



A REPORT
TO THE
MONTANA
LEGISLATURE

COMPLIANCE AUDIT

Montana State University

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

MAY 2022

LEGISLATIVE AUDIT
DIVISION

21-13

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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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Angus Maciver, Legislative Auditor
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Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

May 2022

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the compliance audit of the Montana State University for the two fiscal years ended June 30, 2021. This audit focused on compliance with federal requirements of the university's Research and Development (R&D), Student Financial Aid (SFA), and the Education Stabilization federal assistance programs. In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES) was signed into law to prevent, prepare for, and respond to coronavirus. We also tested compliance with selected laws.

This report contains two recommendations to the university. Both recommendations address the university's compliance with federal regulations and internal controls over the SFA program.

We want to thank President Cruzado and university staff for their assistance and cooperation during 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	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
	Jeff Southworth	Lewistown	January 31, 2029
	Brianne Rogers	Bozeman	February 1, 2024
	Amy Sexton, Student Regent	Billings	June 30, 2022
	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	
	Brock Tessman	Deputy Commissioner, Academic, Research & Student Affairs	
	Tyler Trevor	Deputy Commissioner for Budget & Planning, Chief of Staff	
	Ali Bovingdon	MUS Chief Legal Counsel	
	Margaret Wallace	Director of Assurance and Enterprise Risk	
Montana State University All Campuses	Waded Cruzado	President	
	Kellie Peterson	Legal Counsel	
	Ila Saunders	Interim Director, Audit Services (as of February 2022)	
	Daniel Adams	Director of Audit Services (through February 2022)	
Montana State University Bozeman	Terry Leist	Vice President for Administration and Finance	
	Robert Mokwa	Vice President for Academic Affairs and Provost	

Montana State University Bozeman (con't)	Jason Carter	Vice President of Research, Economic Development, and Graduate Education
	Ryan Knutson	Vice President of Information Technology (as of July 2021)
	Chris Kearns	Vice President of Student Success
	Aaron Mitchell	Assistant Vice President for Financial Services
	Leslie Schmidt	Associate Vice President for Research (through April 2022)
	James Broscheit	Director of Financial Aid
	Megan Lasso	Director of University Budget Office
Montana State University Billings	Stefani Hicswa	Chancellor (as of January 2021)
	Dan Edelman	Chancellor (through December 2020)
	Sep Eskandari	Provost and Vice Chancellor for Academic Affairs (as of July 2021)
	Melinda Arnold	Provost and Vice Chancellor for Academic Affairs (through June 2021)
	Susan Simmers	Vice Chancellor for Administration and Finance
	Kimberly Hayworth	Vice Chancellor of Student Access and Success
	Heather Hanna	Director of Financial Services
	Barb Shafer	Director of Business Services
	Thomas Valles	Director of Financial Aid and Scholarships
Montana State University Northern	Greg Kegel	Chancellor
	Sue Ost	Interim Vice Chancellor for Finance and Administration
	R. Neil Moisey	Vice Chancellor for Academic Affairs
	Maura Gatch	Vice Chancellor of Enrollment Management
	Vacant	Controller
	Alisha Schroeder	Registrar

Montana State University Northern (con't)	Corey Kopp	Dean of Students
	Cindy Small	Director of Financial Aid
Great Falls College Montana State University	Stephanie Erdmann	CEO/Dean (as of July 2021)
	Vacant	Associate Dean and Chief Academic Officer
	Carmen Roberts	Executive Director of Operations
	Mary Kay Bonilla	Chief Student Affairs and Human Resources Officer
	Oceane Weldele	Accounting Manager
	Leah Habel	Financial Aid Director
Montana Agricultural Experiment Station	Sreekala Bajwa	Vice President for Agriculture
	Jody Barney	Budget and Fiscal Director
Montana State University Extension	Cody Stone	Director
	Sandra Rahn Gibson	Budget and Fiscal Director
Montana State University Fire Services Training School	John Culbertson	Director

For additional information concerning Montana State University,
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Montana State University

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

BACKGROUND

Montana State University (university or MSU) consists of four campuses located in Bozeman (MSU Bozeman), Billings (MSU Billings), Havre (MSU Northern), and Great Falls (Great Falls College MSU). Additionally, MSU includes the Montana Agricultural Experiment Station, Montana Extension Service, and the Fire Services Training School. The MSU campuses and programs provide undergraduate and graduate academic degrees, as well as two-year vocational and technical programs, to state, national, and international students.

