I. INTRODUCTION AND BACKGROUND INFORMATION

A. Introduction

Tyler Trevor, Deputy Commissioner for Budget & Planning of the Office of the Commissioner of Higher Education (OCHE), has designated Ron Muffick, as the agency's Internal Control Officer. As Internal Control Officer, Ron Muffick, in addition to his regular duties, has the responsibility to ensure that:

The written documentation of OCHE’s internal control system over financial reporting is on file and available for review by agency personnel and auditors.

OCHE's internal control system is evaluated at least annually or more often as conditions warrant.

The results of audits and recommendations to improve agency internal controls are promptly evaluated by OCHE’s management and that appropriate measures are implemented on a timely basis.

All action determined by OCHE’s management as necessary to correct or otherwise resolve matters will be addressed by the agency within its budgetary constraints.

Ron Muffick is responsible for communicating the contents of the plan to operational managers and for providing the necessary technical guidance and assistance to implement the plan.

OCHE is committed to maintaining an effective internal control system. The annual review and update of the Internal Control Plan along with maintaining policies and procedures to adhere to the Plan are important components of the office's overall internal control structure.

B. General Information

1. Agency Mission

   a. OCHE’s mission is to serve students through the delivery of high quality, accessible postsecondary educational opportunities, while actively participating in the preservation and advancement of Montana’s economy and society.

   b. Statutory references – Article X, Section 9 of the Montana Constitution

2. Executive Staff

   Clayton Christian, Commissioner of Higher Education
   John Cech, Deputy Commissioner / Academic & Student Affairs
   Tyler Trevor, Deputy Commissioner / Budget & Planning, Chief of Staff
   Kevin McRae, Deputy Commissioner / Communications & Human Resources
   Vivian Hammill, Deputy Commissioner / Chief Legal Counsel

3. Designated Internal Control Officer

   Ron Muffick, Director of Operations & Administration
4. Other Internal Control Contacts/Team Members

Jamie Dushin, Accounting Manager
Frieda Houser, Director of Fiscal Affairs
Mary Lachenbruch, Director of Insurance & Benefits
Sherrie Lindbo, Financial Manager
Angela McLean, Director of American Indian/Minority Achievement and K-12 Partnerships
Laurie Tobol, Student Assistance Manager and State Certifying Officer
Susan Witte, Health Insurance Regulatory and Compliance Officer

C. Organization Chart:

II. MANAGEMENT’S KEY INTERNAL CONTROL CONCEPTS

A. Conduction of Risk Assessments

Designated Unit: In general, the Budget, Administration & Planning Department within OCHE is charged with conducting risk assessment.

Risk Assessment Procedures: OCHE has an internal control team that consists of various staff members throughout the office. This team meets as necessary to discuss internal control processes and procedures. The team has developed a risk assessment worksheet to evaluate risk levels throughout the various programs/areas in OCHE. During the internal control meetings, the team brainstorms different potential program area risks and documents those risks on the worksheet. These risk assessment worksheets are used to determine if the internal controls that are currently in place mitigate the risks to an acceptably low level or if additional procedures need to be implemented.
Risk Assessment Criteria:

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<table>
<thead>
<tr>
<th>Risk (people, information, physical assets, finances, etc.)</th>
<th>Consequence</th>
<th>Likelihood</th>
<th>Risk level</th>
<th>What we are doing now to manage this risk</th>
<th>Effectiveness of our strategies</th>
<th>New risk level</th>
<th>Further action needed</th>
<th>Opportunities for improvement</th>
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<th>2. Analyze Risks</th>
<th>Likelihood</th>
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<td>Major</td>
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<tr>
<td>5</td>
<td>Catastrophic</td>
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C. Segregation of Duties

**Designated Units:** Executive Staff, Internal Control Officer, Program Directors, and Program Managers.

All designated units and their staff are responsible for complying with internal control policies concerning segregation of duties for tasks and functions under their jurisdiction. Consistent with the Department of Administration’s (DoA’s) Internal Controls Policy (MOM 399), OCHE adheres to the following principles:

- Individuals responsible for hiring, terminating and approving promotions is not directly involved with preparing payroll or inputting data
- Individuals approving time sheets are not involved in preparing payroll
- Individuals involved in payroll data entry do not have payroll approval authority
- Individuals responsible for data entry of encumbrances and payment vouchers do not approve them

(Note: the Internal Control Plan document is available for all personnel on OCHE’s intranet.)
• Individuals responsible for acknowledging the receipt of goods are not also responsible for inputting purchasing and/or accounts payable activities in SABHRS

• Individuals who monitor physical inventory do not have the authority to approve withdrawals of items maintained in inventory without proper documentation

• Individuals responsible for billing are not responsible for collecting and processing cash receipts

• Individuals responsible for maintaining accounts receivable are not involved with cash receipts

• Individuals receiving cash into the office are not involved in making deposits

• Individuals receiving cash or making deposits are not involved in reconciling the bank accounts

• If any of the above duties cannot be segregated, compensating controls have been implemented and are being followed

D. Supervision of Internal Control Systems

Designated Units: Executive Staff, Internal Control Officer, Program Directors, and Program Managers.

