



Montana Weatherization Training Center Control Deficiencies Report

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DISTRIBUTION LIST

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In accordance with Montana Board of Regents (BOR) Policy 930.1, this report shall be provided to the Commissioner of Higher Education because of noncompliance with institutional or system policy or of state or federal law.

CONTROL DEFICIENCIES SUMMARY

1. Noncompliance with program income requirements
2. Noncompliance with time and effort (T&E) reporting requirements
3. Noncompliance with consulting requirements
4. Noncompliance with state resource use approval and compensation requirements
5. Noncompliance with state vehicle operating record and fuel card use requirements
6. Inadequate coordination of revenue and expenditure allocation processes
7. Inadequate revenue reconciliation
8. Inadequate segregation of duties for revenue collection
9. Inadequate communication of internal and external requirements
10. Unclear and potentially inefficient process for purchasing approval

PURPOSE

The State of Montana Legislative Audit Division forwarded written communication of concerns regarding the Montana Weatherization Training Center (Center) to Institutional Audit and Advisory Services (IAAS) on January 7, 2013. The primary allegations noted in the concerns relate to the following types of noncompliance:

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1. Revenue received from customers (e.g., general public, MSU departments) for Center services or products related to sponsored program activities was not allocated to funds designated for use associated with the respective sponsored programs.
2. Revenue received in excess of costs paid by MSU (excess revenue) for some sponsored programs was required to be returned to the sponsor and was not returned.
3. Some costs were allocated to sponsored programs in a manner not in accordance with sponsor intent and relative benefits received, specifically salary costs for some employees.
4. Additional compensation (which supplements base salary) paid to the Center Director (Director) exceeded amount limitations.
5. Duplicate payments occurred for some vehicle maintenance related costs (such as fuel).
6. The purchase of one MSU vehicle, a Ford Escape, might not have been warranted.
7. MSU personnel and property were used by the Director for personal purposes.
8. Leave and travel expenses for personal time associated with MSU business travel by the Director were not properly accounted for on some occasions.
9. Designated funds for which the Director has primary responsibility have large balances that are unexplained and might include improper transfers from federal sponsored program funds.

The Fiscal Misconduct Committee agreed that IAAS should conduct procedures to determine if the concerns received by MSU had merit.

A separate report communicated the results of procedures conducted in response to the concerns received by MSU. This report communicates control deficiencies identified while conducting these procedures.

CONTROL DEFICIENCIES

1. Noncompliance with program income requirements

Control Deficiency The Center did not comply with federal regulation by not allocating program income resulting from the Center's federal sponsored programs to funds designated for use associated with the respective sponsored programs before March 2013. In addition, the Center did not comply with a program income disclosure requirement by not consulting with the MSU Office of Sponsored Programs (OSP) about program income resulting from the Center's sponsored programs.

Criteria/Risk *US OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Section .__2 Definitions* states, "Program income means gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award [...]"

US OMB Circular A-110, Section .__24 Program income describes three methods that may be authorized for the disposition of program income as follows:

(b) Except as provided in paragraph (h) below, program income earned during the project period shall be retained by the recipient and, in accordance with Federal awarding agency regulations or the terms and conditions of the award, shall be used in one or more of the ways listed in the following.

(1) Added to funds committed to the project by the Federal awarding agency and recipient and used to further eligible project or program objectives.

(2) Used to finance the non-Federal share of the project or program.

(3) Deducted from the total project or program allowable cost in determining the net allowable costs on which the Federal share of costs is based.

MSU Office of Sponsored Programs Principal Investigator Guide (MSU PI Guide), Section 748.00 Program Income states, “MSU may be required to credit program income to the grant, and, therefore, OSP should always be consulted for advice if any income is generated by work under a grant.”

Consulting with OSP about program income resulting from a sponsored program initiates MSU processes established to help ensure that program income is administered in compliance with applicable requirements of the sponsor.

Recommendation The Center should comply with federal requirements regarding program income. In addition, it should comply with institutional policy by consulting with OSP for guidance regarding program income.

Mgmt. Response (See Appendix – Response from Michael Vogel on page 23.)

Concur with recommendations.