We performed audit procedures at each of these campuses as part of our audit.

Montana State University receives federal funding for Student Financial Aid (SFA). We audited the SFA program at MSU Bozeman, MSU Billings, MSU Northern, and Great Falls College MSU. During the fiscal years 2020 and 2021 audit period, the university expended approximately \$252 million in SFA. The two recommendations in this report address compliance issues and effective internal controls over compliance with student financial aid federal regulations.

Throughout the audit, we concentrated our audit effort on the examination of the university's compliance with federal regulations governing the Research and Development (R&D) programs and the Education Stabilization program. We also tested selected state laws at each of the campuses as part of the audit.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the university: 2

To the legislature: 0

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

Fully Implemented: 3

RECOMMENDATION #1 (page 8):

Internal Control and Federal Compliance

We recommend the university document their internal control process and retain evidence of internal controls over Cost of Attendance and Direct Loan reconciliations.

University response: **Concur**

RECOMMENDATION #2 (page 9):

Internal Control and Federal Compliance

We recommend the university maintain adequate internal controls to receive and review assurance over the Perkins Loan service provider.

University response: **Concur**

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

leg.mt.gov/lad

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Chapter I – Introduction and Background

Introduction

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

1. Determine whether the university complied with federal regulations applicable to the Research and Development (R&D), Student Financial Aid (SFA), and the Education Stabilization federal programs.
2. Determine whether the university complied with selected state laws and regulations applicable to university operations.
3. Provide university management with recommendations for improvements in their internal and management controls.
4. Determine the implementation status of the prior audit recommendations.

We examined the university's compliance with federal regulations governing R&D programs during the audit. 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 recorded approximately \$111.8 million in R&D expenditures in 2021 and \$93.5 million in 2020. Of that total, 95 percent is at MSU Bozeman. As a result, our audit efforts focused on compliance with R&D requirements at MSU Bozeman.

In accordance with federal audit guidelines, we audited the Student Financial Aid (SFA) program on each of the four campuses. These campuses provide SFA such as Pell Grants, Perkins Grants, Direct Loans, and Federal Work Study. The university had approximately \$119 million of SFA expenditures in 2021 and \$132 million in 2020. The Legislative Audit Division conducted a separate Information Systems audit, *Information Security in the Montana University System* (20DP-03) jointly managed by the Office of the Commissioner of Higher Education, the University of Montana, and the Montana State University. Since the university relies on Banner as a control for determining eligibility for SFA, the 20DP-03 report should be considered in conjunction with this report to obtain a full understanding of the scope of work completed over the SFA programs and the resulting findings. Banner is the university's accounting and information system used to determine eligibility for SFA and process associated financial transactions.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES) was signed into law. The CARES Act included Education Stabilization funds of which the university was granted \$80 million. 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 on each of the four campuses and then concentrated our audit effort on testing expenditures on the MSU Bozeman campus. MSU Bozeman received and expended approximately \$26.8 million in grant funds in fiscal year 2021.

Additional work performed included, but was not limited to, testing selected state laws at each of the campuses. As part of the work, we visited each of the four campuses.

Background

Montana State University consists of four campuses:

- ◆ Montana State University-Bozeman (MSU Bozeman), including Gallatin College MSU
- ◆ Montana State University-Billings (MSU Billings)
- ◆ Montana State University-Northern (MSU Northern)
- ◆ Great Falls College-Montana State University (Great Falls College MSU)

The Northwest Commission accredits all campuses on colleges and universities. The university's four campuses provide undergraduate and graduate academic and two-year vocational-technical programs to students.

MSU Bozeman offers four-year undergraduate programs along with Master's and Doctoral graduate programs. It includes the colleges of Agriculture, Arts & Architecture, Business, Education, Health and Human Development, Engineering, Letters and Science, Nursing, Graduate School, and the Honors and Gallatin College. Also included as part of the Bozeman campus is the MSU Extension, the Montana Agricultural Experiment Station, and the Fire Services Training School which provide outreach and continuing education to people in Montana communities. Gallatin College MSU is Southwest Montana's two-year college, offering two-year associate degrees and one-year professional certificates.

MSU Billings consists of five colleges: The College of Health Professions and Science; College of Liberal Arts and Social Sciences; the College of Business; the College of Education; and the City College. MSU Billings offers one-year and two-year certificate programs, Associate, Bachelor, and Master degrees, as well as pre-professional academic offerings in several fields.

