



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Commissioner of Higher
Education*

*For the Two Fiscal Years Ended
June 30, 2015*

JANUARY 2016

LEGISLATIVE AUDIT
DIVISION

15-20

FINANCIAL-COMPLIANCE AUDITS

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§5-13-202(2), MCA

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

The Single Audit Act Amendments of 1996 and OMB Circular A-133 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, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

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Room 277, State Capitol
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Cindy Jorgenson
Angus Maciver

January 2016

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Commissioner of Higher Education for the two fiscal years ended June 30, 2015. Included in this report are three recommendations related to compliance with appropriation laws and conflicting statutory fund structure requirements.

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

Respectfully submitted,

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

		<u>Term Expires</u>
Board of Regents of Higher Education	Paul Tuss, Chair	February 1, 2020
	Fran M. Albrecht, Vice Chair	February 1, 2019
	William Johnstone	February 1, 2017
	Robert A. Nystuen	February 1, 2022
	Martha Sheehy	February 1, 2021
	Asa Hohman, Student Regent	June 30, 2016
	Clayton Christian, Commissioner of Higher Education*	
	Steve Bullock, Governor*	
	Denise Juneau, Superintendent of Public Instruction*	

*Ex officio members

Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	Mick Robinson	Deputy Commissioner for Fiscal Affairs, Chief of Staff
	John Cech	Deputy Commissioner for Academic and Student Affairs
	Vivian Hammill	Deputy Commissioner/Chief Legal Counsel
	Kevin McRae	Deputy Commissioner for Communications and Human Resources
	Tyler Trevor	Deputy Commissioner for Planning and Analysis/IT
	Frieda Houser	Director of Accounting and Budget

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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, 2015

JANUARY 2016

15-20

REPORT SUMMARY

The Board of Regents is designated in state law as the approving authority for budget amendments of the Montana University System. In this report, we discuss instances where the Office of the Commissioner of Higher Education expended funds on behalf of programs lacking budget authority in advance of obtaining and recording a budget amendment.

Context

The Montana Constitution confers governance authority over the Montana University System (MUS) to the Board of Regents (board), but vests the power to appropriate state funds to the legislature. The Constitution directs the board, which consists of seven appointed and confirmed members and three ex-officio members, with hiring a Commissioner of Higher Education to serve as its executive staff. All state funds appropriated by the legislature for support of the MUS are administered by the Office of the Commissioner of Higher Education (office).

In fiscal year 2014-15, the office administered \$429.3 million in budget authority, of which \$226.8 was designated for distribution to university units, community colleges, and tribal colleges. Of the remaining authority, \$90.5 million was appropriated for various programs, and \$112 million was appropriated for the MUS Insurance and flexible spending programs in the enterprise fund.

Results

We focused our audit effort on appropriation distributions to university units, transactions related to insurance premiums and claims

payments, balances related to the College Savings plan, and federal compliance requirements of the Guaranteed Student Loan Program.

We found instances where the office expended money using budget authority of one program to pay the costs of another, paid expenditures of one fiscal year with authority from the prior year, and expended funds without an appropriation by using an advance account.

Our audit resulted in three recommendations to the office and an unmodified opinion on the financial schedules for each of the two fiscal years ended June 30, 2015, and 2014.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Office of the Commissioner of Higher Education (office) for the two fiscal years ended June 30, 2015. The objectives of our audit were to:

1. Obtain an understanding of the office’s internal control systems to the extent necessary to support our audit of the office’s financial schedules and, if appropriate, make recommendations for improvement in management and internal controls.
2. Determine the office’s compliance with selected state and federal laws and regulations.
3. Determine whether the office’s financial schedules present fairly the results of its operations and changes in fund equity for each of the two fiscal years ended June 30, 2015.
4. Determine implementation of prior audit recommendations.

In addressing objectives #1 and #3, we focused our audit effort on determining whether funds were distributed to the universities in accordance with legislative appropriations and regents policy, reviewing financial transactions related to premium payments and claims in the Montana University System (MUS) Insurance Program, evaluating balances related to the College Savings Plan, and assessing the related control systems.