Working closely with the MSU Office of Sponsored Programs and MSU Extension Administration, the Montana Weatherization Training Center has accounted for, confirmed and categorized all income generated from Center activities (see appendix attachment - *Weatherization Center Income to Related Grants on page 29*). All income has been segregated and placed into a single designated MSU account (index 036456). With direct guidance and oversight from the MSU Office of Sponsored Programs, all appropriate center expenses are currently being paid from this designated account. However, to determine the final disposition and management of the income, as of July 11, 2013, the MSU Office of Sponsored program is waiting for guidance from the Montana Weatherization Assistance Program

(MT DPHHS). To ensure the Center is operating in compliance with OMB requirements and MSU policies, monthly contact (email and/or phone) by the Center Program Director and Weatherization grants P.I. to MSU OSP Assistant Vice President for Research has and will continue to take place.

2. Noncompliance with time and effort (T&E) reporting requirements

Control Deficiency The Center did not comply with T&E reporting requirements by not obtaining monthly T&E information from employees who worked on the Center's sponsored programs. In addition, the principal investigator (PI) or other supervisor of the employees was not reviewing monthly T&E reports.

Criteria/Risk *US OMB Circular A-21, Section J.10.c Examples of Acceptable Methods for Payroll Distribution* states:

(2) After-the fact Activity Records: Under this system the distribution of salaries and wages by the institution will be supported by activity reports as prescribed below [...]

(b) These reports will reflect an after-the-fact reporting of the percentage distribution of activity of employees. Charges may be made initially on the basis of estimates made before the services are performed, provided that such charges are promptly adjusted if significant differences are indicated by activity records.

(c) Reports will reasonably reflect the activities for which employees are compensated by the institution. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed.

MSU PI Guide, Section 745.00 Time and Effort Reporting states:

Each month a time and effort report [...] is submitted by all employees who perform work on the grant or contract. Each person must provide a reasonable estimate of the time actually spent working on the project. PIs are responsible for reviewing all time and effort reports to ensure accurate accountability of their own effort and the effort of their staff in a prompt and timely manner.

T&E information from employees who worked on the Center's sponsored programs is a basis for T&E reports submitted by the Center to OSP. Obtaining and reviewing the information from employees helps ensure that salary related costs are allocated to sponsored programs in accordance with relative benefits received.

Recommendation The Center should comply with federal regulations and institutional policy by obtaining monthly T&E information from employees who worked on the Center's sponsored programs. In addition, the PI or other supervisor of the employees should review monthly T&E reports.

OSP can provide the Center with guidance to develop T&E related processes.

Mgmt. Response (See Appendix – Response from Michael Vogel on page 23.)

Concur with recommendations.

In accordance with OMB Circular A-21 and MSU PI Guide, Section 745; starting June 1, 2013, with guidance from MSU Extension Administration, the Montana Weatherization Training Center has developed, implemented and trained Center staff with a new online time and effort tracking system (see attachment – *WTC T&E Employee Monthly Activity Form*). Monthly, time and effort reports are and will continue to be reviewed, verified and approved by the Center Program Director and or Extension Housing and Environmental Health Specialist. If required, salary corrections will be made monthly to reconcile income generated from non- grant activities and aligned with time and effort reporting to the MSU Office of Sponsored Programs. On-going training and oversight by Extension Administration with Time & Effort Reporting will continue.

3. Noncompliance with consulting requirements

Control Deficiency The Center did not comply with consulting requirements by advising a Center instructor to receive payment for teaching at least one Center training course directly from the outside entity that received the training. The Center assigned the instructor to teach the course. It appears that the course was beyond the instructor's regular duties for the Center. The instructor is a professional employee of the Center.

Because the Center assigned the course to the instructor, it appears that the Center was at least a party to the agreement to provide the course. This indicates that the instructor did not act as a private consultant, and therefore should not have been directly paid by the outside entity that received the training.

Criteria/Risk *MSU Personnel Policy and Procedures, Section 970.00 Outside Consulting states:*

Classified and professional employees who are engaged in outside consulting for a fee must make advance arrangements for annual leave or leave without pay for the time spent in providing consulting services during their

normal work schedule. In addition, the guidelines set forth in Sections 440.00 and 1130.00 of the MSU Faculty Handbook on outside consulting apply for professional and classified employees in determining potential conflicts of interest. [...]

MSU Faculty Handbook, Section 1132.00 Montana State University-Bozeman Consulting Policy states:

In all private consulting engagements, the faculty or staff member, using the “notice to clients of faculty acting as private consultants” statement provided by the Office of the Vice President for Research and Creative Activities, shall notify the client in writing that:

- A. the faculty or staff member is acting as a private consultant and not as an employee of the University.
- B. the University is not a party to the contract nor responsible for the performance thereof [...]

