



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Commissioner of Higher
Education*

*For the Two Fiscal Years Ended
June 30, 2013*

DECEMBER 2013

LEGISLATIVE AUDIT
DIVISION

13-20

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FINANCIAL-COMPLIANCE AUDITS

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.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. 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, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
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LEGISLATIVE AUDIT DIVISION

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Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

December 2013

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, 2013. Included in this report is one recommendation related to internal service fund operations.

This report includes the office's financial schedules. The financial schedule presentation is intended to provide the legislative body with information necessary for decision-making purposes; it is not intended to conform to the financial reporting requirements established in generally accepted accounting principles (GAAP). While the financial schedule presentation has not changed, audit reporting standards have changed. Auditing standards now require us to clearly communicate that the financial schedule presentation is not intended to, and does not, conform to GAAP reporting requirements. The Independent Auditor's Report on page A-1 contains language to this effect in the section titled "Adverse Opinions on U.S. Generally Accepted Accounting Principles." This section does not imply the amounts presented on the office's financial schedules are not fairly stated. Page A-1 also communicates the extent to which the user can rely on the information contained in the financial schedules in the section titled "Unmodified Opinions on Regulatory Basis of Accounting."

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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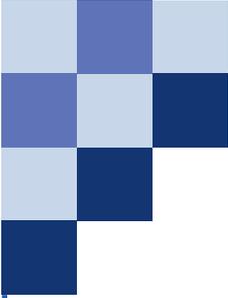
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APPOINTED AND ADMINISTRATIVE OFFICIALS

		<u>Term Expires</u>
Board of Regents of Higher Education	Angela McLean, Chair	February 1, 2017
	Paul Tuss, Vice Chair	February 1, 2020
	Fran M. Albrecht	February 1, 2019
	Todd Buchanan	February 1, 2014
	Jeffrey Krauss	February 1, 2015
	Major Robinson	February 1, 2018
	Zachary Rogala, Student Regent	June 30, 2014
	Clayton Christian, Commissioner of Higher Education*	
	Steve Bullock, Governor*	
	Denise Juneau, Superintendent of Public Instruction*	
*Ex Officio Member		
Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	Mick Robinson	Deputy Commissioner for Fiscal Affairs, Chief of Staff
	Neil Moisey	Deputy Commissioner for Academic, Research, and Student Affairs
	John Cech	Deputy Commissioner for Two-Year and Community College Education
	Tyler Trevor	Deputy Commissioner for Planning and Analysis
	Keven McRae	Deputy Commissioner for Communications and Human Resources
	Frieda Houser	Director of Accounting and Budget
	Vivian Hammill	Chief Legal Counsel

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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, 2013

DECEMBER 2013

13-20

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 (board). The office annually manages a budget of over \$361 million; over half is distributed to the universities, community, and tribal colleges.

Context

The Montana Constitution extends governance authority over the Montana University System (MUS) to the board but leaves the power to appropriate state funds for the MUS to the legislature. The Constitution charges the board, made up of seven appointed and confirmed members plus three ex-officio members, with hiring a Commissioner of Higher Education who serves as its executive staff. All state funds appropriated by the legislature to the board for the support of the MUS are channeled through the office.

The MUS provides post-secondary education to over 44,000 students (resident and nonresident) at eight campus locations in Montana. There are 3,000 students (resident and nonresident) at three community colleges. Additionally, the state supports nontribal Montana resident students attending the seven tribal colleges.

In addition to distributions for the support of the MUS, the Office of the Commissioner of Higher Education (office) also administers the federal Guaranteed Student Loan Program, the MUS Group Insurance Program, and the Montana Family Education Savings Program.

Results

During our audit, we focused our audit effort primarily on reviewing financial transactions related to premium payments and claims in the MUS Insurance Program; evaluating balances related to the College Savings Plan; determining whether funds were distributed to the universities as directed by legislative appropriations; and assessing the related control systems. We also tested compliance with federal regulations related to the Family Education Savings Act and various state laws and Board of Regents policies.

Our audit resulted in one recommendation to the office and an unmodified opinion.

Recommendation Concurrence	
Concur	1
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, 2013. The objectives of our audit were to:

1. 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, 2013.
2. 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.
3. Determine the office's compliance with selected state and federal laws and regulations.

In addressing objectives #1 and #2, we focused our audit effort primarily on 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; determining whether funds were distributed to the universities as directed by legislative appropriations; and assessing the related control systems.

We addressed objective #3 by reviewing compliance with state laws, Board of Regents policies, and federal regulations related to the Family Education Savings Act, functions and responsibilities of the Board of Regents and the Commissioner, and the Montana Guaranteed Student Loan Program.

The Montana Guaranteed Student Loan Program was established by the office to coordinate and administer the federally insured student loans issued by various lending institutions. As of July 1, 2010, all new federal student loans are made through the Federal Direct Student Loan Program, administered by the federal government. The Montana Guaranteed Student Loan program continues to service the loans it has already guaranteed, but is not guaranteeing any new loans. Our office performed annual audits of the program through fiscal year 2013. The results of the fiscal year 2012 and 2013 audits can be found under separate covers (11-06B and 13-06, respectively).

