



A REPORT
TO THE
MONTANA
LEGISLATURE

COMPLIANCE AUDIT

University of Montana

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

OCTOBER 2015

LEGISLATIVE AUDIT
DIVISION

15-12

COMPLIANCE AUDITS

LEGISLATIVE AUDIT COMMITTEE

REPRESENTATIVES

RANDY BRODEHL, CHAIR
Randybrodehl57@gmail.com

TOM BURNETT
Burnett.tom@gmail.com

VIRGINIA COURT
virginacourt@yahoo.com

DENISE HAYMAN
Rep.Denise.Hayman@mt.gov

KENNETH HOLMLUND
rep.ken.holmlund@mt.gov

MITCH TROPILA
tropila@mt.net

SENATORS

DEE BROWN
senatordee@yahoo.com

TAYLOR BROWN
taylor@northernbroadcasting.com

MARY McNALLY
McNally4MTLeg@gmail.com

J.P. POMNICHOWSKI
pomnicho@montanadsl.net

BRUCE TUTVEDT
tutvedt@montanasky.us

GENE VUCKOVICH
Sen.Gene.Vuckovich@mt.gov

MEMBERS SERVE UNTIL A
MEMBER'S LEGISLATIVE TERM
OF OFFICE ENDS OR UNTIL A
SUCCESSOR IS APPOINTED,
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE
(STATEWIDE)
1-800-222-4446
(IN HELENA)
444-4446
ladhotline@mt.gov

A compliance audit is a component of the biennial financial-compliance audit. In these audits, the compliance and financial audits are combined for a two-year period to constitute the financial-compliance audit. Financial-compliance audits are classified as financial audits according to Government Auditing Standards. The primary objectives of the compliance audits are to determine compliance with regulations relating to contract and grant expenditures, other governmental financial assistance, and to test compliance with requirements of selected state laws, regulations, and rules. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and most staff members hold Certified Public Accountant (CPA) licenses.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports in addition to those required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

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

AUDIT STAFF

JEANE CARSTENSEN-GARRETT	JESSICA CURTIS
JENNIFER ERDAHL	JOHN FINE
NATALIE H. GIBSON	KATIE MAJERUS
KENT RICE	CHUCK RICHARDSON

Reports can be found in electronic format at:
<http://leg.mt.gov/audit>

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

October 2015

The Legislative Audit Committee
of the Montana State Legislature:

This is our compliance audit report of the University of Montana for the two fiscal years ended June 30, 2015. The audit focuses on compliance with federal requirements of the Research & Development and Student Financial Assistance federal assistance programs. We also test compliance with selected state laws, Board of Regents' policies, and state accounting procedures.

This report contains four recommendations related to federal student financial aid and research grant administration.

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

TABLE OF CONTENTS

Figures and Tables.....	ii
Appointed and Administrative Officials	iii
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Audit and Objectives.....	1
University of Montana–Campuses.....	1
University of Montana–Missoula.....	1
Montana Tech of the University of Montana.....	2
University of Montana–Western	2
Helena College University of Montana	2
Enrollment and Staffing.....	2
University of Montana Funding.....	4
Prior Audit Recommendations.....	5
CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	7
Research & Development Grants.....	7
Quarterly Expenditure Review.....	7
Equipment Purchase	8
Federal Student Financial Aid.....	8
Loan Due Diligence.....	9
Differences Between Aid Disbursements and Federal Reimbursements	10
UNIVERSITY RESPONSE	
University of Montana	A-1

FIGURES AND TABLES

Tables

Table 1	University of Montana Student FTE	3
Table 2	University of Montana Summary Detail of Full Time Equivalent Employees	4