MSU Northern is a regional, multipurpose educational center serving students who seek both a technical and liberal arts education. MSU Northern offers courses at three locations: Havre, Lewistown, and Great Falls. MSU Northern offers 1-year certificates, Associate, Bachelor, and Master degrees within three colleges: College of Technical Sciences, College of Health Sciences, and College of Arts, Sciences & Education.

Great Falls College MSU serves as a comprehensive two-year college within the Montana University System. Great Falls College MSU offers Associate of Applied Science degrees and certificates preparing students for high-demand careers in Health Sciences, Business, and Technology. In addition, Great Falls College MSU offers an Associate of Art degree and an Associate of Science degree for students interested in completing the first two years of a bachelor's degree in Great Falls.

Enrollment and Staffing

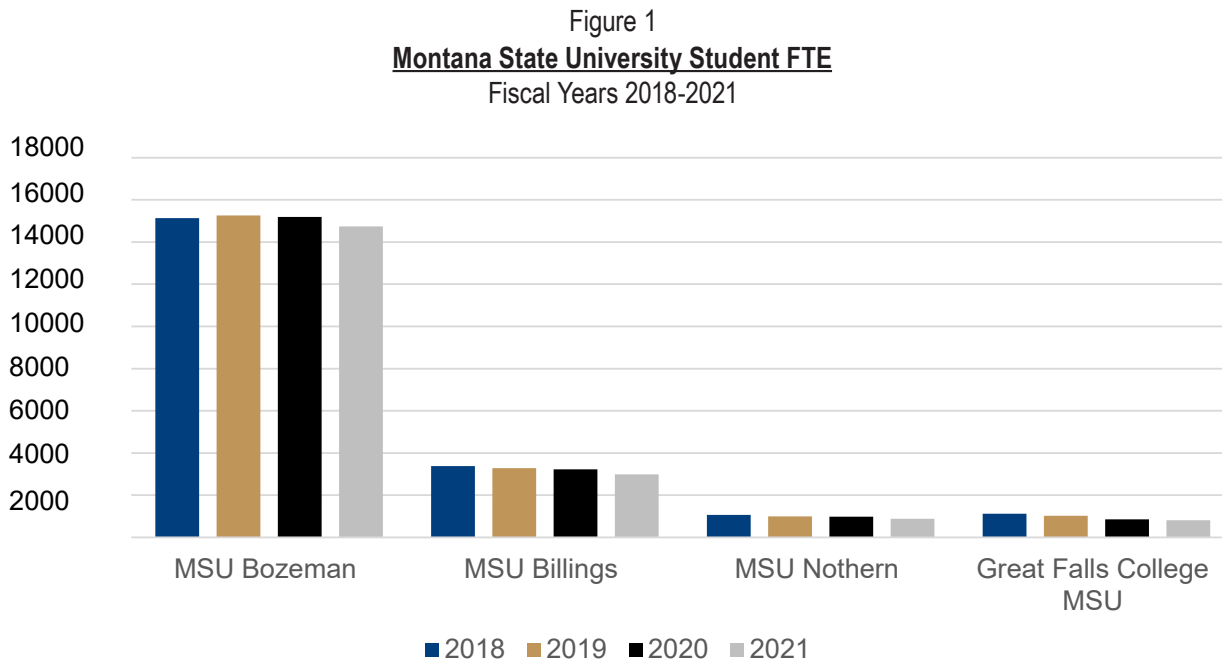
Table 1 shows the university full-time equivalent (FTE) enrollment, by campus, for fiscal year 2021.

Table 1
Montana State University Student FTE
Fiscal Year 2021

Campus	Student FTE
MSU Bozeman	14,737
MSU Billings	2,981
MSU Northern	888
Great Falls College MSU	816
Total	19,422

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

Figure 1 shows the university student FTE enrollment, by campus, for the past four years.



