



A REPORT
TO THE
MONTANA
LEGISLATURE

COMPLIANCE AUDIT

Montana State University

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

OCTOBER 2017

LEGISLATIVE AUDIT
DIVISION

17-13

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COMPLIANCE AUDITS

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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.

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



Deputy Legislative Auditors
Cindy Jorgenson
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October 2017

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the compliance audit of Montana State University for the two fiscal years ended June 30, 2017. The compliance audit focuses on compliance with federal requirements of the university's Student Financial Assistance (SFA) federally-assisted programs. We also test compliance with selected state laws and state accounting policies.

This audit report includes three recommendations to the university related to the Museum of the Rockies and compliance with Board of Regents' policy.

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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	<u>Term Expires</u>
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Robert A. Nystuen, Vice Chair	February 1, 2022
William Johnstone	February 1, 2024
Casey Lozar	February 1, 2018
Martha Sheehy	February 1, 2021
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	Brian Simonson	Vice Chancellor for Finance and Administration
	William Rugg	Provost and Vice Chancellor for Academic Affairs
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	Chris Wendland	Controller
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	Darryl Stevens	Associate Dean of Administration and Finance
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MONTANA LEGISLATIVE AUDIT DIVISION

COMPLIANCE AUDIT

Montana State University

For the Two Fiscal Years Ended June 30, 2017

OCTOBER 2017

17-13

REPORT SUMMARY

We visited each of the four campuses that comprise Montana State University during our audit and followed up on the twelve prior audit recommendations at the appropriate campuses. MSU has implemented nine prior audit recommendations, two were partially implemented and one was not implemented. This report further discusses issues related to the Museum of the Rockies and the transferring of donations to the Foundation at Northern.

Context

The Montana State University (university) consists of campuses located in Bozeman (MSU–Bozeman), Billings (MSU–Billings), Havre (MSU–Northern), and Great Falls (Great Falls College–MSU). We performed procedures at each of these campuses as part of the audit.

Through the audit, we examined the university's compliance with federal regulations governing the Student Financial Assistance (SFA) program. The university spent approximately \$245 million of SFA federal funds in fiscal years 2016 and 2017, of which 87 percent was for awards to students at MSU–Bozeman and MSU–Billings. As a result, our audit focused on compliance testing for the SFA programs at MSU–Bozeman and MSU–Billings. We also performed specific audit procedures, such as gaining an understanding of internal controls and data analytics, over SFA activity at each campus.

In addition, we reviewed certain aspects of the operations of the Museum of the Rockies, Health Centers on each campus, and Project Management (construction projects). We also tested selected state laws and policies at each of the four campuses.

Results

This report contains three recommendations to the university, two of which are related to the Museum of the Rockies and one related to compliance with Board of Regents' policies. The two recommendations to the Museum relate to inventorying and valuing state-owned collections, which was partially implemented and to the operating agreement, which was not implemented. The other recommendation concerns MSU–Northern compliance with Board of Regents' policy related to recording donations. This prior audit recommendation is also partially implemented and has been reported in the last two audits.

Recommendation Concurrence	
Concur	2
Conditionally Concur	1
Do Not Concur	0

Source: Agency audit response included in final report.

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Chapter I – Introduction

Audit Objectives

We performed a compliance audit of Montana State University (university) for the two fiscal years ended June 30, 2017. The objectives of the audit were to:

1. Determine whether the university complied with federal regulations applicable to Student Financial Assistance (SFA) programs, including its implementation of internal controls over compliance.
2. Determine whether the university complied with selected state laws and regulations applicable to university operations.
3. Provide university management with recommendations for improvements in its internal and management controls.
4. Determine the implementation status of the prior audit recommendations.

In order to address the objectives above, we examined the university's compliance with federal regulations governing the SFA programs. The university had approximately \$245 million of SFA expenditures in fiscal years 2016 and 2017, of which 87 percent was at MSU–Bozeman and MSU–Billings. As a result, our audit focused on compliance testing for the SFA programs at the MSU–Bozeman and MSU–Billings campuses. In addition, we also performed specific audit procedures, such as gaining an understanding of internal controls, over the SFA activity at each campus. This testing also included performing updates to controls, running queries, and performing specific testing over the Banner system. Banner is the university's accounting and information system, which is used to process essentially all financial transactions, determine eligibility for SFA, and process payroll transactions. Additionally, we tested compliance with selected state laws and policies, and laws related to the construction of buildings, transfers, indirect costs, gifts and bequests to schools, reporting theft and fraud, and the university's health and fitness centers. We also followed up on reported hotline calls at each university campus.