APPOINTED AND ADMINISTRATIVE OFFICIALS

		<u>Term Expires</u>
Board of Regents of Higher Education	Paul Tuss, Chair	February 1, 2020
	Fran M. Albrecht, Vice Chair	February 1, 2019
	William Johnstone	February 1, 2017
	Robert A. Nystuen	February 1, 2022
	Martha Sheehy	February 1, 2021
	Asa Hohman, Student Regent	June 30, 2016
	Clayton Christian, Commissioner of Higher Education*	
	Steve Bullock, Governor*	
	Denise Juneau, Superintendent of Public Instruction*	
*Ex officio members		
Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	Mick Robinson	Deputy Commissioner for Fiscal Affairs, Chief of Staff
	John Cech	Deputy Commissioner for Academic and Student Affairs
	Vivian Hammill	Deputy Commissioner/Chief Legal Counsel
	Kevin McRae	Deputy Commissioner for Communications and Human Resources
	Tyler Trevor	Deputy Commissioner for Planning and Analysis/IT
	Frieda Houser	Director of Accounting and Budget
University of Montana	Royce Engstrom	President
University of Montana-Missoula	Perry J. Brown	Provost and Vice President for Academic Affairs
	Teresa S. Branch	Vice President for Student Affairs
	Peggy Kuhr	Vice President for Integrated Communication

	Michael Reid	Vice President for Administration and Finance
	Scott Whittenburg	Vice President for Research and Creative Scholarship
	Matthew Riley	Chief Information Officer
	Lucy France	Legal Counsel
	John McCormick	Director, Business Services
Montana Tech of the University of Montana	Donald M. Blackketter	Chancellor
	Doug Abbott	Provost and Vice Chancellor for Academic and Student Affairs
	Beverly Heartline	Vice Chancellor for Research and Dean of Graduate School
	Margaret Peterson	Vice Chancellor for Administration and Finance
	Joe McClafferty	Vice Chancellor for Development and University Relations
	John Badovinac	Controller/Business Manager, Post-Retirement
	Carleen Cassidy	Director, Sponsored Programs and Grant Accounting
University of Montana-Western	Beth Weatherby	Chancellor, University Executive Vice President
	Sylvia Moore	Interim Provost and Vice Chancellor for Academic Affairs, University Associate Vice President (effective 7/6/15)
	Karl Ulrich	Provost and Vice Chancellor for Academic Affairs, University Associate Vice President (through 6/30/15)
	Susan D. Briggs	Vice Chancellor, Administration/Finance and Student Affairs, University Associate Vice President
	Liane Forrester	Controller
Helena College University of Montana	Daniel Bingham	Dean/CEO
	Chad Hickox	Associate Dean for Academic Affairs (effective 9/8/15)
	Denise Runge	Associate Dean for Academic Affairs (during FY 2015)
	Elizabeth Stearns-Sims	Assistant Dean for Student Services

Russ Fillner Assistant Dean for Fiscal and Plant Operations

Valerie Curtin Director of Financial Aid

For additional information concerning the University of Montana, contact:

Kathy Burgmeier, Director

Internal Audit

University Hall 018

Missoula MT 59812

(406) 243-2545

(406) 243-2797 (fax)

e-mail: burgmeierka@mso.umt.edu



MONTANA LEGISLATIVE AUDIT DIVISION

COMPLIANCE AUDIT University of Montana

For the Two Fiscal Years Ended June 30, 2015

OCTOBER 2015

15-12

REPORT SUMMARY

Student enrollment at the University of Montana declined from 18,709 in fiscal year 2012 to 16,719 in fiscal year 2015. Most of the decline occurred in enrollment of Montana resident students. The enrollment drop caused the university to lose performance funding when several campuses did not achieve the student retention objective in fiscal year 2015. We considered these events and their impact when performing work at University of Montana campuses.

Context

The University of Montana (university) consists of four campuses: University of Montana–Missoula, Montana Tech of the University of Montana, University of Montana–Western, and Helena College University of Montana. The campuses provide diverse programs leading to graduate, undergraduate, and associate degrees as well as occupational certificates.

During the audit, we examined the university's compliance with federal regulations pertaining to the Student Financial Assistance (SFA) and Research and Development (R&D) programs. Each campus has a separate SFA agreement with the U.S. Department of Education. We focused SFA federal compliance audit procedures on the University of Montana–Missoula (UM–Missoula), which distributed \$99.7 million or 38 percent of the \$262 million distributed in fiscal year 2014, the most of any campus in the Montana University System. The university also expended over \$90 million in federally funded research and development in the past two years, most of it at the Missoula campus. Consequently, we concentrated our audit effort in these two programs at UM–Missoula.

