



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Commissioner of Higher
Education*

*For the Two Fiscal Years Ended
June 30, 2017*

NOVEMBER 2017

LEGISLATIVE AUDIT
DIVISION

17-20

FINANCIAL-COMPLIANCE AUDITS

LEGISLATIVE AUDIT COMMITTEE

REPRESENTATIVES

KIM ABBOTT

Rep.Kim.Abbott@mt.gov

DAN BARTEL

Danbartel2@gmail.com

RANDY BRODEHL

Randybrodehl57@gmail.com

TOM BURNETT, VICE CHAIR

Burnett.tom@gmail.com

VIRGINIA COURT

virginacourt@yahoo.com

DENISE HAYMAN

Rep.Denise.Hayman@mt.gov

SENATORS

DEE BROWN

senatordee@yahoo.com

TERRY GAUTHIER

Mrmac570@me.com

BOB KEENAN

Sen.Bob.Keenan@mt.gov

MARGARET MACDONALD

Sen.Margie.MacDonald@mt.gov

MARY McNALLY, CHAIR

McNally4MTLeg@gmail.com

GENE VUCKOVICH

Sen.Gene.Vuckovich@mt.gov

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

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018.

AUDIT STAFF

JEANE CARSTENSEN-GARRETT MARY CURRIN
KATIE MAJERUS

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

November 2017

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 (office) for the two fiscal years ended June 30, 2017.

This audit did not result in any audit recommendations. The office implemented the three prior audit recommendations related to expending funds using valid appropriations, prior year expenditures, and an inconsistent accounting requirement in statute. We issued an unmodified opinion on the financial schedules for each of the two fiscal years ended June 30, 2017, and 2016.

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

The office's written response to the audit 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,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

		<u>Term Expires</u>
Board of Regents of Higher Education	Fran M. Albrecht, Chair	February 1, 2019
	Robert A. Nystuen, Vice Chair	February 1, 2022
	William Johnstone	February 1, 2024
	Casey Lozar	February 1, 2018
	Martha Sheehy	February 1, 2021
	Paul Tuss	February 1, 2020
	Chase Greenfield, Student Regent	June 30, 2018
	Clayton Christian, Commissioner of Higher Education*	
	Steve Bullock, Governor*	
	Elsie Arntzen, Superintendent of Public Instruction*	
*Ex officio members		

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

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

Frieda Houser, Director of Fiscal Affairs
2500 E. Broadway Street
P.O. Box 203201
Helena, MT 59620-3201
(406) 444-0320
e-mail: fhouser@montana.edu



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Office of the Commissioner of Higher Education

For the Two Fiscal Years Ended June 30, 2017

NOVEMBER 2017

17-20

REPORT SUMMARY

The Office of the Commissioner of Higher Education is the central administrative unit of the Montana University System and the Board of Regents. For fiscal years 2017 and 2016, the office managed annual budgets of over \$450 million. Over half of the annual budget is distributed to the universities, community colleges, and tribal colleges.

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 board consists of seven appointed and confirmed members and three ex-officio members. The Constitution directs the board in 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).

The MUS provides post-secondary education to over 44,000 students (resident and nonresident) at universities and colleges throughout Montana. Additionally, the state supports non-tribal Montana resident students attending the seven tribal colleges.

In addition to distributions for the support of the MUS, the office also administers the Montana Guaranteed Student Loan Program (MGSLP), MUS Group Insurance Program, MUS Workers' Compensation Program, and the Montana Family Education Savings Program.

As of October 1, 2017, the loan servicing portion of the MGSLP was transferred to a federally-approved national education loan servicing provider, as approved by the board in May 2017. The MGSLP will continue to offer other student financial aid-related activities.

Results

We focused our audit effort on appropriation distributions to university units and transactions related to insurance premiums paid by employees of the universities for health-care coverage. We also reviewed claims payments and balances related to the College Savings Plan and the MGSLP. The office implemented the three prior audit recommendations related to appropriations, prior year expenditures, and an inconsistent accounting requirement in statute.

This report does not include any recommendations to the office. We issued an unmodified opinion on the financial schedules for each of the two fiscal years ended June 30, 2017, and 2016.