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 results of our analysis is discussed beginning on page 5.

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 Montana 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 99.88 during the audit period. The Appropriation Distribution, Community College Assistance, Improving Teacher Quality, Tribal College Assistance, and Board of Regents Administration programs have no approved FTE. The administration of these programs is primarily through the FTE of the Administration program.

Administration Program (22.43 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 (19.95 FTE) – is primarily a federal program 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 (45.00 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 (5.00 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 (5.00 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.

Chapter II – Findings and Recommendations

Internal Service Fund

The Office of the Commissioner of Higher Education is not in compliance with three laws related to internal service funds.

The Office of the Commissioner of Higher Education (office) uses an internal service fund and a federal special revenue fund to record indirect cost recoveries for its central services activity. The office applies a set rate to federal funds for the federal special revenue fund and the same rate to proprietary funds for the internal service fund. The rate charged is intended to recover expenses for personal services and activities that are agency-wide rather than for a specific program or activity. The positions included in the indirect pool are in accounting, payroll, purchasing, accounts payable, computer system maintenance, personnel, legal, and general secretarial. The operating expenses such as rent, the state accounting system, and telephone costs related to these positions are also included in the indirect cost pool. The portion of personal services and operating costs that are considered central services activities are paid out of the internal service fund or federal special revenue fund.

Through our review of the activity recorded in the above funds, including the fees charged, we identified areas where the office did not comply with state law.

Approval of Fees and Charges

Section 17-7-123(f)(ii), MCA, states “Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act.” The office uses a federally approved indirect cost rate for both its internal service fund and federal special revenue fund. While the federal government approved this rate for the federal special revenue fund, this rate was not approved by the legislature as required by state law for the internal service fund. Office personnel stated they have an appropriation in the internal service fund and considered that to be approval of the rate. However, the law specifically states the fees and charges must be approved.

Fees and Charges Commensurate with Costs

Section 17-8-101(6), MCA, requires fees and charges for services deposited into the internal service fund be based upon commensurate costs. Our review of activity in the internal service fund for fiscal years 2011-12 and 2012-13 found the rate charged resulted in excess working capital and fund equity. While the office tried to spend down the fund equity during the audit period, it was still approximately \$76,000 and \$19,000 at fiscal year-end 2011-12 and 2012-13, respectively. Generally a 60-day

working capital is allowed in internal service funds per federal regulations and state accounting policy. The office's working capital at fiscal year-end 2011-12 was 381 days over the 60-day limit, while at fiscal year-end 2012-13 it was 111 days over the 60-day limit.

To reduce fund equity in the internal service fund, the office could decrease the rate charged, refund costs, or not charge any rate for a set number of months. The office did not employ any of these options, but rather continued to charge the full federally approved rate and then shifted some of the excess recoveries into the federal special revenue fund. Section 17-1-106(7), MCA, requires that indirect cost recoveries be deposited into the fund from which the indirect costs were originally paid. In fiscal years 2011-12 and 2012-13, \$7,907 and \$48,230 in recoveries, respectively, were recorded in the federal special revenue account in excess of the amounts spent in that account. In the internal service fund, expenditures exceeded recoveries, thereby indicating the recoveries were not deposited into the fund that originally paid.

The 2007 Legislative Session changed the funding of the centralized or indirect costs from the General Fund to an internal service and federal special revenue fund and required the office to report to the appropriate interim committee the status of that funding change. In August 2008, the office reported that it was difficult for them to estimate the exact amount of indirect cost recoveries and especially difficult to estimate the split between the two fund types. The office recommended funding the activities out of the General Fund and depositing all recoveries back into the General Fund. The office stated this methodology would ensure that the office complied with applicable state statutes related to indirect costs. Subsequent legislative sessions did not change the funding of the office's indirect costs.

Office personnel then further stated, in light of the current legislative funding, they manage the cash in both funds so that it is available to cover expenses in the funds and to manage the revenues to make sure the fund balances are sufficient to cover current and projected expenses. In fiscal years 2012 and 2013, this resulted in noncompliance with state law.

RECOMMENDATION #1

We recommend the office:

- A. *Seek approval for the rate charged in the internal service fund,*
 - B. *Ensure that fees are commensurate with costs in the internal service fund, and*
 - C. *Deposit recoveries into the fund that originally paid.*
-

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 Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Commissioner of Higher Education (office) for each of the fiscal years ended June 30, 2013, and 2012, 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. 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, 2013 and June 30, 2012, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund equity of the Office of the Commissioner of Higher Education for each of the fiscal years ended June 30, 2013, and 2012, in conformity with the basis of accounting described in note 1.