We also tested compliance with selected state laws and Board of Regents' policies at each university campus.

Results

The report contains four recommendations to the university.

One SFA recommendation addresses noncompliance with exit counseling and grace period notice requirements for Perkins student loan borrowers. Another addresses timely reconciliation between amounts reported as disbursed to students for Direct Loans and Pell grants and the amounts actually disbursed.

The R&D issues concern the need to improve documentation of the review of grant financial activity required by UM–Missoula policy and questioned costs associated with an equipment purchase.

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (15-12) 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>

Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE

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

Chapter I – Introduction

Audit and Objectives

We conducted a compliance audit of the University of Montana (university) for the two fiscal years ended June 30, 2015. The objectives of the audit were to:

1. Determine the university's compliance with federal regulations applicable to the Student Financial Assistance (SFA) and Research & Development (R&D) federal programs, including its implementation of internal control over compliance to the extent required by federal regulations.
2. Determine the university's compliance with selected state laws, regulations, and Board of Regents' policies.
3. Provide recommendations for improvement in management and internal controls.
4. Determine the implementation status of prior audit recommendations.

In this audit, we examined the university's compliance with federal regulations governing the SFA and R&D programs. We focused our audit efforts on SFA at UM–Missoula, which comprised 38 percent of the Montana University System total in fiscal year 2014. We concentrated our R&D efforts at UM–Missoula, which expended 95 percent of the total expended at all UM campuses. We also tested selected state laws and Board of Regents' policies at each of the campuses we visited during the audit. The state laws addressed bonding requirements and purchasing. Regents' policies covered Personnel, Compensation, and Information Technology.

University of Montana–Campuses

In the current organizational structure of the Montana University System, the University of Montana is one of two universities with four campuses. All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of the University of Montana provide a diversity of undergraduate and graduate academic degrees.

University of Montana–Missoula

The University of Montana-Missoula campus offers four-year undergraduate programs along with masters and doctoral graduate programs. It includes professional schools and significant research activities. The university operates the only law school in the system. Other schools/colleges include Humanities and Sciences, Business Administration, Education and Human Sciences, Visual and Performing Arts, Forestry and Conservation, Health Professions and Biomedical Sciences, Extended and Lifelong Learning, Honors, Graduate, and Journalism. In addition, the university

includes a two-year college, which provides a broad range of technical and occupational education and training courses. Missoula College and Bitterroot College students receive either a certificate of completion or a two-year degree upon completion of a program.

Montana Tech of the University of Montana

Montana Tech of the University of Montana provides a variety of four-year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs. It also includes the Highlands College, which provides core education courses and two-year degrees in various occupational and technical programs.

University of Montana–Western

The University of Montana–Western provides undergraduate degrees in a number of liberal arts, professional, and preprofessional areas using a unique scheduling system in which students take one class at a time.

Helena College University of Montana

The Helena College University of Montana is a two-year college offering 32 credentials in 14 different areas, as well as general transfer degrees and a variety of learning opportunities in personal enrichment and customized training.

Enrollment and Staffing

In fiscal years 2014-15 and 2013-14, the University of Montana had full-time equivalent (FTE) student counts of 16,719 and 17,139, respectively. As shown in Table 1 (see page 3), since fiscal year 2011-12, the university's FTE has declined 1,990. Of that decrease, 1,961 consisted of resident students and 1,819 occurred at UM–Missoula.