In addition, we reviewed certain aspects of the operations of the Museum of the Rockies. We also tested selected state laws at each of the campuses as part of the audit.

Background

Montana State University consists of four campuses:

- ◆ Montana State University–Bozeman (MSU–Bozeman)
- ◆ Montana State University–Billings (MSU–Billings)
- ◆ Montana State University–Northern (MSU–Northern)
- ◆ Great Falls College–Montana State University (Great Falls College–MSU)

All campuses are accredited by the Northwest Commission on Colleges and Universities. The four campuses of the university provide undergraduate and graduate academic and two-year vocational-technical programs to students.

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

MSU–Billings consists of five colleges: the College of Arts and Sciences, the College of Business, the College of Education, the City College, and the College of Allied Health Professions. MSU–Billings offers one-year and two-year certificate programs, Associate's, Bachelor's, and Master's degrees, as well as pre-professional academic offerings in a number of fields.

MSU–Northern is a regional, multipurpose educational center serving students who seek both a technical and liberal arts education. MSU–Northern offers courses at three locations, including Havre, Lewistown, and Great Falls. MSU–Northern offers Associate's, Bachelor's, and Master's degrees. A Master's degree program is offered in education, with options in counseling and learning development, and general science.

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

Enrollment and Staffing

Table 1 represents the university student Full Time Equivalent (FTE) enrollment, by campus, for the past four fiscal years.

Table 1
Montana State University Student FTE
For Fiscal Years 2014 through 2017

Campus	FY 2014	FY 2015	FY 2016	FY 2017
MSU–Bozeman	12,971	13,108	13,488	14,320
MSU–Billings	3,265	3,119	2,875	2,699
MSU–Northern	1,148	1,105	1,095	1,120
Great Falls College–MSU	1,379	1,282	1,220	1,180
City College	887	804	765	748
Gallatin College	403	442	447	519
Total	20,053	19,860	19,890	20,586

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

Table 2 represents the university student FTE enrollment for fiscal year 2017 by academic level.

Table 2
Montana State University Student FTE by Academic Level
For Fiscal Year 2017

Campus	Underclassmen	Graduate	Two-Year	Total
MSU–Bozeman	13,035	1,285		14,320
MSU–Billings	2,436	263		2,699
MSU–Northern	1,065	55		1,120
Great Falls College–MSU			1,180	1,180
City College			748	748
Gallatin College			519	519
Total	16,536	1,603	2,447	20,586

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

Table 3 represents the university student FTE enrollment for fiscal year 2017 by residential status at each campus.

Table 3
Montana State University Student FTE by Residential Status
For Fiscal Year 2017

Campus	Resident	Nonresident	Total
MSU–Bozeman	8,798	5,522	14,320
MSU–Billings	2,352	347	2,699
MSU–Northern	940	180	1,120
Great Falls College–MSU	1,122	58	1,180
City College	701	47	748
Gallatin College	389	130	519
Total	14,302	6,284	20,586

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

Table 4 represents FTE employees at each campus of the university. Actual fiscal 2017 data is not presently available.

Table 4
Montana University System Summary Detail of FTE Employees
Fiscal Year 2016 Actual

Agency	Contract Faculty	Contract Administrative	Contract Professional	Classified	GTA/GRA*	Part-Time & Other	Total
MSU–Bozeman	818.64	30.47	705.36	936.21	376.57	686.51	3,553.76
MSU–Billings	202.20	33.65	81.55	192.58	7.71	42.86	560.55
MSU–Northern	76.15	6.00	76.11	62.20		29.25	249.71
Great Falls College–MSU	93.75	7.00	34.50	48.67		3.22	187.14
Montana Agricultural Experiment Station	66.43	0.40	43.80	60.89	25.51	13.31	210.34
MSU Extension	117.84		19.38	29.40		9.34	175.96
Fire Services Training School	.36		4.00	1.29		1.75	7.40
Total	1,375.37	77.52	964.70	1,331.24	409.79	786.24	4,944.86

Source: Compiled by the Legislative Audit Division from the Office of the Commissioner of Higher Education “Montana University System Operating Budgets Summary.”

*Graduate Teaching Assistant/Graduate Research Assistant.

Table 5 presents the number of students to one contract faculty at each campus of the university.