We addressed objective #2 by testing controls over and compliance with federal regulations related to the Montana Guaranteed Student Loan Program (MGSLP) and reviewing compliance with state laws.

The MGSLP coordinates and administers the federally insured student loans issued by various lending institutions. As of July 1, 2010, all new federal student loans are originated by the Federal Direct Student Loan Program, and administered by the federal government. The MGSLP continues to service the loans it has guaranteed, but is not guaranteeing any new loans. Our office performed a financial audit of the MGSLP for each of the fiscal years ended June 30, 2015, and 2014. The results of this audit can be found in a separate report (15-06).

Background

The MUS is comprised of public universities and colleges, enrolling more than 47,000 students. The MUS serves students through the delivery of postsecondary educational opportunities. The Montana Constitution extends governance authority

over the MUS to the Board of Regents but leaves the power to appropriate state funds for the MUS to the legislature.

The Board of Regents has administrative and supervisory control of the universities and colleges of the university system and general supervision of community colleges. It consists of seven members appointed by the Governor, and confirmed by the Senate, to seven-year overlapping terms. The Governor, Superintendent of Public Instruction, and the Commissioner of Higher Education are ex-officio members.

The Montana Constitution charges the Board of Regents with hiring a Commissioner of Higher Education who serves as its executive staff. The office provides management support and administrative leadership to all educational units and research and public service education agencies, for student support and assistance programs, and financial aid functions of the MUS. The state funds appropriated by the legislature in support of the MUS are channeled through the office.

The following programs or activities that are presented on the Schedule of Expenditures & Transfers-Out are explained below. Total authorized full-time equivalent (FTE) staff for the programs and activities was 100.88 during the audit period. The Appropriation Distribution, Board of Regents Administration, Community College Assistance, Improving Teacher Quality, and Tribal College Assistance programs have no approved FTE. The administration of these programs is primarily through the FTE of the Administration program.

Administration Program (24.03 FTE) provides general administration for all the duties of the office. This includes academic, student assistance, financial, and legal administration as well as labor relations and personnel administration.

Appropriation Distribution accounts for the distribution of the state's General Fund and millage appropriations to the university units.

Board of Regents Administration provides secretarial support, travel, and per diem for the Board of Regents.

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

Educational Outreach & Diversity (19.90 FTE) consists of federal programs intended to decrease the dropout rate of low-income and at-risk students at the secondary school level, and to increase their enrollment in postsecondary education. The three

components that provide services are the Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR-UP); Montana Educational Talent Search (METS); and American Indian/Minority Achievement (AIMA).

Guaranteed Student Loan Program (44.00 FTE) maintains records on student borrowers, warehouses records, collects loan payments, and performs other duties related to the Federal Family Education Loan Program (FFELP). It also includes the administration of the Governor's Scholarship Program and the Montana Family Education Savings Program.

Improving Teacher Quality is a federal program that provides funds for professional development and teacher training that improves teaching methods and teaching skills in the classroom.

MUS Group Insurance Program (6.00 FTE) provides group benefits, which includes a flexible spending account option.

MUS Workers Compensation Program (1.00 FTE) accounts for all activity related to the MUS's self-funded workers' compensation program.

Student Assistance Program (1.50 FTE) consists of grants, loans, and work-study programs such as the Governor's Postsecondary Scholarship Program; the Leveraging Educational Assistance Partnership (LEAP) Program; the Supplemental Leveraging Educational Assistance Partnership (SLEAP) Program; the Baker Grants Program; the Montana Higher Education Grant (MHEG) Program; state matching dollars for the federal Supplemental Education Opportunity Grant (SEOG); the Perkins Federal Loan Program; the Western Interstate Commission on Higher Education (WICHE); Student Exchange Program; and the Washington, Wyoming, Alaska, Montana, and Idaho (WWAMI) Cooperative Medical Program.