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

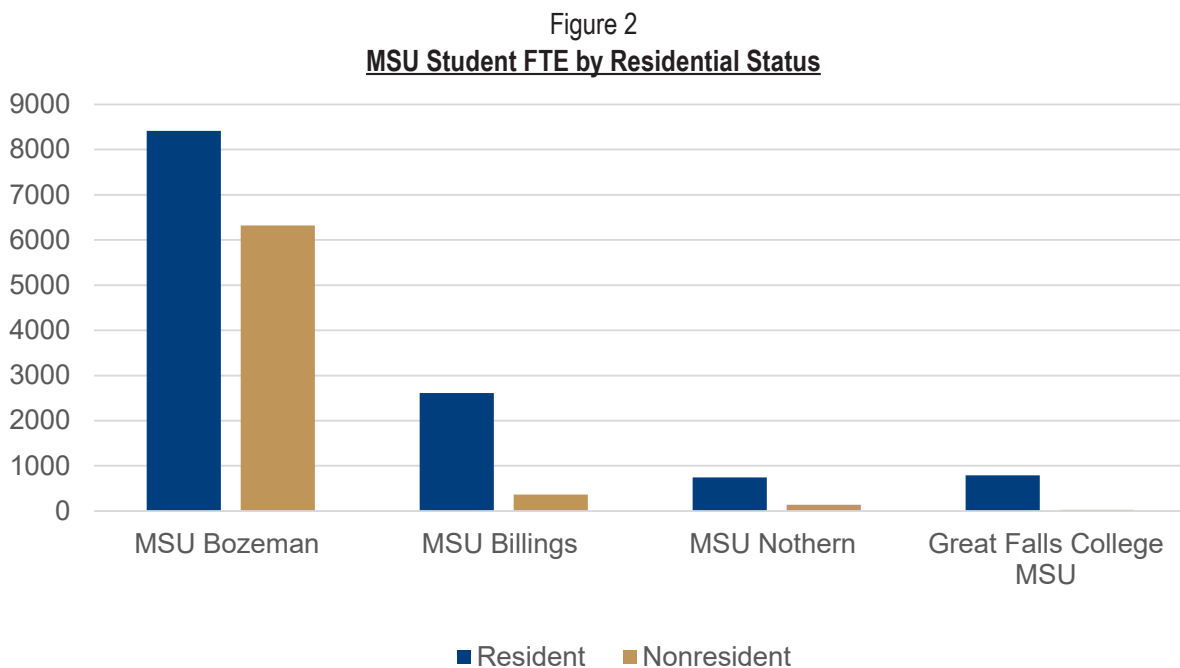
Table 2 represents the university student FTE enrollment for fiscal year 2021 by academic level.

Table 2
Montana State University Student FTE Academic Level
Fiscal Year 2021

Campus	Undergraduate	Graduate	Total
MSU Bozeman	13,408	1,329	14,737
MSU Billings	2,712	269	2,981
MSU Northern	853	35	888
Great Falls College MSU	816		816
Total	17,789	1,633	19,422

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

Figure 2 shows the university student FTE enrollment for fiscal year 2021 by residential status at each campus.



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

Montana State University Funding

The level of state support for the Montana University System 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 costs of each campus. Total state appropriations to the university were approximately \$138 million and \$145 million for 2020 and 2021, respectively.

Prior Audit Recommendations

The prior compliance audit of the university for the two fiscal years ended June 30, 2019, had three recommendations related to improvements needed in controls regarding travel expenses and cash collections. The report also contained audit findings regarding noncompliance with state policy related to valuation of inventory at the Museum of the Rockies. All recommendations have been fully implemented.

Chapter II – Findings and Recommendations

Student Financial Aid Controls

The university should document internal controls and retain documentation demonstrating review of Direct Loan reconciliations or Cost of Attendance calculations.

An internal control structure is a process designed to provide management with reasonable assurance it will achieve its objectives related to financial accountability and compliance with laws and regulations. The federal government charges the university's management with the responsibility of establishing effective internal controls 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. Deficiencies in internal control increase the risk the university may not identify noncompliance in a timely manner.

Cost of Attendance Calculation

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 regulations, the COA is primarily the total of:

- ◆ Tuition and fees,
- ◆ Allowances for books, supplies, transportation, and miscellaneous personal expenses,
- ◆ Allowances 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. 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.

Through our testing, we determined MSU Bozeman, MSU Billings, MSU Northern, and Great Falls College MSU do not have documentation of review of the COA calculation performed by someone not involved in the process of creating it.

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.

Direct Loan Reconciliations

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 by a student, these loans are applied to the student's bill and any excess is disbursed directly to students. The university is then

required to report these disbursements to the Department of Education via the Common Origination and Disbursement (COD) system within 15 days of applying the loans 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. Through our testing, we determined that all four campuses were completing the monthly reconciliations. However, Great Falls College MSU and MSU Northern did not have documented controls in place addressing review requirements and did not retain any documentation demonstrating the reconciliations were reviewed. Our audit did not identify any material noncompliance, but a lack of documented internal controls could result in reconciliations not being done or not being done accurately. Current staff are aware of the requirement but if there is turnover, that knowledge leaves with the person. While they have a process to complete the reconciliations and keep documentation of each process, they were unaware there should be documentation and evidence that a review was completed.