Campus	FY 2014	FY 2015	FY 2016	FY 2017 (Budgeted)
MSU-Bozeman	20.1	19.8	19.6	18.4
MSU-Billings	19.5	18.1	18.3	18.0
MSU-Northern	13.6	14.3	14.8	13.9
Great Falls College	25.6	13.6	13.4	12.7

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

*Contract faculty are employees who hold an academic contract with the Board of Regents and provide services only in the primary programs of instruction, research, and public service.

Prior Audit Recommendations

The prior compliance audit for the university for the two years ended June 30, 2015, contained 12 recommendations. Recommendations related to Student Financial Aid, Research and Development, Wool Lab, and computer access were implemented by the university. Recommendations related to the Museum of the Rockies and MSU–Northern were partially implemented and are discussed further, starting on page 7 of this report.

Chapter II – Findings and Recommendations

Museum of the Rockies

The Museum of the Rockies (MOR) is affiliated with Montana State University (university) located on the MSU–Bozeman campus. The MOR is intended to promote appreciation, understanding, and interest in natural history, history, art, and culture of the Northern Rocky Mountain region, and to advance the educational purposes and cultural interests of the university.

We followed up on three prior audit recommendations related to MOR during our audit. The partially-implemented recommendation related to insurance of museum collections and the recommendation to update the agreement between MOR and the university are discussed below.

Insured Values of University-Owned Collection Items

Not all of the insured values of museum and fine arts collections at the Museum of the Rockies are supported by reasonable estimates of market value, as required by state policy.

During the previous audit, we recommended the university support the insurance valuations reported for museum and fine arts collections of the Museum of the Rockies with documented, reasonable estimates of market value, in accordance with Risk Management Tort Defense insurance program requirements.

Since the last audit, MOR developed a plan to inventory and value their collections. MOR contacted museum staff across the country and developed the plan using best practices, advice, and staff expertise to comply with the recommendation as follows:

- ◆ A complete inventory of collections is the museum’s top priority. This is the first step in valuing the collections for insurance purposes.
- ◆ Based on inventory, internal valuations will be assigned.
- ◆ Major areas of the collection will be addressed separately. The museum holds diverse collections, valuing natural history collections is not the same as cultural collections or fine art.
- ◆ MOR is completing construction of the new Cultural Center for the Humanities in the summer of 2017. Cultural collections will be re-located in the new Cultural Center. MOR is using this move as an opportunity to complete the inventory and valuation of the collections.
- ◆ MOR will only value collections that are owned by the university or the state of Montana.

Three major accomplishments made by the staff at MOR are:

- ◆ MOR staff estimated that 80 percent of the art and photography collection (785 fine art objects and approximately 80,000 photo images) has been inventoried. Values were assigned when acquired or catalogued. Collections that were purchased or donated with an appraisal attached, were revalued using an inflation factor to arrive at a current estimate.
- ◆ For the History collection, MOR is working on a wall to wall inventory and digitization of records in preparation for the move to the new Cultural Center. MOR has two full time collections staff members, three interns, two student employees funded by one time only support from the President's Office, and four volunteers working on this project.
- ◆ The Curator of History has also identified and valued the 50 most significant items in the History Collection.

MOR personnel said inventorying and valuing the collections owned by the university is something that cannot be completed in a two-year period. Museum of the Rockies has developed a reasonable plan and dedicated staff time to comply with the prior audit recommendation; however, there is still a large percentage of the collections that need to be inventoried and valued.

Without a reasonable basis for determining the value at which to insure museum collections, the university may be unable to support a claim. Additionally, the university may be over- or under-insuring the collection, which could result in the university either incurring more insurance costs than necessary or not being financially able to reestablish the collections, and continue to accomplish its cultural and educational purposes, in the event of a loss.

RECOMMENDATION #1

We recommend Montana State University and Museum of the Rockies' staff continue to inventory and value the museum's collections so that insurance valuations are properly supported.

Operating Agreement

The Museum of the Rockies operating agreement between the university and the affiliated organization does not contain all elements required by university policies.

The MOR's operations are governed by an operating agreement between the university and a nonprofit 501(c)(3) organization (corporation). The university identifies the corporation as an affiliated organization and a component unit of the university. Entities classified as component units of the university are nonprofit, tax-exempt organizations operating exclusively for the purposes of encouraging, promoting, and supporting educational programs, research, scholarly pursuits, and athletics at, or in connection with, the university.