Tribal College Assistance Program accounts for the distribution of the state's assistance for nontribal Montana resident students attending the seven tribal colleges in Montana.

Work Force Development Program (4.45 FTE) supports vocational education at the secondary and postsecondary levels. The Board of Regents is the state agency that administers the federal Vocational Education - Basic Grants to States grant. Amounts used at the secondary level are subgranted to the Office of Public Instruction.

Internal Service Fund

In accordance with §17-8-101(6), MCA, we analyzed the fees and charges for services and the fund equity balance in the office's Internal Service Fund. We found the office met the 60-day working capital limit allowed by federal regulations and state accounting policy in fiscal years 2013-14 and 2014-15. As a result, we concluded that charges for services were commensurate with costs and fund equity is reasonable in the office's internal service fund as required by state law.

Other Post Employment Benefit Overstatement

The Montana University System (MUS) provides medical insurance coverage as an Other Post Employment Benefit (OPEB) to its retirees. Governmental accounting standards define the methodology for calculating the annual cost of this OPEB benefit. The office, as the administrator of the MUS insurance plan, engages an actuary to calculate the OPEB liability and annual cost and allocates the portion associated with retirees at each university campus for presentation on the annual financial statements. Since the implementation of OPEB standards in 2008, a required adjustment to the annual cost had not been made and employer contributions in the form of benefits paid on behalf of retirees, as reported in the actuary report, had not been reported. As a result, the OPEB liability initially calculated for the fiscal year ended June 30, 2014, was overstated by \$23.6 million.

Office management said they followed state accounting policy, which did not direct the adjustment required by the standards. In November 2014, the office provided revised liability and annual cost information to the universities. The revisions were reported in the fiscal year 2012-13 and 2013-14 financial statements presented by the University of Montana and Montana State University. Since the office implemented corrective action to attain compliance with accounting standards for reporting OPEB, we make no further recommendations regarding this issue.

Prior Audit Recommendation

The office implemented the prior audit recommendation related to charges for services in the internal service fund.

Chapter II – Findings and Recommendations

Appropriations

The Office of the Commissioner of Higher Education did not expend funds using valid appropriations as required by the Montana Constitution and state law.

Article VIII, Section 14 of the Montana Constitution states, in part, that except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law. Section 17-8-101(1), MCA, specifies that money deposited in the general fund, the special revenue fund type, and the capital projects fund type are subject to this constitutional restriction. Section 17-7-139(1), MCA, authorizes a process permitting agencies to transfer appropriations between programs within each fund type within each fiscal year. All program transfers must be completed within the same fund from which the transferred authority originated. A request for a transfer accompanied by a justification explaining the reason for the transfer must be submitted by the requesting agency to the approving authority and the Office of Budget and Program Planning (OBPP).

For the Office of the Commissioner of Higher Education (office) and other units of the university system, §17-7-102(3)(f), MCA, in part, establishes the Board of Regents or its designee as the approving authority. Although the office submits approved budget amendments to OBPP, OBPP has the responsibility for entering approved amendments onto the state's accounting system. The office cannot charge against the amended authority until it is entered into the state's system.

In the paragraphs below, we discuss several situations where the office paid bills for one program from the funds of another program or disbursed payments using an advance account rather than an appropriation.

- ◆ The office paid \$82,539 from a federal special revenue account for the Gaining Early Awareness and Readiness for Undergraduate Program (GEAR-UP) program expenses in fiscal year 2014-15 using an advance account rather than charging an expenditure because the account did not have sufficient budget authority. When the office received an approved budget amendment, subsequent to payment, accounting personnel charged the expenditure to an appropriation.
- ◆ In fiscal year 2014-15, the office charged \$16,178 in payroll expenditures of the federal GEAR-UP grant to the Guaranteed Student Loan Agency Operations Fund in the federal special revenue fund. Although the Guaranteed Student Loan (GSL) program had adequate appropriation authority available for a program transfer, the office personnel did not obtain approval for the legally

required program transfer prior to making the payment. Office personnel said the transaction was necessary to achieve timely processing of payroll.