Managers are required to establish clear lines of authority and responsibility. The effectiveness of internal controls depends upon the thoroughness, consistency and timeliness of supervision. OCHE designated units and their staff are responsible for ensuring that their program areas have qualified and continuous supervision. This supervision is provided to ensure that internal control objectives are achieved.

The duties of the director/manager in carrying out his/her responsibilities include:

• Clearly communicating the duties, responsibilities and accountabilities assigned to each staff member

• Systematically reviewing each member's work to the extent necessary

• Approving work at critical points to ensure that work flows as intended

The methods used to perform these duties may include:

• Holding staff meetings

• Assigning tasks and establishing written procedures for completing assignments

• Providing guidance and training (or opportunities to attend training) when necessary

• Regularly reviewing appropriate management reports

• Providing appropriate recognition of employee suggestions for control improvements

E. Documentation of Transactions

Designated Units: All processing units within Budget, Administration & Planning Department and any other work unit involved in Records Management and Archiving, Cash Receipting, Cash Disbursements; Accounts Receivable, Accounts Payable; and other processing activities.

All transactions must be supported by appropriate documentation. The documentation must be complete and accurate and should allow tracing a transaction or event from the source documents, while it is in process, through its completion. The documentation should be readily available for examination.

Regardless of format, the supporting documentation should indicate the purpose or reason for the transaction and that the transaction was properly authorized. The transaction amount should be clearly evident or easily verified upon recalculation. The documentation should fully support the information entered in other key data fields in accordance with requirements specified by the MOM category 300. In cases where estimates are used, the underlying methodology (trend analyses, ratios, assumptions, etc.) should be documented and readily available for audit. For system-generated transactions, documentation
that clearly describes the methodology, formulas and calculations, and the applicable system links and processes should be maintained.

The Agency's records management policies and guidelines follow the Secretary of State Records and Information Management Division (Records Management). The purpose of the Secretary of State schedule is to establish standards and procedures that are consistent with the Administrative Rules of Montana (ARM).

F. Authorization of Transactions

**Designated Units:** All processing units.

Transactions and other significant events are authorized and executed only by persons acting within the scope of their authority. Each Deputy Commissioner delegates authority to Program Directors to perform the operations of OCHE. Program Directors may also delegate restricted signature authority to other employees within their reporting structure. An authorized signatures payment request form signed by the appointing authority is required. The form describes the type of authority being delegated and may specify the dollar and/or other limits. Program Managers and/or their appointing authority must review them periodically to ensure that authorizations and signatures are up-to-date.

Financial statement adjustments and interfund/interagency transfer transactions are also subject to management review and approval. Designated individuals with appropriate experience and background have been authorized to approve these transactions. The supporting documentation should clearly show that adjustments and transfers have been properly reviewed and authorized before they are entered into the accounting system.

OCHE's Executive Staff, Program Directors and Program Managers are responsible for complying with all laws and regulations that in any way relate to their job functions. This includes, but is not limited to, federal and state laws, legislative intent and regulatory requirements, the administrative guidelines and accounting policies issued by DoA as applicable, and directives issued by OCHE/Board of Regents policies and procedures.

G. Controlled Access to Resources

**Designated Units:** Executive Staff, Budget, Administration & Planning Department, and Information Technology Services.

1. Access to Physical Resources

OCHE manages the acquisition and safeguarding of central computer hardware and software. OCHE is also responsible for acquiring and managing other machinery and equipment. Acquisition and disposition procedures are aligned with fixed asset policies and procedures published in MOM category 300.

In accordance with state policy, OCHE conducts an inventory of all capital assets (over $5,000) and all high risk assets (under $5,000), such as computers and accessories. Discrepancies are investigated and adjusted. The inventory serves two purposes. It ensures the accuracy of fixed asset information reported in the fixed asset module for use in the annual financial statement and to DoA's Risk Management Division for insurance purposes. All losses, including those that appear to be caused by fraud or dishonesty, are reported immediately to Attorney General and the Legislative Audit Division.

2. Access to Monetary Resources

OCHE’s policies on segregation of duties are designed to assist management in deterring employee theft.