In 2014 and 2015, as directed by the Board of Regents, the university developed and implemented internal policies governing certain activities with affiliated organizations. These policies contain specific requirements related to formal agreements between the university and each affiliated organization, outlining what must be included in the agreements. We found that the museum's current operating agreement, signed in 1989, does not contain several provisions required under current university policies. Missing items include:

- ◆ The corporation's compliance with federal, state, and other laws and regulations applicable to such organizations.
- ◆ A requirement for audit of the financial records of the corporation.
- ◆ A provision protecting both parties against conflict of interest in the performance of the agreement or contract.

During the previous audit there were two other items included in university policy that were not included in the operating agreement. The university updated policies in 2016 and removed the two items related to requiring an affiliated organization to have a conflict of interest policy and a spending policy addressing the organization's rules for payment reimbursement of, university employees and departments. According to university staff, the agreement between the university and the Museum of the Rockies corporation has not been updated since the last audit. University staff indicated the university is working to update the operating agreement to be in compliance with university policy, but has not yet executed an agreement with MOR.

RECOMMENDATION #2

We recommend Montana State University ensure the Museum of the Rockies operating agreement between the university and the corporation includes all provisions required by university policy.

Board of Regents' Policy Related to Donations**Montana State University–Northern procedures over processing donations do not comply with Board of Regents' policy requirements.**

Board of Regents' (Board) policy requires donations be deposited in the state treasury and recorded on the university's accounting records, unless documentation clearly provides evidence of other donor intent or identifies that the donation is a result of campaigns or solicitations from a separately incorporated foundation acting on behalf of the campus. If this is the case, the campus can forward the donations to its MSU–Northern Foundation (Foundation), but is required to maintain copies of the documentation supporting the transfer. MSU–Northern has not been in compliance with this policy for the last two audits.

In the current audit, we noted that MSU–Northern has a policy in place related to the cash donations received by the campus. When a donation is received by the university, a copy of the check is retained by university staff as documentation. The checks are then sent to the Foundation for deposit. All checks are given to the Foundation and Foundation staff reviews the correspondence to determine intent, if in question. Board policy, however, specifically requires the university to deposit and record donations unless intent to donate to the Foundation has been determined and documented. We found one instance where a check to the university was given to the Foundation for deposit without university staff first determining the intent of the donation. While we only found one instance, there is increased risk of university donations not being used as intended by the donor under the current practice.

Because MSU–Northern still sends all the checks to the Foundation before intent is known and relies on the Foundation to determine intent, it is still not in full compliance with the Board's policy.

RECOMMENDATION #3

We recommend Montana State University–Northern comply with Board of Regents' policy requirements governing the deposit of donations.

MONTANA STATE
UNIVERSITY

UNIVERSITY RESPONSE



September 21, 2017

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LEGISLATIVE AUDIT DIV.

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
Post Office Box 201705
Helena, Montana 59620-1705

Dear Mr. Maciver:

Enclosed you will find Montana State University's responses to the recommendations from the Legislative Audit Division Compliance Audit report for the two fiscal years ended June 30, 2017. MSU appreciates the Legislative Audit Divisions' work, and its identification of opportunities for improving the university's operations.

We thank you and your staff for your efforts.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Waded Cruzado'.

Waded Cruzado
President

Enclosure

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**MONTANA STATE UNIVERSITY
Response to Legislative Audit Division Compliance Audit
For the Two Fiscal Years Ended June 30, 2017**

RECOMMENDATION #1

We recommend Montana State University and Museum of the Rockies' staff continue to inventory and value the museum's collections so that insurance valuations are properly supported.

Montana State University conditionally concurs with the recommendation.

The Museum of the Rockies will continue to catalog its collection over time and will obtain market values as time and resources permit in order to improve its estimate of the market value of the collection.

RECOMMENDATION #2

We recommend Montana State University ensure the Museum of the Rockies operating agreement between the university and the corporation includes all provisions required by university policy.

Montana State University concurs with the recommendation.

Montana State University will ensure that arrangements between the university and the corporation are in compliance with university policy.

RECOMMENDATION #3

We recommend Montana State University-Northern comply with Board of Regents' policy requirements governing the deposit of donations.

Montana State University-Northern concurs with the recommendation.

Montana State University-Northern will establish procedures between the Foundation and the Business Office to ensure intent to donate is determined and documented prior to transferring any checks in order to comply with Board of Regents' policy requirements governing the deposit of donations.