- ◆ In September 2015, the office paid \$585,549 in GEAR-UP scholarship expenditures from the GSL Agency Operations Fund. A financial officer said the office took the action because the GEAR-UP appropriation authority specified a transfer account rather than the scholarship expense account needed for the transaction. The officer also said the scholarship expenditures were an allowable use of the GSL funds. The office reversed the GSL expenditure and charged the GEAR-UP grant when a budget amendment was approved.
- ◆ The office paid \$215,657 of employee flexible spending (flex) plan claims in fiscal year 2014-15 from the MUS Insurance fund rather than the flex plan fund, which lacked sufficient appropriation authority. Section 20-25-1310(1)(c), MCA, restricts the use of insurance plan assets to paying claims and administrative costs of the insurance plan. In paying flex plan claims from the MUS Insurance fund, the office did not comply with statutory restrictions on the use of MUS Insurance plan assets as well as those requiring approval of budget amendments prior to use of the authority. Management said the transactions were necessary to accomplish timely payment of claims and corrected the transaction when a budget amendment increased flex plan authority.

Several program managers indicated the payments needed to occur sooner than approval of a budget amendment could be obtained. An accounting manager said the budget office processing had slowed as a result of implementation of a new computerized budget management system. However, state law establishes the Board of Regents or its designee as the approving authority for the office budget amendments. Board of Regents Policy 204.3 allows the commissioner to act as the official designee of the board to perform any duty not otherwise assigned by the board. In addition, the office management should improve monitoring of appropriations to achieve timely requests for budget amendment approvals.

RECOMMENDATION #1

We recommend the Office of the Commissioner of Higher Education:

- A. *Improve monitoring of appropriation authority to enable timely approval of budget amendment requests to facilitate compliance with constitutional and statutory requirements regarding appropriations.*
 - B. *Comply with state law by limiting expenses from the Montana University System Insurance Fund to those of the insurance plan.*
-

Prior Year Expenditures

The Office of the Commissioner of Higher Education paid \$483,577 of current program costs from a reverted appropriation in violation of state law.

The office charged a \$430,913 transfer to the Office of Public Instruction (OPI) for GEAR-UP grant services and 16 GEAR-UP subgrants to school districts totaling \$52,664 to a 2012-13 fiscal year appropriation even though the expenditures occurred in fiscal year 2013-14. Section 17-7-304(1), MCA, limits the use of an unexpended balance in a specific appropriation to valid obligations of the years for which the appropriation was made. As a result, prior year expenditures are overstated and current year expenditures are understated by \$483,577 in the federal special revenue fund on the Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2014. Total expenditures were not affected.

An office accountant said the OPI transfer is supported by a request document received in August 2013 that does not specify the date expenditures actually occurred. In the other case, school districts submitted reports that included expenditures from fiscal year 2013-14.

RECOMMENDATION #2

We recommend the Office of the Commissioner of Higher Education comply with state law by limiting expenditures from appropriations to valid obligations incurred in the year for which the appropriations are made.

Inconsistent Accounting Requirement in Statute

A statutory requirement to deposit fee revenue in the general fund conflicts with university fund structure required by law for the Fire Service Training School.

Section 20-31-402, MCA, permits the Board of Regents to establish a cost recovery fee for training of commercially employed firefighters by the Fire Services Training School (FSTS) and requires that these fees, if established, be deposited in the general fund. This law was enacted in 1977 and last amended in 1989. The FSTS has been administered by Montana State University since 1993. As a part of the university system, the FSTS uses the higher education fund structure, which does not include the

general fund. Therefore, the requirement to deposit cost recovery fees in the general fund conflicts with the use of the higher education fund structure used by FSTS.

RECOMMENDATION #3

We recommend the Office of the Commissioner of Higher Educations seek legislation to align the statutory language in §20-31-402, MCA, with the higher education funding structure.