For a complete copy of the report (17-20) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

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Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Office of the Commissioner of Higher Education (office) for the two fiscal years ended June 30, 2017. The objectives of our audit were to:

1. Obtain an understanding of the office’s internal control systems to the extent necessary to support our audit of the office’s financial schedules and, if appropriate, make recommendations for improvement in management and internal controls.
2. Determine whether the office complied with selected state laws and regulations.
3. Determine whether the office’s financial schedules present fairly the results of its operations and changes in fund equity and property held in trust for each of the two fiscal years ended June 30, 2017.
4. Determine implementation of the three prior audit recommendations.

We focused our audit effort on determining whether appropriated funds were distributed to the universities in accordance with legislative appropriations, 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 related control systems. We also followed up on reported hotline calls for the office questioning scholarship eligibility, use of grant funds, transfers to universities, and awarding of research funding. We were unable to substantiate these allegations base on available evidence.

Our office performed a financial audit of the Montana Guaranteed Student Loan Program (MGSLP) for each of the fiscal years ended June 30, 2017, and 2016. The results of this audit can be found in a separate report (17-06) anticipated to be released in December 2017. The MGSLP is a program of the office.

Background

The Montana University System is comprised of the University of Montana, which has four primary campuses along with three embedded two-year colleges, and Montana State University, which has four primary campuses and two embedded two-year colleges. It also includes three community colleges. 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 (board). This authority includes supervising, coordinating, managing, and controlling the MUS,

and supervising and coordinating other public educational institutions assigned by law.

Per §2-15-1505, MCA, the board consists of seven members appointed by the Governor and confirmed by the Senate. One of the members is a registered full-time MUS student appointed by the Governor and serves a one-year term. The other board members serve seven year, overlapping terms. The Governor, Superintendent of Public Instruction, and the Commissioner of Higher Education are ex officio nonvoting members.

Article X, Section 9 of the Montana Constitution gives the board the authority to appoint and prescribe the duties of the Commissioner of Higher Education. The office is the central administrative unit of the MUS and the board. The office is responsible for providing quality and timely services to the board, government entities, including the Executive and Legislative branches, the public, media, students, staff, and others in the educational community when they request information or assistance. The office administers and distributes state funds appropriated by the legislature for the support of the MUS.

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

Administration Program (25.28 FTE) provides general administration for all office duties including academic, student assistance, financial, human resources, legal, and labor relations.

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

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

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

Educational Outreach & Diversity (19.90 FTE) includes programs intended to decrease the dropout rate of low-income and at-risk students at the secondary

school level and increase enrollment in the postsecondary education level. The programs that provide these services are the Gaining Early Awareness & Readiness for Undergraduate Programs, Educational Talent Search, and the American Indian/Minority Achievement.

Montana Guaranteed Student Loan Program (41.02 FTE) maintains records on student borrowers, collects loan payments, and performs other duties related to the Federal Family Education Loan Program. The program also administers the Governor's Scholarship Program and the Montana Family Education Savings Program.

As of October 1, 2017, the loan servicing portion of the MGSLP was transferred to a federally-approved national education loan servicing provider, as approved by the board in May 2017. This is discussed in Note 6 to the financial schedules. The MGSLP will continue to offer other student financial aid-related activities. As of June 30, 2017, there were 16.52 vacant FTE.

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

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

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

Student Assistance Program (1.50 FTE) consists of grants, loans, loan repayment programs, professional student exchange programs, and work-study programs including state matching dollars for the federal Supplemental Education Opportunity Grant, the Perkins Federal Loan Program, the Western Montana Commission on Higher Education Professional Student Exchange Program, the Washington, Wyoming, Alaska, Montana and Idaho Cooperative Medical Education Program, the Minnesota Dental Program, the Montana Rural Physician Incentive Program, the Montana Institutional Nursing Incentive Program, and the Washington, Idaho, Montana, Utah Regional Program in Veterinary Medicine.

Tribal College Assistance Program accounts for the distribution of the state's assistance to the seven Montana tribal colleges for attendance of non-tribal Montana resident students.

Work Force Development Program (4.45 FTE) supports vocational education at the secondary and postsecondary education levels. The office administers federal Vocational Education grants. The 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. The internal service fund is used to record indirect costs. We found the office met the 60-day working capital limit allowed by federal regulations and state accounting policy in fiscal years 2017 and 2016. 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.