Montana University System Board of Regents (BOR) Policy 401.1 Consulting Services-Faculty, which is quoted in MSU Faculty Handbook Section 1130.00 Consulting, states:

Each campus of the MUS shall adopt rules and regulations governing consulting activities carried on by faculty members [...]

For purposes of this policy, ‘consulting’ is defined as any additional activity beyond duties assigned by the institution, professional in nature and based in the appropriate discipline for which the individual received addition personal compensation during the contract year.”

Recommendation The Center should comply with institutional policy by establishing controls to ensure that the applicable method and requirements to compensate instructors for Center training courses are properly identified and adhered to.

Mgmt. Response (See Appendix – Response from Michael Vogel on page 23.)

Concur with recommendations.

In compliance with “MSU Personnel Policy and Procedures, Section 970.00 Outside Consulting”, the Montana Weatherization Training Center now includes in its Policy Manual, a section dealing with classified and professional staff considering outside consulting work for a fee as well as guidance to determine potential conflicts of interest. MSU Conflict of Interest Policy will be followed and the Conflict of Interest form used. The statement is as follows: “To avoid consulting conflicts, employees must make

advanced arrangements for annual leave or leave without pay and conform with institutional policies. Prior to taking on any consulting work for a fee, staff must provide the Center Program Director and MSU Extension Administration with a written request explaining the nature of the work. Prior to taking on any consulting work, staff must obtain written approval from MSU Extension Administration.” The policy will be monitored by the Center Program Director and MSU Extension Administration.

4. Noncompliance with state resource use approval and compensation requirements

Control Deficiency

The Director did not comply with state resource use requirements by using state resources for his personal and outside professional purposes without written approval/notice and/or compensation to MSU as follows:

- Use of part of the Center building for a personal family event without written approval or compensation to MSU.
- Use of office resources in Taylor Hall at MSU to serve as the Executive Director for the Housing Education and Research Association (HERA) for about the past 12 years without written notice other than by providing checks to compensate MSU. Based on IAAS review of records provided by MSU Extension, it appears that the HERA paid MSU Extension \$3,120 per year for this use, however, the records did not describe the scope of the resources used.
- Use of services of a prior employee of the Center for work that was done on the Director’s private property and that was filmed to benefit one of the Center’s sponsored programs without written approval or compensation to MSU. The Director said he personally paid for the supplies used to provide the services.
- The Director’s spouse, who is not a state employee, on some occasions rode as a passenger in a state vehicle as a guest without providing benefit to the conduct of state business and without prior written approval from the state.

In addition, there was the potential that the Director did not comply with state vehicle commuting requirements by using a state vehicle to commute between work and home without written approval by the state. Whether the Director’s use of the vehicle constituted commuting could not be determined because the Center did not log all trips for which the vehicle was used.

Criteria/Risk

OMB Circular A-21, section J.22 Goods or services for personal use states:

Costs of goods or services for personal use of the institution’s employees are unallowable regardless of

whether the cost is reported as taxable income to the employees.

2-2-121(2)(a), Montana Code Annotated (MCA), Rules of conduct for public officers and public employees states:

A public officer or a public employee may not [...] use public time, facilities, equipment, supplies, personnel, or funds for the officer's or employee's private business purposes [...]

Montana Operations Manual (MOM), State Ethics Policy defines business in the context of *2-2-121(2)(a), MCA* as follows:

Includes a corporation, partnership, sole proprietorship, trust or foundation, or any other individual or organization carrying on a business, whether or not operated for profit.

BOR Policy 1008 – Use of campus facilities states:

Campuses of the Montana University System may permit use of campus facilities by persons or groups not associated with the schools. The units may establish their own policies for use of facilities [...]

MSU Faculty Handbook, Section 1132.05 Use of University Resources states:

Employees may use personnel, facilities and equipment of the University in consulting work if such use does not interfere with classes or other University activities and the University is fully compensated for the full costs of such use. Written approval of the department head is required and the dean will be informed. An employee shall not make substantial and regular use of university resources for his or her private business purposes.