Table 1
University of Montana Student FTE
 Fiscal Years 2012 Through 2015

University of Montana–Missoula	FY12	FY13	FY14	FY15
Undergraduate Resident	7,221	6,696	6,229	5,970
Graduate Resident	1,350	1,285	1,252	1,249
Resident-Missoula College	1,647	1,659	1,546	1,349
Total Residents	10,218	9,640	9,027	8,568
Undergraduate Nonresident	2,043	1,872	1,865	1,880
Graduate Nonresident	523	504	505	512
Nonresident-Missoula College	112	110	115	124
Western Undergraduate Exchange Program-UM Missoula	737	698	691	732
Western Undergraduate Exchange Program-Missoula College	10	7	7	8
Total Nonresidents	3,425	3,191	3,183	3,256
TOTAL UNIVERSITY OF MONTANA–MISSOULA	13,643	12,831	12,210	11,824
Montana Tech of the University of Montana				
Undergraduate Resident	1,555	1,534	1,548	1,540
Graduate Resident	69	69	71	74
Resident-Highlands College	362	391	372	340
Total Residents	1,986	1,994	1,991	1,954
Undergraduate Nonresident	323	292	315	367
Graduate Nonresident	43	52	52	69
Nonresident-Highlands College	18	14	9	16
Western Undergraduate Exchange Program-UM Tech	142	148	177	189
Western Undergraduate Exchange Program-Highlands College	8	6	5	5
Total Nonresidents	534	512	558	646
TOTAL MONTANA TECH OF THE UNIVERSITY OF MONTANA	2,520	2,506	2,549	2,600
University of Montana–Western				
Undergraduate Resident	1,076	1,118	1,080	1,034
Undergraduate Nonresident	92	83	92	97
Western Undergraduate Exchange Program	197	237	238	225
TOTAL UNIVERSITY OF MONTANA–WESTERN	1,365	1,438	1,410	1,356
Helena College University of Montana				
Resident	1,151	1,071	936	914
Nonresident	17	23	23	15
Western Undergraduate Exchange Program	13	10	11	10
TOTAL HELENA COLLEGE UNIVERSITY OF MONTANA	1,181	1,104	970	939
Total University Resident	14,431	13,823	13,034	12,470
Total University Nonresident	3,171	2,950	2,976	3,080
Total University of Montana Western Undergraduate Exchange Program	1,107	1,106	1,129	1,169
Total for the University of Montana	18,709	17,879	17,139	16,719

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

Table 2 presents FTE employees at units of the university. Actual employee FTE is generally less than budgeted employee FTE, reflecting vacancies caused by turnover and cost-saving measures.

University Units	Contract Faculty	Contract Administrative	Contract Professional	Classified	GTA / GRA	Part-Time and Other	Total
Missoula	801.01	64.39	382.36	1,016.98	269.87	424.07	2,958.68
Montana Tech	183.09	9.60	110.38	133.60	19.02	45.94	501.63
Western	82.68	9.00	29.31	89.11	0.00	33.80	243.90
Helena College	56.92	4.00	21.00	41.28	0.00	2.88	126.08
Bureau of Mines	0.00	1.00	33.41	15.80	0.00	7.72	57.93
Forestry Conservation Station	9.61	0.00	2.08	0.58	0.00	0.00	12.27
UM Total	1,133.31	87.99	578.54	1,297.35	288.89	514.41	3,900.49

University Units	Contract Faculty	Contract Administrative	Contract Professional	Classified	GTA / GRA	Part-Time and Other	Total
Missoula	778.23	64.52	362.95	967.50	292.27	465.78	2,931.25
Montana Tech	169.13	9.37	99.37	118.86	19.90	54.98	471.61
Western	81.25	9.00	29.50	88.44	0.00	34.34	242.53
Helena College	54.29	4.00	16.44	41.63	0.00	4.09	120.45
Bureau of Mines	0.00	0.00	33.03	11.67	0.30	8.33	53.33
Forestry Conservation Station	8.14	0.02	2.27	0.71	0.07	0.61	11.82
UM Total	1,091.04	86.91	543.56	1,228.81	312.54	568.13	3,830.99

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

University of Montana Funding

The level of state support for the Montana University System (MUS) is determined by the Montana legislature. The legislature appropriates state funds, comprised of general fund and six-mill levy revenues, in a lump sum for the educational units and all other higher education programs except the research and public service agencies, community colleges, and tribal college assistance programs. The Board of Regents allocates the lump sum state funding to the various programs and campuses. The Board of Regents' allocation formula is based upon resident enrollment and certain base fixed costs of each campus.