RECOMMENDATION #1

We recommend:

- A. *Each campus of Montana State University document their internal controls over the calculation of Cost of Attendance.*
 - B. *The Great Falls College MSU and MSU Northern document their internal control process and retain evidence of reviews over Direct Loan reconciliations.*
-

Perkins Loans

MSU Northern did not send paid in full letters to Perkins Loan borrowers when the loan obligation was satisfied.

The MSU Bozeman, MSU Billings, and MSU Northern campuses participate in the Perkins Loan program. While new loans are no longer made under the program, the three campuses are still servicing outstanding loans. They each contract with a third-party service provider to perform some of the servicing and federal record retention requirements for these loans. However, the ultimate responsibility for these requirements still lies with the university.

Federal regulation requires an institution to return the original or a true and exact copy of the note marked "paid in full" to the borrower, or otherwise notify the borrower in writing that the loan is paid in full, after the loan obligation is satisfied, and retain a copy for the prescribed period. MSU Northern did not comply with the federal regulations by ensuring the "paid in full" letters were sent to the borrower. Such noncompliance could result in inaccurate loan records of whether a loan is still active or fully paid off.

We tested a sample of 71 borrowers with paid in full, cancelled, or assigned loans status, divided proportionately between the three campuses. We tested a total of 17 borrowers at MSU Northern and found none of them received the “paid in full” letters. Of the three campuses, MSU Northern is the only campus we found noncompliance with this requirement. University staff indicated they thought the service provider was responsible for the letters. While a contract could not be located to support this, compliance with federal regulation is ultimately the responsibility of the university. University staff should have controls in place to ensure notifications are sent out regardless of whether it is done by the university or the servicer.

RECOMMENDATION #2

We recommend that MSU Northern:

- A. *Develop internal controls to ensure “paid in full” notifications are sent when a borrower’s loan obligation is satisfied.*
 - B. *Send “paid in full” letters to borrowers after the loan obligation is satisfied in accordance with federal Perkins Loan requirements.*
-

MONTANA STATE
UNIVERSITY

UNIVERSITY RESPONSE



May 9, 2022

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

RECEIVED
May 9, 2022
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

Enclosed you will find Montana State University's responses to the recommendations from the Legislative Audit Division Compliance Audit report for the two fiscal years ended June 30, 2021. MSU appreciates the Legislative Audit Division's work and its identification of opportunities for improving the university's operations.

We thank you and your staff for your efforts.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Waded Cruzado', enclosed in a thin blue rectangular border.

Waded Cruzado
President

Enclosure

Office of the President

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Mountains & Minds

MONTANA STATE UNIVERSITY
Response to Legislative Audit Division Compliance Audit
For the Two Fiscal Years Ended June 30, 2021

RECOMMENDATION #1

We recommend:

- A. *Each campus of Montana State University document their internal controls over the calculation of Cost of Attendance.*
- B. *The Great Falls College MSU and MSU Northern document their internal control process and retain evidence of reviews over Direct Loan reconciliations.*

Montana State University concurs with the recommendation.

- A. *Each campus concurs with the recommendation. Each campus will better document controls over facets of Cost of Attendance by the 2023-2024 aid year.*
- B. *The campuses concur with the recommendation. Great Falls College MSU and MSU Northern added preparer and reviewer signature lines to their Direct Loan reconciliation spreadsheets in effect for the 2021-2022 aid year and they continue to perform and retain supporting documentation for the reconciliations.*

RECOMMENDATION #2

We recommend that MSU Northern:

- A. *Develop internal controls to ensure paid in full notifications are sent when a borrower's loan obligation is satisfied.*
- B. *Send "paid in full" letters to borrowers after the loan obligation is satisfied in accordance with federal Perkins loan requirements.*

Montana State University Northern concurs with the recommendation.

MSU Northern will enhance internal controls regarding the Perkins Loan Paid In Full letters to ensure compliance with the federal regulation 34 CFR 4.19(e)(4)(iii). Paid In Full letters and original Promissory Notes have been mailed to all borrowers starting October 2018 to present. Copies were made of the letter and Promissory Note for the borrower's file. MSU-Northern will continue to monitor the internal controls when completing the monthly reconciliation of the Perkins Loan program.