Prior Audit Recommendations

The office implemented the three prior audit recommendations related to expending funds using valid appropriations, prior year expenditures, and an inconsistent accounting requirement in statute.

Independent Auditor's Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2017, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2016, of the Office of the Commissioner of Higher Education, and the related notes to the financial schedules for the two fiscal years ended June 30, 2017.

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, 2017, and 2016, or changes in financial position or cash flows for the years then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2017, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2016, 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, 2017, and 2016, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter—Change in Loan Servicing

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017, on our consideration of the Office of the Commissioner of Higher Education internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 27, 2017

COMMISSIONER OF HIGHER EDUCATION
 SCHEDULE OF CHANGES IN FUND EQUITY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2016	\$ 1,133,797	\$ 4,166,297	\$ 14,423,886	\$ 40,374,642	\$ (171,705)	\$ 215,544,984
ADDITIONS						
Budgeted Revenues & Transfers-In	1,295,986	1,847,712	40,312,581	120,863,909	440,955	
Nonbudgeted Revenues & Transfers-In	12	415,613	1,974	(421,147)	5,600	28,114,385
Prior Year Revenues & Transfers-In Adjustments	8,263	(371,914)	1,100			
Direct Entries to Fund Equity	230,590,694	20,387,193	7,644			
Total Additions	231,894,955	22,278,604	40,323,299	120,442,762	446,555	28,114,385
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	233,325,740	21,806,956	41,533,272	101,146,667	454,622	
Nonbudgeted Expenditures & Transfers-Out	(41,538)	338,234	2,939	85,256	19,741	26,373,546
Prior Year Expenditures & Transfers-Out Adjustments	(9,000)					
Total Reductions	233,275,202	22,145,190	41,536,211	101,231,923	474,363	26,373,546
FUND EQUITY: June 30, 2017	\$ (246,450)	\$ 4,299,711	\$ 13,210,974	\$ 59,585,481	\$ (199,513)	\$ 217,285,823

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-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	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, 2015	\$ (239,682)	\$ 3,852,717	\$ 15,761,749	\$ 44,254,416	\$ (185,367)	\$ 0	\$ 235,912,128
PROPERTY HELD IN TRUST: July 1, 2015						0	
ADDITIONS							
Budgeted Revenues & Transfers-In	1,289,236	2,502,957	39,533,443	105,441,524	483,628		
Nonbudgeted Revenues & Transfers-In	18,135	628,808	17,295	136,412	5,753		14,920,425
Prior Year Revenues & Transfers-In Adjustments	(1,380)	(10,698)	2,784				
Direct Entries to Fund Equity	242,389,112	20,354,431	(3,820)				
Additions to Property Held in Trust						6,000	
Total Additions	<u>243,695,103</u>	<u>23,475,498</u>	<u>39,549,702</u>	<u>105,577,936</u>	<u>489,381</u>	<u>6,000</u>	<u>14,920,425</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	242,364,760	22,858,102	40,764,966	109,417,579	473,947		
Nonbudgeted Expenditures & Transfers-Out	(42,554)	303,816	1,714	25,891	1,772		35,287,569
Prior Year Expenditures & Transfers-Out Adjustments	(582)		120,885	14,240			
Reductions in Property Held in Trust						6,000	
Total Reductions	<u>242,321,624</u>	<u>23,161,918</u>	<u>40,887,565</u>	<u>109,457,710</u>	<u>475,719</u>	<u>6,000</u>	<u>35,287,569</u>
FUND EQUITY: June 30, 2016	\$ 1,133,797	\$ 4,166,297	\$ 14,423,886	\$ 40,374,642	\$ (171,705)	\$ 0	\$ 215,544,984
PROPERTY HELD IN TRUST: June 30, 2016						0	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	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	\$ 1,295,791	\$ (13,004)	\$ 2,212				\$ 1,284,999
Charges for Services	12	1,075,083	30,564,489				31,639,584
Investment Earnings	8,458	35,857	100,739	\$ 552,698		\$ 12,885,991	13,583,743
Monetary Settlements				235,870			235,870
Contributions and Premiums				118,893,320			134,111,714
Grants, Contracts, and Donations		414,501		12,265	\$ 5,600		432,366
Transfers-in		227,474	127,878	36,007			391,359
Federal Indirect Cost Recoveries					440,955		440,955
Miscellaneous		151,500		722,602			874,102
Federal							9,520,337
Total Revenues & Transfers-In	1,304,261	1,891,411	9,520,337	120,442,762	446,555	28,114,385	192,515,029
Less: Nonbudgeted Revenues & Transfers-In	12	415,613	1,974	(421,147)	5,600	28,114,385	28,116,437
Less: Prior Year Revenues & Transfers-In Adjustments	8,263	(371,914)	1,100				(362,551)
Actual Budgeted Revenues & Transfers-In	1,295,986	1,847,772	40,312,581	120,863,909	440,955	0	164,761,143
Estimated Revenues & Transfers-In	1,295,987	1,864,910	53,618,326	127,232,856	452,000		184,464,079
Budgeted Revenues & Transfers-In Over (Under) Estimated	(1)	(17,138)	(13,305,745)	(6,368,947)	(11,045)	0	(19,702,936)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Taxes	\$ (1)	\$ (1,427)	\$ (9,562,177)				\$ (1)
Charges for Services		(56)	(183,611)				(9,563,604)
Investment Earnings				(104,081)			(287,748)
Monetary Settlements				(16,130)			(16,130)
Contributions and Premiums				(5,659,780)			(5,659,780)
Transfers-in		(2,715)	(562,400)				(565,115)
Federal Indirect Cost Recoveries		(13,000)	(417,000)		(11,045)		(428,045)
Miscellaneous				(588,956)			(601,956)
Federal							(2,580,557)
Budgeted Revenues & Transfers-In Over (Under) Estimated	(1)	(17,198)	(13,305,745)	(6,368,947)	(11,045)	0	(19,702,936)