In fiscal year 2015, the legislature designated \$7.5 million of appropriation as performance funding. The Board of Regents approved the allocation of performance funding between MUS campuses based on student completion of programs and retention of first year enrollees. UM–Missoula, Montana Tech–UM, and Helena College did not improve student retention. As a result, these campuses, as a group, received \$663,702 less than the initial budget allocation to them because the retention objective was not met.

Prior Audit Recommendations

The prior financial-related (compliance) audit of the University of Montana for the two fiscal years ended June 30, 2013, contained five recommendations. The university implemented four recommendations and one recommendation is no longer applicable. Chapter 73, Laws of 2015, repealed the statutory limit on fee waivers for nonresident students, so the recommendation to comply with the limit is no longer applicable.

Chapter II – Findings and Recommendations

Research & Development Grants

The University of Montana–Missoula’s Office of Research and Sponsored Programs (ORSP) manages research and development grants and contracts from federal, state, and private sources. Grant management includes oversight over the application process, accounting, compliance, and financial reporting associated with grant activity. Of the grant expenditures incurred in fiscal years 2013-14 and 2014-15, approximately \$95 million were funded from federal sources over the two-year period. The following two sections discuss issues related to grant management.

Quarterly Expenditure Review

The university can improve documentation of its grant expenditure review to decrease the risk of unallowable charges to federal grants remaining undetected.

The Office of Research and Sponsored Programs represented that grant expenditure reports, both summary and detail, are run monthly and reviewed at least quarterly by grant accountants. Although ORSP procedures required a quarterly review of expenditures for open grants, we identified 6 grant fund files of the 32 sampled that lacked evidence of review required by ORSP procedures for the quarter tested. Although we confirmed by interview that one review had been performed, and by inspection that three grants had no expenditures in the quarter tested, lack of documentation makes it difficult for management to monitor compliance with ORSP policy. If expenditure reviews do not occur, risk of unallowable expenditures being charged to a grant and not being detected increase.

University management stated the procedure describing staff review of grant expenditures does not specify how the review is to be documented. By not specifying how to document the review in its procedure, management cannot determine whether staff have completed the reviews required by internal procedure. We could not confirm from inspection of the files whether the reviews not documented had actually been performed.

RECOMMENDATION #1

We recommend the University of Montana-Missoula implement procedures to document the quarterly review of grant expenditures.

Equipment Purchase

The university purchased equipment with federal funds when equipment costs were not permitted by the grant agreement.

Federal regulations state that the auditee shall comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its federal programs. We tested 11 grant expenditures in excess of \$25,000 at the University of Montana–Missoula. The university purchased equipment related to research funded by one federal grant. The terms of the grant agreement listed the purposes for which the grant funds could be spent. The listed purposes did not include equipment, so the equipment purchase was not an allowable charge to the grant. As a result, we question costs of \$48,997 charged to the grant.

University staff said the university filed a request with the grantor agency in January 2014 to carryover funds to the next year for equipment related to the research funded by the grant, but the request was not approved until February 2015. In April 2014, the University of Montana–Missoula purchased equipment after the equipment in use for the grant-funded project failed. According to university personnel, the grant work could not continue without the equipment, so a replacement was ordered and charged to the grant.

Federal regulations require prior approval to use funds for purposes other than those stated in the grant agreement. Although the request was eventually approved, the university did not have authority to purchase equipment with the grant funds at the time the equipment was purchased.

RECOMMENDATION #2

We recommend the University of Montana-Missoula limit charges to federal grants to activities allowed under terms of the grant agreement.

Federal Student Financial Aid

The University of Montana administers federally-funded student financial assistance programs. These programs provide financial assistance to students pursuing postsecondary education. Although each campus has a separate financial aid agreement with the U.S. Department of Education, we limited audit procedures to the University

of Montana–Missoula, which distributed 38.26 percent of the state’s federal financial aid in fiscal year 2014, the most of any campus in the Montana University System.