Emphasis of Matter

As discussed in Note 4 to the financial schedules, the office changed the way the claims estimate was made for the MUS Workers' Compensation Program. The office now has 10 years of data from which to estimate a claim liability. This resulted in a negative benefits and claims expenditure on the fiscal year 2013 Schedule of Expenditures & Transfers—Out. Our opinion is not modified with respect to this matter.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 25, 2013

COMMISSIONER OF HIGHER EDUCATION
 SCHEDULE OF CHANGES IN FUND EQUITY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2012	<u>(203,496)</u>	<u>3,877,072</u>	<u>21,390,733</u>	<u>46,325,648</u>	<u>76,855</u>	<u>\$ 220,686,872</u>
ADDITIONS						
Budgeted Revenues & Transfers-In	1,178,953	956,797	47,398,325	89,413,847	21,463	
Nonbudgeted Revenues & Transfers-In	31	428,116	146	(223,308)		23,926,289
Prior Year Revenues & Transfers-In Adjustments	3,968		(924,499)	269,343		
Direct Entries to Fund Equity	186,493,379	20,663,347				
Total Additions	<u>187,676,331</u>	<u>22,048,260</u>	<u>46,473,971</u>	<u>89,459,882</u>	<u>21,463</u>	<u>23,926,289</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	187,635,003	22,403,518	50,609,022	82,433,280	76,019	
Nonbudgeted Expenditures & Transfers-Out	(89,175)	489,054		24,625	3,323	17,020,828
Prior Year Expenditures & Transfers-Out Adjustments		11,172	(3,000)	568,832		
Total Reductions	<u>187,545,828</u>	<u>22,903,743</u>	<u>50,606,022</u>	<u>83,026,737</u>	<u>79,342</u>	<u>17,020,828</u>
FUND EQUITY: June 30, 2013	<u>\$ (72,993)</u>	<u>\$ 3,021,589</u>	<u>\$ 17,258,682</u>	<u>\$ 52,758,793</u>	<u>\$ 18,976</u>	<u>\$ 227,592,333</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.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2011	\$ (166,983)	\$ 3,427,227	\$ 22,954,906	\$ 33,204,796	\$ 94,380	\$ 226,979,291
ADDITIONS						
Budgeted Revenues & Transfers-In	1,159,653	1,024,344	46,674,431	90,667,160	57,891	
Nonbudgeted Revenues & Transfers-In	12	459,948	6,873	181,454		20,919,571
Prior Year Revenues & Transfers-In Adjustments	4,793	362	(54,774)	176,376		
Direct Entries to Fund Equity	186,292,639	20,439,234				
Total Additions	187,457,097	21,923,888	46,626,530	91,024,990	57,891	20,919,571
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	187,492,092	20,924,187	47,604,258	77,951,052	72,762	
Nonbudgeted Expenditures & Transfers-Out		560,906		19,211	2,654	27,211,990
Prior Year Expenditures & Transfers-Out Adjustments	1,518	(11,050)	586,445	(66,125)		
Total Reductions	187,493,610	21,474,043	48,190,703	77,904,138	75,416	27,211,990
FUND EQUITY: June 30, 2012	\$ (203,496)	\$ 3,877,072	\$ 21,390,733	\$ 46,325,648	\$ 76,855	\$ 220,686,872

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.

COMMISSIONER OF HIGHER EDUCATION
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	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	\$ 1,195,486	\$ 10,374	\$ 2,340			\$	\$ 1,208,200
Charges for Services	31	616,896	36,051,374				36,668,301
Investment Earnings	(12,566)	6,720	44,125	155,684		\$	5,812,918
Contributions and Premiums				88,633,999		18,307,333	106,941,332
Grants, Contracts, and Donations		291,985	(224)				291,985
Transfers-in		458,938	426,557		21,463		458,714
Federal Indirect Cost Recoveries				530,043			448,020
Miscellaneous				140,156			530,043
Federal			9,949,801				10,089,957
Total Revenues & Transfers-In	1,182,952	1,384,913	46,473,971	89,459,882	21,463	23,926,289	162,449,470
Less: Nonbudgeted Revenues & Transfers-In	31	428,116	146	(223,308)		23,926,289	24,131,274
Prior Year Revenues & Transfers-In Adjustments	3,968		(924,499)	269,343			(651,188)
Actual Budgeted Revenues & Transfers-In	1,178,953	956,797	47,398,325	89,413,847	21,463	0	138,969,385
Estimated Revenues & Transfers-In	31,850	617,001	63,468,459	151,379,103	104,000		215,600,413
Budgeted Revenues & Transfers-In Over (Under) Estimated	1,147,103	339,796	(16,070,134)	(61,965,256)	(82,537)	0	(76,631,028)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Taxes	\$ 1,172,225					\$	\$ 1,172,225
Charges for Services		216,896	(10,380,380)	(1,169)			(10,164,653)
Investment Earnings	(25,122)	(24,038)	(201,681)	(2,360,008)			(2,610,849)
Monetary Settlements				(20,000)			(20,000)
Contributions and Premiums		146,938	(2,159,867)	(56,724,279)			(56,724,279)
Transfers-in			657,800				(2,012,929)
Federal Indirect Cost Recoveries				(2,124,957)	(82,537)		575,263
Miscellaneous			(3,986,006)	(734,844)			(2,124,957)
Federal			(16,070,134)	(61,965,256)	(82,537)	0	(4,720,850)
Budgeted Revenues & Transfers-In Over (Under) Estimated	1,147,103	339,796	(16,070,134)	(61,965,256)	(82,537)	0	(76,631,028)