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, 2016

	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	\$ 1,281,253	\$ (1,739)	\$ 2,431				\$ 1,281,945
Charges for Services		1,007,581	28,132,569				29,140,150
Investment Earnings	6,603	16,227	57,813	\$ 740,807		\$ 607,794	1,429,244
Contributions and Premiums				104,481,289		14,312,631	118,793,920
Grants, Contracts, and Donations		619,000	10,000	11,695	\$ 5,753		636,448
Transfers-in	15,248	1,280,098	14,688				1,290,098
Inception of Lease/Installation Contract							29,936
Federal Indirect Cost Recoveries		199,900		344,145	483,628		483,628
Miscellaneous	2,887						546,932
Federal			11,336,021				11,336,021
Total Revenues & Transfers-In	1,305,991	3,121,067	39,553,522	105,577,936	489,381	14,920,425	164,988,322
Less: Nonbudgeted Revenues & Transfers-In	18,135	628,808	17,295	136,412	5,753	14,920,425	15,726,828
Prior Year Revenues & Transfers-In Adjustments	(1,380)	(10,699)	2,784				(9,294)
Actual Budgeted Revenues & Transfers-In	1,289,236	2,502,957	39,533,443	105,441,524	483,628	0	149,250,788
Estimated Revenues & Transfers-In	1,289,246	2,522,413	44,802,731	106,726,658	487,000		155,828,048
Budgeted Revenues & Transfers-In Over (Under) Estimated	(10)	(19,456)	(5,269,288)	(1,285,134)	(3,372)	0	(6,577,260)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Taxes	\$ (10)	\$ (16,419)	\$ (2,375,569)	\$ (53,910)	\$ (10)	\$ (2,391,988)	
Charges for Services		(322)	(126,397)	(22,000)		(180,629)	
Investment Earnings				(661,811)			
Monetary Settlements							
Contributions and Premiums		(2,715)	(562,400)				
Transfers-in			(417,000)		\$ (3,372)		
Federal Indirect Cost Recoveries				(547,413)			
Miscellaneous							
Federal			(1,787,922)				(1,787,922)
Budgeted Revenues & Transfers-In Over (Under) Estimated	(10)	(19,456)	(5,269,288)	(1,285,134)	(3,372)	0	(6,577,260)