Federal financial aid consists of grants, loans, and work study employment and is awarded to students based on financial need. The Pell Grant Program provides grants primarily to undergraduate students. The Federal Direct Student Loan Program makes interest subsidized or unsubsidized loans available to students, or PLUS loans to graduate or professional students or parents of dependent students. The Perkins Loan Program provides long-term, low-interest loans to undergraduate and graduate students from a revolving loan fund initially funded with federal and state contributions and replenished with repayments of principle and interest on previously awarded loans.

Each of the programs described above have federal compliance requirements, and federal regulations require the university to establish and maintain internal controls at each campus to reasonably ensure compliance with the program requirements.

During our audit, we identified issues pertaining to Perkins loan due diligence procedures with borrowers and disbursement records for Direct loans and Pell grants, which are addressed in the following two sections.

Loan Due Diligence

The University of Montana–Missoula can improve compliance with borrower exit counseling and payment notice requirements for Perkins loans.

The University of Montana–Missoula (UM–Missoula) contracts with a third party to perform required due diligence contacts with borrowers to minimize risk of student default on its Perkins loans. Federal regulations require that exit counseling be conducted with each Perkins loan borrower either in person, by audiovisual presentation, or by interactive electronic means, shortly before the borrower ceases at least half-time study at the institution. In addition, federal regulations also require UM–Missoula to contact the Perkins loan borrower three times within the initial nine month grace period. These contacts must occur 90 days, 150 days, and 240 days after the commencement of any grace period.

We noted instances where exit packages were not distributed and grace period notices were not sent for students that separated from the university. In our sample of 25 student accounts, we identified 5 students who did not receive exit packages and 9 students who did not receive all the required grace period notices. Students enter payment status each time they leave school or course enrollments fall below one half the credits required for full time status. The identified exceptions occurred in the

2013-2014 academic year when students separated from the university unexpectedly. UM–Missoula did not discover the lack of exit packages or grace period notices for the identified students prior to our communicating with them regarding the issue.

UM–Missoula is not in compliance with federal regulations requiring exit conferences and grace period notifications for students entering Perkins loan payment status. UM–Missoula personnel said noncompliance occurred when the actual date a student separates from the university differs from the estimated date of separation for that student. The contractor hired by UM–Missoula to ensure exit counseling information and grace period notices are sent to each student with a Perkins loan has an estimated separation date for the student on its computer. These separation dates are updated based on the student’s activity at UM–Missoula. When the system uploads actual separation dates from the federal clearing house and the actual separation date for a student is greater than 30 days before or 30 days after the estimated date that is already in the system, the system does not automatically flag the student for exit counseling or for sending grace period notices. UM–Missoula can enhance compliance by ensuring timely communication of changes in student separation dates.

RECOMMENDATION #3

We recommend the University of Montana–Missoula implement improvements in its control procedure to ensure Perkins loan exit counseling and grace period notice generation occurs in a timely manner pursuant to federal regulations.

Differences Between Aid Disbursements and Federal Reimbursements

The University of Montana–Missoula can improve its compliance with federal regulations requiring federal reimbursements for Direct loan and Pell grant aid to match aid disbursements to students documented by the university.

Federal regulations for Direct loans require UM–Missoula to ensure the student’s loan amount, the anticipated and actual disbursement date or dates, and disbursement amounts are complete and accurate. Federal regulations also require UM–Missoula to report any change in the amount of a Pell grant for which a student qualifies, including any related payment data changes by submitting the student’s payment data that discloses the basis and result of the change in award for each student.

UM–Missoula received multiple notices from the Department of Education’s Common Origination and Disbursement (COD) system that identified instances where amounts reimbursed for a Direct loan or Pell grant exceeded the amount disbursed for the same aid for more than 30 days. These differences usually occur when the student decides to accept less loan or grant aid than initially awarded by UM–Missoula. These differences are referred to as unsubstantiated balances. Although UM–Missoula had not implemented a procedure to identify these unsubstantiated balances within the 30-day period allowed by federal regulations, the university remitted funds to the Department of Education for the federally determined unsubstantiated amounts. When COD monitoring notices were received, UM–Missoula returned cash for the amount by which the original reimbursement exceeded the amount disbursed to the student. We identified one instance in academic year 2013-2014, and three instances in academic year 2014-2015.