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.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	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	\$ 1,164,446	\$ 13,732	\$ 1,804			\$	\$ 1,179,982
Charges for Services	12	616,272	35,030,949	4,328,442			39,975,675
Investment Earnings		7,178	94,246	419,511		\$ 947,854	1,468,789
Monetary Settlements				1,544			1,544
Contributions and Premiums				84,572,400		19,971,717	104,544,117
Grants, Contracts, and Donations		320,187					320,187
Transfers-in		527,285	1,339,000				1,866,285
Federal Indirect Cost Recoveries			407,501		\$ 57,891		465,392
Miscellaneous				466,665			466,665
Federal			9,753,030	1,236,428			10,989,458
Total Revenues & Transfers-In	<u>1,164,458</u>	<u>1,484,654</u>	<u>46,626,530</u>	<u>91,024,930</u>	<u>57,891</u>	<u>20,919,571</u>	<u>161,278,094</u>
Less: Nonbudgeted Revenues & Transfers-In	12	459,948	6,873	181,454		20,919,571	21,567,858
Prior Year Revenues & Transfers-In Adjustments	4,793	362	(54,774)	176,376			126,757
Actual Budgeted Revenues & Transfers-In	<u>1,159,653</u>	<u>1,024,344</u>	<u>46,674,431</u>	<u>90,667,160</u>	<u>57,891</u>	<u>0</u>	<u>139,583,479</u>
Estimated Revenues & Transfers-In	19,294	810,001	62,450,098	163,186,443	102,100		226,567,936
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 1,140,359</u>	<u>\$ 214,343</u>	<u>\$ (15,775,667)</u>	<u>\$ (72,519,283)</u>	<u>\$ (44,209)</u>	<u>\$ 0</u>	<u>\$ (86,984,457)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Taxes	\$ 1,140,359					\$	\$ 1,140,359
Charges for Services		216,272	(11,400,994)	(4,081,035)			(15,265,757)
Investment Earnings		(24,214)	(185,552)	(2,500,931)			(2,710,697)
Monetary Settlements				(20,456)			(20,456)
Contributions and Premiums				(63,549,954)			(63,549,954)
Transfers-in		22,285	(1,139,593)				(1,117,308)
Federal Indirect Cost Recoveries			(868)			\$ (44,209)	(45,077)
Miscellaneous				(2,728,335)			(2,728,335)
Federal			(3,048,660)	361,428			(2,687,232)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 1,140,359</u>	<u>\$ 214,343</u>	<u>\$ (15,775,667)</u>	<u>\$ (72,519,283)</u>	<u>\$ (44,209)</u>	<u>\$ 0</u>	<u>\$ (86,984,457)</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.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration Program	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	\$ 1,999,406				\$ 665,672	\$ 1,188,331	\$ 3,480	\$ 279,868	\$ 67,731	\$ 157,687		\$ 157,357	\$ 4,519,532
Other Compensation	2,000		\$ 1,650										3,650
Employee Benefits	491,754				228,280	469,564	466	87,655	19,419	33,995		49,318	1,380,451
Personal Services-Other	766							8,587	(468)				8,885
Total	<u>2,493,927</u>		<u>1,650</u>		<u>893,951</u>	<u>1,657,895</u>	<u>3,946</u>	<u>376,110</u>	<u>86,682</u>	<u>191,682</u>		<u>206,675</u>	<u>5,912,518</u>
Operating Expenses													
Other Services	398,242		18,073		323,654	1,610,673		6,099,121	554,807	332,562		243,642	9,580,775
Supplies & Materials	45,057		789		59,813	17,978		50,170	989	745		19,361	194,902
Communications	49,840		864		25,493	143,644	2	23,702	1,106			4,825	249,475
Travel	74,002		16,881		148,717	21,134	1,336	50,458	229	4,785		87,463	405,006
Rent	169,167		100		30,365	17,446		49,043	6,811			21,455	294,387
Utilities						19,611							19,611
Repair & Maintenance	4,639					2,439			95				7,173
Other Expenses	110,715		9,500		838,939	412,250	211	493,278	321,177	22,008		38,454	2,246,533
Total	<u>851,663</u>		<u>46,208</u>		<u>1,426,981</u>	<u>2,245,176</u>	<u>1,549</u>	<u>6,765,772</u>	<u>885,215</u>	<u>360,100</u>		<u>415,199</u>	<u>12,997,862</u>
