of the Legislative Audit Division. We look forward to working with you in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Clayton T. Christian".

Clayton T. Christian
Commissioner of Higher Education