Independent Auditor's Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedule of Changes in Fund Equity & Property Held in Trust for the fiscal year ended June 30, 2015, the Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2014, and the Schedules of Total Revenues & Transfers-In and the Schedules of Total Expenditures & Transfers-Out of the Office of the Commissioner of Higher Education for each of the fiscal years ended June 30, 2015, and 2014, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

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

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the office as of June 30, 2015, and June 30, 2014, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedule of Changes in Fund Equity & Property Held in Trust for the fiscal year ended June 30, 2015, the Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2014, and the Schedules of Total Revenues & Transfers-In and the Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Office of the Commissioner of Higher Education for each of the fiscal years ended June 30, 2015, and 2014, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2015, on our consideration of the Office of the Commissioner of Higher Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control over financial reporting and compliance.

Respectfully submitted,

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 18, 2015

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2014							
PROPERTY HELD IN TRUST: July 1, 2014	<u>\$ (666,382)</u>	<u>\$ 4,275,244</u>	<u>\$ 17,087,471</u>	<u>\$ 54,378,534</u>	<u>\$ 8,218</u>	<u>\$ 0</u>	<u>\$ 239,342,388</u>
ADDITIONS							
Budgeted Revenues & Transfers-In	1,227,587	1,197,779	41,404,123	100,238,587	492,870		
Nonbudgeted Revenues & Transfers-In		70,131	3,244	43,395	5,220	6,359	22,821,909
Prior Year Revenues & Transfers-In Adjustments	(2,671)	(12,764)	988	3,747		(6,359)	
Direct Entries to Fund Equity	220,927,578	21,267,218		(390,338)	(217,138)		
Total Additions	<u>222,152,494</u>	<u>22,522,364</u>	<u>41,408,355</u>	<u>99,895,391</u>	<u>280,952</u>	<u>0</u>	<u>22,821,909</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	221,808,540	22,395,284	42,734,075	109,388,443	479,491		
Nonbudgeted Expenditures & Transfers-Out	(44,588)	549,607		1,453	(474)		26,252,169
Prior Year Expenditures & Transfers-Out Adjustments	(38,151)			629,614	(4,480)		
Total Reductions	<u>221,725,801</u>	<u>22,944,891</u>	<u>42,734,075</u>	<u>110,019,510</u>	<u>474,537</u>	<u>0</u>	<u>26,252,169</u>
FUND EQUITY: June 30, 2015	<u>\$ (239,682)</u>	<u>\$ 3,852,717</u>	<u>\$ 15,761,749</u>	<u>\$ 44,254,416</u>	<u>\$ (185,367)</u>	<u>\$ 0</u>	<u>\$ 235,912,128</u>
PROPERTY HELD IN TRUST: June 30, 2015							

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-9.

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2013	\$ (72,993)	\$ 3,021,589	\$ 17,258,682	\$ 52,758,793	\$ 18,976	\$ 227,592,333
ADDITIONS						
Budgeted Revenues & Transfers-In	1,244,717	1,811,553	51,402,205	92,240,679	466,069	
Nonbudgeted Revenues & Transfers-In	19	548,309	6,429	278,113	82,078	39,075,324
Prior Year Revenues & Transfers-In Adjustments	10,402		42	42,724	15	
Direct Entries to Fund Equity	207,385,829	21,313,847				
Total Additions	<u>208,640,967</u>	<u>23,673,709</u>	<u>51,408,676</u>	<u>92,561,516</u>	<u>548,162</u>	<u>39,075,324</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	209,279,865	22,037,120	50,332,813	90,646,905	502,590	
Nonbudgeted Expenditures & Transfers-Out	(44,588)	368,853	82,065	48,856	56,330	27,325,269
Prior Year Expenditures & Transfers-Out Adjustments	(921)	14,081	1,165,009	246,014		
Total Reductions	<u>209,234,356</u>	<u>22,420,054</u>	<u>51,579,887</u>	<u>90,941,775</u>	<u>558,920</u>	<u>27,325,269</u>
FUND EQUITY: June 30, 2014	\$ (666,382)	\$ 4,275,244	\$ 17,087,471	\$ 54,378,534	\$ 8,218	\$ 239,342,388

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-9.