Local Assistance													
From State Sources				\$ 10,564,554									10,689,554
Total				<u>10,564,554</u>						<u>125,000</u>			<u>10,689,554</u>
Grants													
From State Sources										13,510,482	\$ 842,085		14,352,567
From Federal Sources	25,000				1,256,921		462,833			196,122		1,623,701	3,564,577
From Other Sources										386,125			386,125
Total	<u>25,000</u>				<u>1,256,921</u>		<u>462,833</u>			<u>14,092,729</u>	<u>842,085</u>	<u>1,623,701</u>	<u>18,303,269</u>
Benefits & Claims													
To Individuals									(646,710)				(646,710)
Insurance Payments						33,064,373		75,543,162					108,607,536
Total						<u>33,064,373</u>		<u>75,543,162</u>	<u>(646,710)</u>				<u>107,960,826</u>
From Other Sources													
Distrib from Priv Purp Trusts										16,715,566			16,715,566
Total										<u>16,715,566</u>			<u>16,715,566</u>
Transfers-out													
Fund transfers		\$ 319,366			287,518					246,945		2,999,569	3,853,399
Intra-Entity Expense	10,000	184,676,963											184,686,963
Total	<u>10,000</u>	<u>184,996,329</u>			<u>287,518</u>					<u>246,945</u>		<u>2,999,569</u>	<u>188,540,362</u>
Debt Service													
Capital Leases						43,480							43,480
Total						<u>43,480</u>							<u>43,480</u>
Other Post Employment Benefits													
Other Post Employment Benefits	2,557							13,851	2,655				19,063
Total	<u>2,557</u>							<u>13,851</u>	<u>2,655</u>				<u>19,063</u>
Total Expenditures & Transfers-Out	\$ 3,383,147	\$ 184,996,329	\$ 47,858	\$ 10,564,554	\$ 3,865,372	\$ 37,010,924	\$ 468,327	\$ 82,698,895	\$ 327,842	\$ 31,732,023	\$ 842,085	\$ 5,245,144	\$ 361,182,500
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 2,425,227	\$ 163,038,695	\$ 47,858	\$ 10,564,554	\$ 95,758					\$ 10,441,591	\$ 842,085	\$ 90,061	\$ 187,545,828
State Special Revenue Fund	500,226	21,957,634								445,884			22,903,743
Federal Special Revenue Fund	378,352				3,769,614	37,010,924	468,327			3,823,721		5,155,083	50,606,022
Enterprise Fund								82,698,895	327,842				83,026,737
Internal Service Fund	79,342												79,342
Private Purpose Trust Fund										17,020,828			17,020,828
Total Expenditures & Transfers-Out	3,383,147	184,996,329	47,858	10,564,554	3,865,372	37,010,924	468,327	82,698,895	327,842	31,732,023	842,085	5,245,144	361,182,500
Less: Nonbudgeted Expenditures & Transfers-Out	403,202							22,438	2,187	17,020,828			17,448,655
Prior Year Expenditures & Transfers-Out Adjustments	11,172							570,258	(1,426)	(3,000)			577,004
Actual Budgeted Expenditures & Transfers-Out	2,968,773	184,996,329	47,858	10,564,554	3,865,372	37,010,924	468,327	82,106,199	327,081	14,714,195	842,085	5,245,144	343,156,841
Budget Authority	3,115,635	184,996,331	50,945	10,905,955	8,928,826	47,868,880	574,239	124,710,744	5,003,856	16,175,929	842,085	6,691,083	409,864,508
Unspent Budget Authority	\$ 146,862	\$ 2	\$ 3,087	\$ 341,401	\$ 5,063,455	\$ 10,857,955	\$ 105,912	\$ 42,604,545	\$ 4,676,775	\$ 1,461,734	\$ 0	\$ 1,445,939	\$ 66,707,666
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 31,993	\$ 2	\$ 3,087	\$ 341,401	\$ 1,354					\$ 4,176		\$ 6	\$ 382,019
State Special Revenue Fund										247,190			247,190
Federal Special Revenue Fund	114,849				5,062,100	10,857,955	105,912			1,210,368		1,445,933	18,797,116
Enterprise Fund								42,604,545	4,676,775				47,281,320
Internal Service Fund	21												21
Unspent Budget Authority	\$ 146,862	\$ 2	\$ 3,087	\$ 341,401	\$ 5,063,455	\$ 10,857,955	\$ 105,912	\$ 42,604,545	\$ 4,676,775	\$ 1,461,734	\$ 0	\$ 1,445,939	\$ 66,707,666