UM–Missoula personnel reconcile between the Department of Education Direct loan files and the state’s financial aid files, but the reconciliation is not completed in time to detect each difference within 30 days. A financial aid manager delivers the COD notices directly to the financial manager who draws federal cash, but not to the person performing the reconciliations. The communication gaps constitute a systemic weakness in design of the university’s internal control to reconcile federal awards and disbursements for each student within 30 days.

RECOMMENDATION #4

We recommend the University of Montana–Missoula enhance communication between staff charged with monitoring and correcting discrepancies between loan funds disbursed to a student and the amount recorded as reimbursed with federal funds.

UNIVERSITY OF MONTANA

UNIVERSITY RESPONSE



October 7, 2015

Ms. Tori Hunthausen
Legislative Audit Division
Room 135 State Capitol
P. O. Box 201705
Helena, MT 59620-1705

RECEIVED
OCT 13 2015
LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen,

On behalf of the University of Montana community, I want to extend our appreciation to you and the Legislative Audit staff for their work on the University of Montana's Compliance Audit for the two fiscal years ending June 30, 2015. We always find this process to be helpful in reviewing our controls and systems and the work by the Legislative Audit staff has been professional and conducted in a cooperative manner. The University takes accountability and compliance with applicable rules and regulations with the utmost importance.

Again, thank you and your staff for their assistance and attentive efforts.

Sincerely,

Royce C. Engstrom
President
University of Montana

RCE/rp
Englet2096

Cc: Clay Christian, Commissioner of Higher Education

University of Montana

Response to Legislative Audit Division Compliance Audit

For the Two Fiscal Years Ended June 30, 2015
October 8, 2015

RECOMMENDATION #1

WE RECOMMEND THE UNIVERSITY OF MONTANA-MISSOULA IMPLEMENT PROCEDURES TO DOCUMENT THE QUARTERLY REVIEW OF GRANT EXPENDITURES.

The University concurs with the recommendation. As soon as the auditors raised their concern, the University modified the internal departmental procedures. The procedures clarify how employees must document their quarterly reviews.

RECOMMENDATION #2

WE RECOMMEND THE UNIVERSITY OF MONTANA-MISSOULA LIMIT CHARGES TO FEDERAL GRANTS TO ACTIVITIES ALLOWED UNDER TERMS OF THE GRANT AGREEMENT.

The University concurs with the recommendation. Effective September 2015, the Office of Research and Sponsored Programs implemented an emergency purchase procedure to address the situation as outlined in this finding.

RECOMMENDATION #3

WE RECOMMEND THE UNIVERSITY OF MONTANA-MISSOULA IMPLEMENT IMPROVEMENTS IN ITS CONTROL PROCEDURE TO ENSURE PERKINS LOAN EXIT COUNSELING AND GRACE PERIOD NOTICE GENERATION OCCURS IN A TIMELY MANNER PURSUANT TO FEDERAL REGULATIONS.

The University concurs with the recommendation. Beginning in fall 2015 semester, the University will implement a supplement procedure to ensure Perkins loan exit counseling and grace periods notifications will be sent in accordance with federal regulations.

RECOMMENDATION #4

WE RECOMMEND THE UNIVERSITY OF MONTANA-MISSOULA ENHANCE COMMUNICATION BETWEEN STAFF CHARGED WITH MONITORING AND CORRECTING DISCREPANCIES BETWEEN LOAN FUNDS DISBURSED TO A STUDENT AND THE AMOUNT RECORDED AS REIMBURSED WITH FEDERAL FUNDS.

The University concurs with the recommendation. The University Business and Financial Aid offices have begun discussion to gain a greater understanding of each offices roles and responsibilities and the data available in the various systems. In FY 16, the offices will modify existing procedures to provide more timely information and resolution of discrepancies between the systems.