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Total
Taxes	\$ 1,216,556	\$ (22,885)	\$ 2,927					\$ 1,196,598
Charges for Services	4,458	778,536	30,130,727					30,913,721
Investment Earnings	3,902	4,710	19,093	\$ 617,210			\$ (8,353,165)	(7,708,250)
Contributions and Premiums				99,048,264			31,175,074	130,223,338
Grants, Contracts, and Donations		80,000		9,205	\$ 5,220			94,425
Transfers-in		227,285						227,285
Federal Indirect Cost Recoveries		187,500		611,050	492,870			492,870
Miscellaneous								798,550
Federal			11,255,608					11,255,608
Total Revenues & Transfers-In	1,224,916	1,255,146	41,408,355	100,285,729	498,090	0	22,821,909	167,494,145
Less: Nonbudgeted Revenues & Transfers-In		70,131	3,244	43,395	5,220	\$ 6,359	22,821,909	22,950,258
Prior Year Revenues & Transfers-In Adjustments	(2,671)	(12,764)	988	3,747		(6,359)		(17,059)
Actual Budgeted Revenues & Transfers-In	1,227,587	1,197,779	41,404,123	100,238,587	492,870	0	0	144,560,946
Estimated Revenues & Transfers-In	1,240,016	1,232,200	43,600,495	100,363,058	577,000	0	0	147,012,769
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (12,429)	\$ (34,421)	\$ (2,196,372)	\$ (124,471)	\$ (84,130)	\$ 0	\$ 0	\$ (2,451,823)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Taxes	\$ (5,776)							\$ (5,776)
Charges for Services		\$ (30,464)	\$ (1,909,534)					(1,939,998)
Investment Earnings	(2,195)	(1,242)	(33,163)	(42,979)				(79,579)
Contributions and Premiums				(75,984)				(75,984)
Transfers-in	(4,458)	(2,715)						(7,173)
Federal Indirect Cost Recoveries							\$ (84,130)	(84,130)
Miscellaneous				(5,508)				(5,508)
Federal			(253,675)					(253,675)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (12,429)	\$ (34,421)	\$ (2,196,372)	\$ (124,471)	\$ (84,130)	\$ 0	\$ 0	\$ (2,451,823)

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-9.

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Taxes	\$ 1,251,607	\$ 2,281	\$ 6,365	\$	28	\$	\$ 1,260,281
Charges for Services	19	633,637	40,339,524				40,973,180
Investment Earnings	3,512	4,372	21,561	732,418		(1,197,316)	(435,452)
Monetary Settlements				51,869			51,869
Contributions and Premiums				91,108,024		40,272,640	131,380,664
Grants, Contracts, and Donations		545,600					545,600
Transfers-in		1,173,972			82,065		1,256,037
Federal Indirect Cost Recoveries					466,069		466,069
Miscellaneous				635,282			635,282
Federal			11,041,226	33,922			11,075,148
Total Revenues & Transfers-In	1,255,138	2,359,862	51,408,676	92,561,516	548,162	39,075,324	187,208,678
Less: Nonbudgeted Revenues & Transfers-In	19	548,309	6,429	278,113	82,078	39,075,324	39,990,272
Prior Year Revenues & Transfers-In Adjustments	10,402		42	42,724	15		53,183
Actual Budgeted Revenues & Transfers-In	1,244,717	1,811,553	51,402,205	92,240,679	466,069	0	147,165,223
Estimated Revenues & Transfers-In	1,248,491	1,986,700	58,052,697	94,862,258	466,500		156,596,646
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$(3,774)</u>	<u>\$(155,147)</u>	<u>\$(6,650,492)</u>	<u>\$(2,621,579)</u>	<u>\$(431)</u>	<u>\$ 0</u>	<u>\$(9,431,423)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Taxes	\$ (10,797)					\$	(10,797)
Charges for Services		\$(100,363)	\$(5,200,557)				\$(5,300,920)
Investment Earnings	7,023	(1,756)	(253,352)	(134,694)			(382,779)
Monetary Settlements				(42,860)			(42,860)
Contributions and Premiums				(1,898,671)			(1,898,671)
Transfers-in		(53,028)	(12,400)				(65,428)
Federal Indirect Cost Recoveries			(421,250)		(431)		(421,681)
Miscellaneous				(545,276)			(545,276)
Federal			(762,933)	(78)			(763,011)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$(3,774)</u>	<u>\$(155,147)</u>	<u>\$(6,650,492)</u>	<u>\$(2,621,579)</u>	<u>\$(431)</u>	<u>\$ 0</u>	<u>\$(9,431,423)</u>