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.

COMMISSIONER OF HIGHER EDUCATION
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration Program	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	\$ 2,014,563				\$ 643,483	\$ 1,320,105	\$ 25	\$ 276,922	\$ 65,358	\$ 53,530		\$ 172,530	\$ 4,546,516
Other Compensation	1,027		\$ 3,800			50							4,877
Employee Benefits	670,759				242,183	493,286	8	83,302	18,901	15,028		50,489	1,573,956
Personal Services-Other	597							5,240	(760)				5,077
Total	2,686,946		3,800		885,666	1,813,441	33	365,464	83,499	68,558		223,019	6,130,426
Operating Expenses													
Other Services	411,894		27,141		114,409	1,761,412		6,850,507	465,743	405,237		180,477	10,216,820
Supplies & Materials	67,986		4,967		54,055	15,373		34,514	705	255		15,472	193,327
Communications	54,785		1,470		15,120	97,999		19,107	1,466	3,816		10,393	204,156
Travel	137,143		17,476		167,327	33,335	1,058	16,848	168	1,614		108,937	483,906
Rent	211,049				30,991	14,713		44,833	7,068	1,927		22,897	333,478
Utilities						21,535				577			22,113
Repair & Maintenance	2,375					3,991		546	25	132			7,069
Other Expenses	151,090		11,329		615,667	450,529	668	569,598	504,171	91,646		44,696	2,439,394
Total	1,036,322		62,383		997,569	2,398,887	1,726	7,535,953	979,346	505,204		382,873	13,900,263
Local Assistance													
From State Sources				\$ 11,014,820						125,000			11,139,820
Total				11,014,820						125,000			11,139,820
Grants													
From State Sources										12,012,637	\$ 842,085		12,854,722
From Federal Sources	25,000				1,166,667		323,964					1,893,596	3,409,227
From Other Sources										418,405			418,405
Total	25,000				1,166,667		323,964			12,431,042	842,085	1,893,596	16,682,354
Benefits & Claims													
To Individuals									2,885,608				2,885,608
Insurance Payments						30,617,878		66,039,535					96,657,413
Total						30,617,878		66,039,535	2,885,608				99,543,021
From Other Sources													
Distrib from Priv Purp Trusts										26,818,123			26,818,123
Total										26,818,123			26,818,123
Transfers-out													
Fund transfers		\$ 319,366			1,289,703							3,274,964	4,884,033
Intra-Entity Expense		183,191,590											183,191,590
Total		183,510,956			1,289,703							3,274,964	188,075,623
Debt Service													
Capital Leases						43,480							43,480
Total						43,480							43,480
Other Post Employment Benefits													
Other Post Employment Benefits	2,057							12,223	2,510				16,790
Total	2,057							12,223	2,510				16,790
Total Expenditures & Transfers-Out	\$ 3,750,325	\$ 183,510,956	\$ 66,183	\$ 11,014,820	\$ 4,339,605	\$ 34,873,686	\$ 325,723	\$ 73,953,175	\$ 3,950,963	\$ 39,947,927	\$ 842,085	\$ 5,774,452	\$ 362,349,900
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 2,540,422	\$ 163,250,832	\$ 66,183	\$ 11,014,820	\$ 83,217					\$ 9,605,984	\$ 842,085	\$ 90,067	\$ 187,493,610
State Special Revenue Func	734,877	20,260,124			(21)					479,063			21,474,043
Federal Special Revenue Func	399,610				4,256,409	\$ 34,873,686	\$ 325,723			2,650,890		5,684,385	48,190,703
Enterprise Fund								\$ 73,953,175	\$ 3,950,963				77,904,138
Internal Service Fund	75,416												75,416
Private Purpose Trust Fund										27,211,990			27,211,990
Total Expenditures & Transfers-Out	3,750,325	183,510,956	66,183	11,014,820	4,339,605	34,873,686	325,723	73,953,175	3,950,963	39,947,927	842,085	5,774,452	362,349,900
Less: Nonbudgeted Expenditures & Transfers-Out	562,878				681			17,463	1,750	27,211,990			27,794,762
Prior Year Expenditures & Transfers-Out Adjustments	567		654		554,357	(2)		445,789	(511,914)	(10,049)		31,388	510,790
Actual Budgeted Expenditures & Transfers-Out	3,186,880	183,510,956	65,529	11,014,820	3,784,567	34,873,688	325,723	73,489,923	4,461,127	12,745,986	842,085	5,743,064	334,044,348
Budget Authority	3,292,820	183,710,956	65,737	11,014,820	6,634,999	38,128,938	375,340	99,579,029	5,004,060	13,762,824	842,085	6,555,571	368,967,179
Unspent Budget Authority	\$ 105,940	\$ 200,000	\$ 208	\$ 0	\$ 2,850,432	\$ 3,255,250	\$ 49,617	\$ 26,089,106	\$ 542,933	\$ 1,016,838	\$ 0	\$ 812,507	\$ 34,922,831
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 57,659	\$ 200,000	\$ 208	\$ 5,528						\$ 295,907	\$ 0	\$ 0	\$ 559,302
State Special Revenue Fund										250,082			250,082
Federal Special Revenue Func	46,664				2,844,904	\$ 3,255,250	\$ 49,617			470,849		812,507	7,479,791
Enterprise Fund								\$ 26,089,106	\$ 542,933				26,632,039
Internal Service Fund	1,617												1,617
Unspent Budget Authority	\$ 105,940	\$ 200,000	\$ 208	\$ 0	\$ 2,850,432	\$ 3,255,250	\$ 49,617	\$ 26,089,106	\$ 542,933	\$ 1,016,838	\$ 0	\$ 812,507	\$ 34,922,831

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, 2013

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 do not require a complete set of financial statements because the office is only a portion of the State of Montana financial statements. The financial schedules contained in this report were extracted from the state's primary accounting records and are not meant to represent the entirety of the State of Montana; rather these schedules represent the financial activity of the Office of the Commissioner of Higher Education.