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, 2017

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration Program	Agency Funds	Appropriation Distribution	Board of Regents-Administration	Community College Assistance	Educational Outreach & Diversity	Guaranteed Student Loan Program	Improving Teacher Quality	MUS Group Insurance Program	MUS Workers Compensation Program	Student Assistance Program	Tribal College Assistance Program	Work Force Development Program	Total
Personal Services														
Salaries	\$ 2,183,277					\$ 734,711	\$ 1,078,802	\$ 282	\$ 535,104	\$ 73,865	\$ 56,685		\$ 265,501	\$ 4,928,227
Other Compensation				\$ 5,425										5,425
Employee Benefits	635,063					327,217	506,816	113	142,086	24,447	18,340		97,459	1,751,541
Personal Services-Other	5,498								19,047	65				24,610
Total	2,823,838			5,425		1,061,928	1,585,618	395	696,237	98,377	75,025		362,960	6,709,803
Operating Expenses														
Other Services	285,598			22,336		217,348	1,092,111		8,026,536	627,250	945,322		10,801	11,227,302
Supplies & Materials	49,645			1,425		150,349	161,350		75,076	1,072	10		4,019	442,946
Communications	38,672			1,402		18,271	68,258		68,086	252	79		4,020	199,040
Travel	96,355			24,897		185,009	6,596		65,259	325	2,124		18,273	398,838
Rent	176,422			130		55,374	42,906		56,024	6,462			27,285	364,603
Utilities							20,863							20,863
Repair & Maintenance	5,774					191	667							6,632
Other Expenses	96,187			3,409		1,522,421	867,027	15	682,868	314,743	819,628		19,632	4,325,930
Total	748,653			53,599		2,148,963	2,259,778	15	8,973,849	950,104	1,767,163		84,030	16,986,154
Local Assistance														
From State Sources					\$ 13,215,226						145,000			13,360,226
Total					13,215,226						145,000			13,360,226
Grants														
From State Sources	47,990										10,791,699	\$ 788,315		11,628,004
From Federal Sources						1,713,958		217,999					1,868,112	3,800,069
From Other Sources											546,844			546,844
Total	47,990					1,713,958		217,999			11,338,543	788,315	1,868,112	15,974,917
Benefits & Claims														
To Individuals										1,984,932				1,984,932
Insurance Payments							26,667,454		88,416,811					115,084,265
Total							26,667,454		88,416,811	1,984,932				117,069,197
From Other Sources														
Distrib from Priv Purp Trusts											25,532,618			25,532,618
Total											25,532,618			25,532,618
Transfers-out														
Fund transfers			\$ 519,366			842,950	117,878		36,007		358,000		2,765,868	4,640,069
Intra-Entity Expense	(29,762)	\$ 29,279,326	195,397,048											224,646,612
Total	(29,762)	29,279,326	195,916,414			842,950	117,878		36,007		358,000		2,765,868	229,286,681
Debt Service														
Capital Leases	3,050						2,938							5,988
Total	3,050						2,938							5,988
Post Employment Benefits														
Other Post Employment Benefits	7,697								13,533	1,736				22,966
Employer Pension Expense	27,548								60,337					87,885
Total	35,245								73,870	1,736				110,851
Total Expenditures & Transfers-Out	\$ 3,629,014	\$ 29,279,326	\$ 195,916,414	\$ 59,024	\$ 13,215,226	\$ 5,767,799	\$ 30,633,666	\$ 218,409	\$ 98,196,774	\$ 3,035,149	\$ 39,216,349	\$ 788,315	\$ 5,080,970	\$ 425,036,435
EXPENDITURES & TRANSFERS-OUT BY FUND														
General Fund	\$ 2,801,473	\$ 28,223,311	\$ 176,593,530	\$ 59,024	\$ 13,215,226	\$ 135,219					\$ 11,369,037	\$ 788,315	\$ 90,067	\$ 233,275,202
State Special Revenue Fund	302,525	1,056,015	19,312,884								1,473,766			22,145,190
Federal Special Revenue Fund	50,653		10,000			5,632,580	\$ 30,633,666	\$ 218,409					4,990,903	41,536,211
Enterprise Fund									\$ 98,196,774	\$ 3,035,149				101,231,923
Internal Service Fund	474,363													474,363
Private Purpose Trust Fund											26,373,546			26,373,546
Total Expenditures & Transfers-Out	3,629,014	29,279,326	195,916,414	59,024	13,215,226	5,767,799	30,633,666	218,409	98,196,774	3,035,149	39,216,349	788,315	5,080,970	425,036,435
Less: Nonbudgeted Expenditures & Transfers-Out	4,438						2,938		84,034	1,222	26,685,546			26,778,178
Prior Year Expenditures & Transfers-Out Adjustments											(9,000)			(9,000)
Actual Budgeted Expenditures & Transfers-Out	3,624,576	29,279,326	195,916,414	59,024	13,215,226	5,767,799	30,630,728	218,409	98,112,740	3,033,927	12,539,803	788,315	5,080,970	398,267,257
Budget Authority	4,660,975	29,438,279	196,861,485	86,427	13,245,768	7,245,041	80,014,486	799,048	119,780,081	4,290,253	13,504,534	1,003,463	6,189,410	477,119,250
Unspent Budget Authority	\$ 1,036,399	\$ 158,953	\$ 945,071	\$ 27,403	\$ 30,542	\$ 1,477,242	\$ 49,383,758	\$ 580,639	\$ 21,667,341	\$ 1,256,326	\$ 964,731	\$ 215,148	\$ 1,108,440	\$ 78,851,993
UNSPENT BUDGET AUTHORITY BY FUND														
General Fund	\$ 730,232			\$ 27,403	\$ 30,542	\$ 18,810					\$ 38,349	\$ 215,148		\$ 1,060,484
State Special Revenue Fund	134,030	\$ 158,953	\$ 945,071								926,382			2,164,436
Federal Special Revenue Fund	17,721					1,458,432	\$ 49,383,758	\$ 580,639					\$ 1,108,440	52,548,990
Enterprise Fund									\$ 21,667,341	\$ 1,256,326				22,923,667
Internal Service Fund	154,416													154,416
Unspent Budget Authority	\$ 1,036,399	\$ 158,953	\$ 945,071	\$ 27,403	\$ 30,542	\$ 1,477,242	\$ 49,383,758	\$ 580,639	\$ 21,667,341	\$ 1,256,326	\$ 964,731	\$ 215,148	\$ 1,108,440	\$ 78,851,993