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-9.

Office of the Commissioner of Higher Education
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2015

1. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

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

Reporting Entity

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

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment, except that amounts are rounded to the nearest dollar and; therefore, may not total due to rounding.

The office uses the following funds:

Governmental Fund Category

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

Proprietary Fund Category

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

Fiduciary Fund Category

Private-Purpose Trust Fund – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. This fund accounts for the Montana Family Education Savings Program.

2. General Fund Equity

The negative fund equity in the General Fund for the fiscal years ended June 30, 2014 and June 30, 2015, does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office's outstanding liabilities placed in the fund exceed the assets it had placed in the fund, resulting in the negative ending General Fund equity.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and Special Revenue funds include entries generated by the state's accounting system to reflect the flow of resources within individual funds shared by separate agencies. The office distributes General Fund and State Special Revenue Fund monies to the units of the university system, the community colleges, and the tribal colleges. These expenditures are shown as Intra-Entity Expense in the Appropriations Distribution Program, Local Assistance from State Sources in the Community College Assistance Program, and Grants from State Sources in the Tribal College Assistance Program on the Schedules of Total Expenditures & Transfers-Out. 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 equity to reflect the use of the same fund by separate agencies.

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

4. Related Party Transactions

The Montana Board of Regents, which governs Montana Guaranteed Student Loan Program (GSL), guarantees loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a nonprofit corporation operating exclusively

for the purpose of acquiring student loans. MHESAC has no employees. Its business operations are managed by the Student Assistance Foundation. For the fiscal year ended June 30, 2014, approximately 74.2 percent, or \$1,047,918,090, of GSL's outstanding loan volume is held by MHESAC. For the fiscal year ended June 30, 2015, approximately 71.89 percent, or \$939,577,597, of GSL's outstanding loan volume is held by MHESAC.

Report on Internal Control and Compliance

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

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 & Property Held in Trust for the fiscal year ended June 30, 2015, the Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2014, and the Schedules of Total Revenues & Transfers-In and Schedules of Total Expenditures & Transfers-Out of the Office of the Commissioner of Higher Education for each of the fiscal years ended June 30, 2015, and 2014, and the related notes to the financial schedules, and have issued our report thereon dated November 18, 2015.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office of the Commissioner of Higher Education's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. 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 of the Commissioner of Higher Education'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 of the Commissioner of Higher Education's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 18, 2015

OFFICE OF THE
COMMISSIONER OF
HIGHER EDUCATION

OFFICE RESPONSE



MONTANA UNIVERSITY SYSTEM
OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION

2500 Broadway - PO Box 203201 - Helena, Montana 59620-3201
(406) 444-6570 - FAX (406) 444-1469

December 18, 2015

Tori Hunthausen, CPA
Legislative Auditor
State Capitol Building, Room 160
PO Box 201705
Helena, MT 59620-1705

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LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

We are pleased that an unmodified opinion on the financial schedules has been issued for both fiscal years ended June 30, 2015, and 2014, which is the best opinion that an agency may receive. We concur with all three recommendations and will implement additional procedures necessary to be in compliance with the state laws referenced in the report.

We appreciate the efforts of your staff and the professionalism demonstrated while conducting the audit.

Sincerely,

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

Clayton Christian
Commissioner of Higher Education