Basis of Presentation

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

The 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, 2012, and June 30, 2013, 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 balances.

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 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. MUS Workers Compensation Program

In state fiscal year ending June 30, 2013, a change in the claims estimate was made, reducing the long-term claims liability by \$2,788,974. Per accounting standards, a change in an estimate must be reflected in the year made. As a result of the change

in estimate for future workers compensation claims, on the Schedule of Total Expenditures & Transfers-out, program expenditures include the reduction of the long-term claims estimated to be paid by the program, resulting in a net reporting of benefits and claims to individuals of (\$646,710). Excluding the adjustment, the program incurred \$2,142,264 of benefits and claims to individuals.

5. Revenue Estimates

The revenue estimate in the Enterprise Fund on the Schedule of Total Revenues & Transfers-In for the fiscal years ended June 30, 2012, and June 30, 2013, were significantly over estimated. During fiscal year 2012-2013, revenue estimates were adjusted for the prior year; however, the prior year revenue adjustment was not reflected in the revenue amounts, resulting in the revenues estimates being overestimated on the schedules. The actual revenue collected represents the amount that should have been budgeted.

6. 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. For the fiscal year ended June 30, 2012, approximately 78.82 percent, or \$1,288,799,556, of GSL's outstanding loan volume is held by MHESAC. For the fiscal year ended June 30, 2013, approximately 76.19 percent, or \$1,156,483,026, of GSL's outstanding loan volume is held by MHESAC.

The office is one of 12 employer members of the Montana Association of Health Care Purchasers (MAHCP). An employee of the office currently serves on the 8 member MAHCP board as president without any remuneration for services. All members pay the association \$1.25 per member to maintain its membership in addition to monthly fees of \$0.55 per member for data warehouse and reporting services and \$0.71 per script for pharmacy benefit program services and support.

OFFICE OF THE
COMMISSIONER OF
HIGHER EDUCATION

OFFICE RESPONSE



MONTANA UNIVERSITY SYSTEM
Office of the Commissioner of Higher Education

2500 Broadway ◊ PO Box 203101 ◊ Helena, Montana 59601◊ (406)444-6570

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DEC 12 2013

LEGISLATIVE AUDIT DIV.

December 10, 2013

Tori Hunthausen, CPA
Legislative Auditor
State Capitol, Room 160
P.O. Box 201705
Helena MT 59620-1705

Dear Ms. Hunthausen:

We appreciate the auditor's office efforts with this audit. The office received a clean (unmodified) audit opinion over its financial schedules, which is the best opinion that an agency can receive. Our response to the one audit recommendation is enclosed. We thank the audit staff for their professionalism during the audit.

Sincerely,

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

Clayton Christian
Commissioner of Higher Education

Enc.

Office of the Commissioner of Higher Education
Response to Legislative Audit Division
Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 2013
December 10, 2013

RECOMMENDATION #1

We recommend the office:

- A. Seek approval for the rate charged in the internal service fund.
- B. Ensure that fees are commensurate with costs in the internal service fund.
- C. Deposit recoveries into the fund that originally paid the indirect direct costs.

The office concurs with the recommendation. The 2009 biennium was the first time the Legislature appropriated proprietary funds as part of the indirect costs plan for the office. At that time, the Legislature requested an interim report to address the status of the plan and requested the report include a recommendation for funding the plan in subsequent biennia. In accordance with that legislative directive, a report was submitted to the Joint Subcommittee on Postsecondary Education Policy and Budget at its September 4, 2008 meeting. A copy of the report is attached. The office recommended the Legislature appropriate the indirect costs differently to address compliance issues and the accounting and budgeting difficulties with the legislatively approved plan. The office has complied with § 17-1-106 (1), MCA, in fully recovering indirect costs. As good stewards of state general fund, we attempt to recover all costs that could legitimately be charged to state general fund by maintaining sufficient revenue in the indirect pool to pay expenses and liabilities such as retirement payouts. The office will continue to work with the Governor's budget office and the Legislature to submit a revised indirect cost plan that addresses the recommendation.