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, 2016

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration Program	Agency Funds	Appropriation Distribution	Board of Regents-Administration	Community College Assistance	Educational Outreach & Diversity	Guaranteed Student Loan Program	Improving Teacher Quality	MUS Group Insurance Program	MUS Workers Compensation Program	Student Assistance Program	Tribal College Assistance Program	Work Force Development Program	Total
Personal Services														
Salaries	\$ 2,198,654					\$ 768,195	\$ 1,165,699	\$ 4,515	\$ 455,988	\$ 73,348	\$ 76,735		\$ 270,003	\$ 5,013,137
Other Compensation				\$ 2,750										2,750
Employee Benefits	577,346					318,037	512,923	1,563	110,406	22,610	17,332		90,082	1,650,299
Personal Services-Other	302								21,976	1,080				23,358
Total	<u>2,776,302</u>			<u>2,750</u>		<u>1,086,232</u>	<u>1,678,622</u>	<u>6,078</u>	<u>588,370</u>	<u>97,038</u>	<u>94,067</u>		<u>360,085</u>	<u>6,689,544</u>
Operating Expenses														
Other Services	615,838			22,165		314,422	1,138,437		9,614,640	627,843	1,050,974		21,008	13,405,327
Supplies & Materials	62,558			548		148,486	13,449		85,208	1,903	15,674		5,410	333,236
Communications	43,344			942		16,446	90,380	26	20,369	549	185		6,892	179,133
Travel	98,785			22,701		210,538	11,071	138	52,252	617	11,762		27,142	435,006
Rent	202,779					50,168	49,225		57,203	7,122			30,094	396,591
Utilities							21,269							21,269
Repair & Maintenance	9,398					10	2,163							11,571
Other Expenses	173,732			5,283		1,514,134	811,449	769	734,858	314,890	286,361		17,939	3,859,415
Total	<u>1,206,434</u>			<u>51,639</u>		<u>2,254,204</u>	<u>2,137,443</u>	<u>933</u>	<u>10,564,530</u>	<u>952,924</u>	<u>1,364,956</u>		<u>108,485</u>	<u>18,641,548</u>
Equipment & Intangible Assets														
Equipment	15,248													29,936
Total	<u>15,248</u>													<u>29,936</u>
Local Assistance					\$ 13,200,670						141,000			13,341,670
From State Sources					13,200,670						141,000			13,341,670
Total					<u>13,200,670</u>						<u>141,000</u>			<u>13,341,670</u>
Grants														
From State Sources											10,206,421	\$ 786,380		10,992,801
From Federal Sources						2,204,819		366,156			832,032		1,723,053	5,126,060
From Other Sources											499,903			499,903
Total						<u>2,204,819</u>		<u>366,156</u>			<u>11,538,356</u>	<u>786,380</u>	<u>1,723,053</u>	<u>16,618,764</u>
Benefits & Claims														
To Individuals														1,378,496
Insurance Payments							24,361,683		95,832,256	1,378,496				120,193,939
Total							<u>24,361,683</u>		<u>95,832,256</u>	<u>1,378,496</u>				<u>121,572,435</u>
From Other Sources														
Distrib from Priv Purp Trusts											34,470,345			34,470,345
Total											<u>34,470,345</u>			<u>34,470,345</u>
Transfers-out														
Fund transfers			\$ 519,366			919,265								4,424,261