- Cash handling is separated from record keeping
- Customer billing is separated from cash collection
• No one person is allowed to handle a cash transaction from beginning to end.

• Passwords are changed for access to automated accounting records in accordance with state policy.

• Cash receiving is centralized to the extent possible.

• Reconciliation of the accounting records to State Treasury accounts and other authorized bank accounts is performed promptly by individuals who have no responsibility for handling cash.

• Cash or checks that are not deposited the same day of receipt are secured and deposited in accordance with state policy.

3. Access to Personnel

The Executive Staff is responsible for the physical security and safety of OCHE employees, for suggesting corrective action when necessary, and is responsible to respond to threats made to employees. Building security for the 560 North Park Avenue 4th floor office location is provided by OCHE’s card-access system.

4. Access to Information

Access control policies exist for OCHE that defines strategies to prevent unauthorized access. Employees, consultants, and contractors, who design, develop, operate, or maintain IT systems must be authorized to access the systems. All visitors to restricted premises, not previously cleared or identified by badge, are escorted.

All users of IT systems must receive appropriate clearance to use a system (from appropriate IT security management and/or the application administrators). All users of an IT system must receive security awareness training either via online or by other means.

All IT system use is restricted to official business purposes. Users are encouraged to report suspicious behavior to their supervisor or IT security personnel.

As required by the State Information Technology Services Division policy, the agency security officer, Edwina Morrison, is responsible for security issues involving access and use of statewide systems.

H. Employees Must Adhere to the Agency’s Code of Conduct

Designated Units: Executive Staff, Internal Control Officer, Program Directors, and Program Managers.

1. Human Resources and Legal Services

Human Resources and Legal Services are responsible for safeguarding employee integrity within OCHE.

The three primary functions of this office are:

• Educating employees on the risks of misconduct

• Conducting background investigations of OCHE job applicants and appointees

• Investigating allegations of misconduct by OCHE employees or others attempting to cause agency employees to violate the law or the Code of Conduct

2. Code of Conduct

• Employees must avoid any actual conduct which constitutes a conflict of interest or conduct which gives a reasonable basis for the perception of a conflict of interest between their private and public interests.
Employees are prohibited from taking action, performing any duty, or giving any preferential treatment from which they would benefit personally.

Employees are prohibited from taking action which would result in illegal receipt of public or private funds.

Employees may not participate in any official action relating to any entity or individual in which they or their immediate family has a financial interest.

Current or former employees or officers must comply with restrictions regarding other employment, unwarranted privileges or self-exemptions, or improper exemptions.

Executive Staff is responsible for administering policies regarding political activity by OCHE personnel.

III. TRANSACTION CYCLES

A. Expenditure Cycle

The focus of this section is on disbursements processing. OCHE’s review includes each of the subsystems which comprise the expenditure cycle, e.g., purchasing, travel claims, contracts, grants, etc.

1. Overriding Control Objectives

- All expenditures are lawful, properly authorized, and represent a responsible and appropriate use of State funds.
- All expenditures are for goods or services where the full value of such goods and services was actually received.
- Obligations for goods and services are paid in a timely manner as required by law or contractual terms, in sufficient time to take advantage of early payment discounts.
- All expenditures are sufficiently documented, accurately and completely recorded, charged to the proper accounting period (fiscal year) and properly classified as to category of expense.
- Accounts payable are properly classified by type (due to other funds, due to other governmental agencies, etc.). If year-end accrual entries involve accounting estimates, the estimates are reasonable and sufficiently documented.

2. Applicable Statutes, Rules, Policies, and Procedure Manuals

- Montana Code Annotated
- Statewide purchasing polices issued by State Procurement Bureau within DoA
- MOM Category 300
- Administrative Rules of Montana
- SABHRS manuals and guides
- OCHE/BOR policies and procedures
- Federal Code – CFR / IRC

3. Automated Information System in Use

- SABHRS

4. Key Fiscal Reports

- MTAP1701 – Voucher Status Report
5. Questions for Determining Risk

- Are employees required to attend training on the agency’s purchasing, contracting and disbursements policies?
- Does a hierarchy exist which distinguishes the types of payments and the type of review or approval required for each payment type based upon dollar threshold or program specific concerns?
- How does the person responsible for approving the payment know that the goods or services were received or were provided in accordance with contract specifications?
- What procedures are in place to make certain that employees routinely check for the availability of appropriate OCHE’s delegated purchasing agreement?
- What procedures are in place to ensure that all items purchased using Pro-cards were authorized and are appropriate?
- Do strong cut-off procedures exist to ensure that unbilled goods/services received prior to year end are properly recorded as expenditures for the current fiscal year?
- Are there any individuals who have both authorizing and approving responsibilities?
- Is the bank statement reconciliation reviewed, approved and signed by a manager who has no responsibility for cash receipts or disbursements?
- Is there periodic investigation of warrants/checks outstanding for a considerable time?