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TO: Pam Joehler
Senior Fiscal Analyst

FROM: Mick Robinson
Deputy Commissioner for Fiscal Affairs

RE: Indirect Cost Recovery Plan for OCHE Report

DATE: August 20, 2008

The Office of the Commissioner of Higher Education (OCHE) has an indirect cost rate (IDC) agreement with the U.S. Department of Education. OCHE has three federal grants that are limited to a restricted indirect cost rate and two other federal grants are limited by a fixed percentage of indirect cost recovery. The indirect cost recovery rate that has been approved for the OCHE by the federal government includes personal services and operating expenses in the base. The following table shows the personal services and operating expenses (less indirect expenses and scholarships) for the fiscal year ended June 30, 2008.

	<u>Base for IDC</u>	<u>IDC</u> <u>Restrictions</u>
Gear Up Grant (03042)	\$677,798	Restricted
Carl. D. Perkins Grant (03215)	307,024	Restricted
Tech Prep Grant (03951)	33,066	Restricted
Improving Teacher Quality (03183)	16,072	5%
Talent Search Grant (03806)	556,673	8%
Wired Grant (03160)	140,712	Unrestricted
Guaranteed Student Loan (03400/01)	<u>5,895,260</u>	Unrestricted
Total 03 Funds with Indirect Costs	<u>\$7,626,605</u>	

In order to fully recover the total indirect cost pool expenses, OCHE also charged the restricted IDC rate to non-general fund/non-federal funds (proprietary funds). The following table reflects the proprietary funds base for FY08:

	<u>Base for IDC</u>
MUS Group Insurance (06008)	\$4,548,705
MUS Flex Spending (06009)	131,530
OCHE Wellness (06010)	13,450
MUS Workers Comp(06082)	<u>543,013</u>
Total 06 Funds with Indirect Costs	<u>\$5,236,698</u>

All of the expenses that are now part of the indirect cost recovery pool were originally general fund expenses. These expenses relate to the personnel and activities that are agency-wide rather than for a specific program or activity. The positions included in the indirect pool work in accounting, payroll, purchasing, accounts payable, computer system maintenance, personnel, legal, and general secretarial. The operating expenses such as rent, SABHRS, and telephone costs related to these positions are also included in the indirect cost pool.

The total expenditures for indirect costs for FY08 were:

61100 Salaries	\$233,477.50
61400 Employee Benefits	75,225.91
61900 Personal Services- Other	2,902.00
62100 Other Services	79,804.21
62200 Supplies & Materials	6,461.86
62300 Communications	4,244.36
62400 Travel	369.89
62500 Rent	30,721.23
62700 Repair & Maintenance	471.34
62800 Other Expenses	11,476.63
67400 OPEB Expenses	1,173.00
Grand Total	<u>\$446,327.93</u>

The expenditure split for these expenses for FY08 was:

111IDC IDC - General Fund	\$85,110.20
113IDC IDC Federal Funds	262,671.69
116IDC IDC - Benefits Program	98,546.04
Grand Total	<u>\$446,327.93</u>

For FY09, the approved indirect cost rate (restricted) is 3.3% (the same rate used in FY08) and the unrestricted rate is 4.0%. OCHE adjusted the FY09 indirect cost plan submission based on a time and effort study of the administrative staff time. This changed the unrestricted approved rate from 15.8% for FY08 to 4% for FY09. Because OCHE planned to complete the time and effort study and because the majority of the federal grants have restrictions on the rate of recovery, OCHE applied the restricted rate to all funds in FY08. For FY09 all but restricted funds will be charged the 4% rate.

RECOMMENDATION FOR FUNDING IN 2011 BIENNIUM

During the 1995 biennium, the Legislature appropriated the estimated indirect recoveries (\$20,885 for each year for the Talent Search program only) in the general fund for the administrative program and inserted the following requirement in HB2:

“Any indirect cost reimbursements received in excess of \$20,885 in fiscal year 1994 and \$20,885 in fiscal 1995 as a result of an increase in the federal Talent Search grant shall cause a like reversion of general fund [in the Administration program].”

If the Legislature took a similar approach to appropriating OCHE’s indirect cost recoveries, many of the OCHE accounting and budgeting difficulties would be eliminated. It is difficult to estimate the exact amount of indirect cost recoveries and especially difficult to estimate the split between 03 funds and 06 funds recoveries. This method would eliminate the need for the 03 and 06 indirect cost recovery funds. Utilizing the 1995 biennium approach would effectively limit the amount of expenditure allowed by OCHE and require that any excess indirect cost recoveries would cause a general fund reversion. The fund balances that currently exist in the indirect cost recovery funds would be eliminated because all recoveries would be deposited into the general fund. Additionally, this methodology would ensure that OCHE remain in compliance with state statute since all the expenses in the indirect cost pool were originally paid from general funds.

17-1-106. Agency recovery of indirect costs.

(5) Except as provided for a unit of the university system under 20-25-427, indirect costs recovered by an agency to pay the agency's indirect costs under 17-1-105 must be deposited as provided in 17-1-105. All other indirect costs must be deposited in the fund from which the indirect costs were originally paid.