Intra-Entity Expense	14,920,395	\$ 28,661,349	192,151,967								30,836		2,954,794	235,733,711
Total	<u>14,920,395</u>	<u>28,661,349</u>	<u>192,671,333</u>			<u>919,265</u>					<u>30,836</u>		<u>2,954,794</u>	<u>240,157,972</u>
Debt Service														
Capital Leases	2,033													3,747
Total	<u>2,033</u>													<u>3,747</u>
Post Employment Benefits														
Other Post Employment Benefits	7,133								12,073	1,703				20,909
Employer Pension Expense	14,915								30,320					45,235
Total	<u>22,048</u>								<u>42,393</u>	<u>1,703</u>				<u>66,144</u>
Total Expenditures & Transfers-Out	\$ 18,942,460	\$ 28,661,349	\$ 192,671,333	\$ 54,389	\$ 13,200,670	\$ 6,464,520	\$ 28,194,150	\$ 373,167	\$ 107,027,549	\$ 2,430,161	\$ 47,639,560	\$ 786,380	\$ 5,146,417	\$ 451,592,105
EXPENDITURES & TRANSFERS-OUT BY FUND														
General Fund	\$ 18,023,152	\$ 27,515,218	\$ 172,443,703	\$ 54,389	\$ 13,200,670	\$ 105,704					\$ 10,102,341	\$ 786,380	\$ 90,067	\$ 242,321,624
State Special Revenue Fund	442,990	1,146,131	20,217,630			624					1,354,543			23,161,918
Federal Special Revenue Fund	599		10,000			6,358,192	\$ 28,194,150	\$ 373,167			895,107		5,056,350	40,887,565
Enterprise Fund									\$ 107,027,549	\$ 2,430,161				109,457,710
Internal Service Fund	475,719													475,719
Private Purpose Trust Fund											35,287,569			35,287,569
Total Expenditures & Transfers-Out	18,942,460	28,661,349	192,671,333	54,389	13,200,670	6,464,520	28,194,150	373,167	107,027,549	2,430,161	47,639,560	786,380	5,146,417	451,592,105
Less: Nonbudgeted Expenditures & Transfers-Out	(8,090)					624	1,714		23,516	2,375	476,395,560			35,578,205
Prior Year Expenditures & Transfers-Out Adjustments						(16,550)		137,435	(3,148)	17,388	(582)			134,537
Actual Budgeted Expenditures & Transfers-Out	18,950,550	28,661,349	192,671,333	54,389	13,200,670	6,480,446	28,192,436	235,732	107,007,181	2,410,398	12,082,074	786,380	5,146,417	415,879,353
Budget Authority	19,510,110	28,724,778	192,946,983	70,408	13,200,670	8,691,964	53,772,477	517,390	113,434,182	4,290,502	12,528,704	1,003,463	5,649,898	454,341,529
Unspent Budget Authority	\$ 559,560	\$ 63,429	\$ 275,650	\$ 16,019	\$ 0	\$ 2,211,518	\$ 25,580,041	\$ 281,658	\$ 6,427,001	\$ 1,880,104	\$ 446,630	\$ 217,083	\$ 503,481	\$ 38,462,174
UNSPENT BUDGET AUTHORITY BY FUND														
General Fund	\$ 347,415	\$ (6,171)	\$ 275,650	\$ 16,019	\$ 0	\$ 487					\$ 240,137	\$ 217,083		\$ 1,090,620
State Special Revenue Fund	76,297	69,600									206,493			352,390
Federal Special Revenue Fund	68,375					2,211,031	\$ 25,580,041	\$ 281,658					\$ 503,481	28,644,586
Enterprise Fund									\$ 6,427,001	\$ 1,880,104				8,307,105
Internal Service Fund	67,473													67,473
Unspent Budget Authority	\$ 559,560	\$ 63,429	\$ 275,650	\$ 16,019	\$ 0	\$ 2,211,518	\$ 25,580,041	\$ 281,658	\$ 6,427,001	\$ 1,880,104	\$ 446,630	\$ 217,083	\$ 503,481	\$ 38,462,174