6. Questions Managers Address before Authorizing Approval for Payment

- Are there adequate budget resources available to incur the expense?
- Will this expenditure pass the "public perception" test? That is, would the office be comfortable if the transaction was written up on the front page of the local newspaper?
- Am I willing to approve this obligation knowing that I am fully responsible?

7. Documentation – See Appendix A

B. Revenue Cycle

The focus of this section is on cash receipts and accounts receivable processing. OCHE’s review includes each of the subsystems which comprise the revenue cycle, e.g., customer refunds and credits, liquidated and delinquent accounts, electronic funds transfers, etc.
1. Overriding Control Objectives

Cash Receipts

- Procedures for handling and processing cash receipts are designed, documented and clearly communicated.
- No one person is allowed to handle a cash transaction from beginning to end; responsibilities for collection are adequately segregated from those for recording cash receipts and general ledger entries.
- Cash receipts are safeguarded at all times. The cash collection function is centralized to the extent possible. Cash receipts are secured, control totals developed, and collections deposited in compliance with OCHE/state policy; any exceptions must conform to the requirements established by MOM category 300.

Accounts Receivable

- An accounts receivable transaction is recorded only when goods/services have been provided or a claim established and corresponding earnings are measurable.
- The method of recognizing accounts receivable and the corresponding revenue (including year-end accrual procedures) is consistently applied.
- Receivables are accurately recorded in the appropriate accounting period (fiscal year), properly classified as to type (due from other funds, due from other governmental agencies, etc.), and properly classified.
- Detail subsidiary ledger records are accurately maintained and protected from unauthorized manipulation. Billings, adjustments and collections are properly recorded in individual receivable accounts. The subsidiary ledger records are reconciled to the general ledger control account.
- Billing documentation (such as delivery records, purchase orders, copies of judgments) is independently maintained and not accessible to parties outside of the billing function, especially those who might have access to cash collections or the detail records of parties being billed.

Other Revenues

- All revenues are recognized as soon as they are measurable and available either by full accrual or modified accrual.
- All revenues are accurately and completely recorded in the proper accounting period (fiscal year) and they are properly classified according to source.
- Appropriate records are maintained for all businesses, users of government services, and individuals or entities against whom fees are assessed.
- Charges for services are promptly and accurately billed.
- Interest and penalties on delinquent payments are properly calculated and timely billed.

2. Applicable Statutes, Rules, Policies, and Procedure Manuals

- Montana Code Annotated
- Statewide purchasing polices issued by State Procurement Bureau within DoA
- MOM category 300
- Administrative Rules of Montana
• SABHRS manuals and guides
• OCHE/BOR Policies and Procedures
• Federal Code – CFR / IRC

3. Automated Information System in Use
• SABHRS

4. Key SABHRS Fiscal Reports
• MT_AR_PAYMENT_DATA – AR Payment Data
• MTGL7008 – Trial Balance by Fund
• MTGL_REVEST_BUDGETS_AND_BAL – Revenue Estimates Budgets and Balances
• MT_ACCOUNT_FUND_BU_SUM – Fiscal Year Totals for Funds by Account

5. Questions for Determining Risk.

Segregation of Duties
• Are responsibilities for cash receipts adequately segregated from those for handling cash disbursements and reconciliation of bank statements?
• Are responsibilities for billing for services and fees adequately segregated from those for collecting and recording cash receipts?
• Are responsibilities for collecting cash receipts and deposit preparation adequately segregated from those for maintaining detail accounts receivable and posting general ledger entries?

Cash Receipts
• Is a secure area provided for opening mail and processing incoming cash receipts?
• Are checks restrictively endorsed as soon as received? Are cash receipts secured?
• Is timely notice of cash receipts from separate programs collected and reported in a central location?
• Is all pertinent information related to cash receipts maintained, such as deposit tickets, remittance advices, copies of receipts and other memoranda?

Accounts Receivable
• Do accounts receivable procedures include reconciling aggregate collections on accounts against postings to individual receivable accounts?
• Are adequate records maintained to assure correct handling and final disposition of items posted to an un-cleared collection account? Is every effort made to ensure that fund distribution is immediately determinable?
• Are all non-cash credits to customer accounts initiated by the program unit and authorized by a financial services manager who has no responsibility for recording the credits?
• Are disputes of billing amounts investigated by individuals independent of accounts receivable recordkeeping?
• Is there an independent periodic review of accounts receivable for credit balances?