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, 2017

1. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

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

Reporting Entity

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

Basis of Presentation

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

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

The office uses the following funds:

Governmental Fund Category

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

Proprietary Fund Category

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

Fiduciary Fund Category

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

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

2. General Fund Equity

The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office's total assets placed in the fund exceeded the outstanding liabilities, resulting in a positive ending General Fund equity balance for the fiscal year ended June 30, 2016. This balance reflects the results of the activity of the office and not the fund equity balance of the statewide General Fund.

The negative fund equity in the General Fund for the fiscal year ended June 30, 2017, 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 exceeded the assets it had placed in the fund, resulting in a negative ending General Fund equity balance for the fiscal year ended June 30, 2017.

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 on the Schedules of Total Expenditures & Transfers Out as Intra-Entity Expense in the Agency Funds Program and the Appropriations Distribution Program; as Local Assistance from State Sources Expense in the Community College Assistance Program, and Grants from State Sources in the Tribal College Assistance Program. However, the activity that collects the cash to make the distributions is the responsibility of another state agency, resulting in a direct entry to fund balance to reflect the use of the same fund by separate agencies.

Section 15-10-108, MCA, directs the legislature to levy property taxes to support, maintain, and improve the Montana University System. The state treasurer collects university property tax revenue and records it in a shared State Special Revenue Fund between the office and the Department of Revenue. These collections do not appear on the Schedule of Revenues & Transfers-In, but are the source of the distributions. As

a result, a direct entry to fund equity is reported on the Schedule of Fund Equity and Property Held in Trust to reflect this flow of resources.

4. Related Party Transactions

The Montana Board of Regents, which governs the GSL program, 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. MHESAC receives no funding from the state of Montana. One Montana Board of Regents member is also a MHESAC Board of Directors member, an OCHE staff member is a MHESAC officer, and the Commissioner of Higher Education is an Ex-Officio member of the board. For the fiscal year ended June 30, 2016, approximately 70.44%, or \$841,679,269, of GSL's outstanding loan volume is held by MHESAC. For the fiscal year ended June 30, 2017, approximately 68.36%, or \$745,509,155, of GSL's outstanding loan volume is held by MHESAC.

5. Use of Estimates

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

6. Subsequent Event

Effective October 1, 2017, the loan servicing portion of the GSL program will be transferred to a federally approved national education loan servicing provider. This transfer was approved by the Montana Board of Regents in May 2017. The GSL program will continue to exist in the office but at a much smaller level. The program will continue to offer other student financial aid-related activities for the benefit of Montana students as determined by the Montana Board of Regents.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2017, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Office of the Commissioner of Higher Education for the fiscal year ended June 30, 2016, and the related notes to the financial schedules, and have issued our report thereon dated October 27, 2017.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the office's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on 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

October 27, 2017

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

November 21, 2017

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

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LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

We have reviewed the audit report for the two fiscal years ended June 30, 2017. The office received a clean audit opinion on its financial schedules as presented in the required format of the Legislative Audit Committee. No recommendations were included in the report. We appreciate Legislative Audit's efforts with this audit.

Sincerely,

A handwritten signature in cursive script, appearing to read "Clayton Christian".

Clayton Christian
Commissioner of Higher Education