Other Revenues
• Are revenue accounts analyzed for unusual fluctuations by comparing to prior year data, multi-year trends, forecasts, and other monthly internal reports?

• Are databases updated for new registrants and withdrawals and are the updated records used as the basis for billing fees?

**General Controls**

• Are detailed receivable records reconciled to the GL control account and are reconciling items investigated by someone other than accounts receivable personnel?

• Is the bank statement reconciliation reviewed, approved and signed by a manager who has no responsibility for cash receipts or disbursements?

6. **Documentation** – See Appendix B

C. **Payroll Cycle**

1. **Overriding Control Objectives**

   The focus of this section is on the payroll transaction cycle. This cycle includes authorization to update the SABHRS for new and terminated employees and wage/salary adjustments; the recording of daily work time and attendance by employees; supervisory review and approval of time records; data input into the central payroll system; monthly payroll processing and paycheck preparation; and paycheck distribution.

   a. **Overriding control objectives**

      • No payments are made to fictitious employees.
      • No overpayments or underpayments are made to bona fide employees.
      • Payroll related expenses are properly accrued and classified in the financial statements.

   b. **Applicable statutes, rules, policies, and procedures**

      • MOM Volume III
      • SABHRS Manuals
      • OCHE/BOR Policies and Procedures

   c. **Automated information systems in use**

      • SABHRS

   d. **Key reports**

      • MTTL1202 & MTTL1202P – Time Validation Reports
      • PAY002 – Payroll Register
      • PER013 – Employee Compensation Changes
      • MTBA2101 – Leave Accrual
      • MTPY5103 – Payroll Expenditures Report

2. **Questions for Determining Risk.**

   **Segregation of Duties**
• Are responsibilities for personnel (human resources), time recording and supervisory review, payroll processing/paycheck preparation, paycheck distribution and general ledger functions assigned to provide a division of duties?

• Are responsibilities for payroll processing adequately segregated from the general ledger function?

• Is payroll distribution supervised by employees, who:
  o Take no part in timekeeping (data input) and payroll processing/paycheck preparation?
  o Have no update access to SABHRS?

**Personnel Controls**

• Do personnel procedures and controls include the following?
  o All changes in employment (additions and terminations), salary and wage rates, and payroll deductions are properly authorized and documented.
  o Payroll processing function is promptly notified of additions, separations, changes in salaries/wages and deductions.
  o Appropriate records are maintained for accumulated employee benefits (vacation, sick leave, etc.).
  o Employee termination checklists / Exit interviews are completed.

**Time Recording/Supervisory Controls**

• Do time recording/supervisory procedures and controls include the following?
  o Maintenance of detailed records of hours worked and approved when appropriate.
  o Procedures established to ensure that supervisory personnel verify hours worked, including overtime hours.
  o Written procedures for authorizing, approving and recording vacation, holidays, sick leave, personal business leave, shift differential, etc. and for approving and controlling compensatory time?
  o Procedures established for timekeeping (inputting time and attendance into payroll system).
  o Additional timekeeping procedures that include reviewing time records for supervisor’s approval and completeness and accuracy.

**Payroll Processing Controls**

• Do payroll processing procedures and controls include the following?
  o Approval and documentation of all changes to the master payroll file.
  o Limiting access to the master payroll file to employees who are authorized to make changes.
  o Review for reasonableness of comparisons of gross pay for current to prior period payrolls by a knowledgeable person not otherwise involved in payroll processing.
  o Balancing the distribution of dollars and hours of gross pay with payroll registers.
  o Procedures to ensure that requests for payroll advances to officials and employees comply with policy.
Payroll Disbursement and Paycheck Distribution Controls

- Do payroll disbursement procedures and controls include the following?
  - Strong encouragement for all employees to receive payroll disbursement through “direct deposit” to their bank account.
  - A process to control and verify returned W-2s.

General Ledger Controls

- Do general ledger procedures and controls include the following?
  - Adequate account coding procedures for classification of employee compensation and benefit costs, so such costs are recorded in the proper general ledger account.
  - Proper recording or disclosure of accrued liabilities for unpaid employee compensation and benefit costs.
  - Verification of payroll data posted to general ledger to the payroll reports.

Controls Related to Grants

- Do payroll and personnel policies/controls include the following?
  - Controls to ensure that payroll costs charged to grants are in compliance with grant agreements.
  - Payroll and personnel policies governing compensation are in accordance with the requirements of grant agreements.

3. Documentation – See Appendix C