MSU Facilities Use Manual, Section 130.00 General Policy Statements states:

- A. The University may grant permission to use University facilities if the proposed use will not disrupt regular academic programs or activities of the University and is determined to be in compliance with the Montana State University System policy (Section 1008, MUS Policies and Procedures) and this policy.
- B. The rental fees charged shall be based on the full cost of services provided, including, but not limited to, services (including security/policy, custodial, catering, etc.), utilities building debt service, maintenance and

departmental equipment depreciation. Rental rates will be reviewed regularly to assure that they reflect the current costs of use.

Administrative Rules of Montana 2.6.204 Authorized Passengers and Uses states:

(1) Except as otherwise provided in this rule, the following individuals may ride as passengers in a state vehicle: [...]

(b) a non-state employee who is: [...]

(iii) a guest or client of the state, including a public employee, if conducting, participating in or providing a benefit to the conduct of state business; [...]

2-17-425, MCA, Limit on use of state vehicle to commute to worksite -- definitions states:

(1) Except as provided in subsection (2), a state-owned vehicle may not be used by a state agency employee to commute from the employee's residence to the employee's worksite.

(2) (a) The department director may authorize an exception to subsection (1) if the commute from an employee's residence to the employee's worksite is less than 30 miles, the employee is required to be on call for quick response to an emergency that threatens life or property and on-call duty is a specifically identified duty in the employee's position description, and employees in the position have frequently responded to emergency calls in the past 6 months.

Recommendation The Director should comply with state resource use approval and compensation requirements.

Mgmt. Response (See Appendix – Response from Michael Vogel on page 23.)

Concur with recommendations.

For any personal use of the Center, written approval/notice and/ or compensation will be obtained by MSU Extension Administration or the Montana Weatherization Center Program Director.

Use of Office Space for HERA records. All HERA files are scheduled to be relocated to a non-MSU location on July 15, 2013. MSU will no longer receive \$3,120.00 compensation from HERA. For HERA mail, a non-MSU mailing address has been initiated.

Work done at home. Use of personal property by any staff for the production of WxTV episodes or any other Center support

function will not take place without written approval by MSU Extension Administration or compensation to MSU.

Non-State employees in state vehicle. Center staff will not transport non-state employees in state vehicles (MSU Extension vehicle and Center vehicles) and will follow all other state and MSU policies regarding state vehicle use.

5. Noncompliance with state vehicle operating record and fuel card use requirements

Control Deficiency The Center did not comply with state vehicle operating record requirements by not maintaining complete records as defined by the state. Vehicle logs the Center established were not complete. In addition, the Center did not comply with state vehicle fuel card use requirements by not using the state's fuel card system.

Criteria/Risk 2-17-422, MCA, Operating history states:

Each state agency shall maintain motor vehicle operating history records for motor vehicles under control of the agency. These records must show the purchase price of the vehicle and the items of expense incurred in the operation of the vehicle, including the expenses of gas, oil, repairs, labor, storage, and service. A complete summary of the operating cost and history record of all state-owned or leased vehicles and trucks must be prepared for each fiscal year.

MOM, Fuel Card Policy, Section III Procedures / Requirements / Responsibilities states:

A. Agencies must:

1. Use the Department of Administration's (DOA) State Procurement Bureau's exclusive fuel card contracts.
2. Designate an authorizing official(s) to oversee its fuel card procedures. [...]

B. Authorizing Official(s) will:

1. Assign a fuel card to each agency-owned vehicle showing the vehicle's license plate number on the front of the card.

State vehicle operating records, including fuel purchase records, help ensure that vehicle related costs are allocated to sponsored programs and other types of funds in accordance with relative benefits received. They also provide a basis for decision making about whether to procure and/or rent additional vehicles.

Recommendation The Center should comply with state requirements by maintaining more adequate state vehicle operating records, including all information required by the state. In addition, the Center should use the state's fuel card system for all fuel purchases.

Mgmt. Response (See Appendix – Response from Michael Vogel on page 23.)

Concur with recommendations.

In compliance with 2-17-422, MCA and MOM, Fuel Card Policy, the Montana Weatherization Training Center has provided for each state vehicle a MSU approved use log. Based on the log use documentation, mileage and related vehicle expenses will be billed to the appropriate project or grant account. In compliance with the MOM, Fuel Card Policy, the Montana Weatherization Training Center has obtained state fuel cards for all state vehicles. For all Center vehicles, a check out procedure has been developed and implemented with training provided to staff. A vehicle log with state fuel cards and keys for each Center vehicle is secured, checked-out and maintained by the Center Administrative Assistant.

6. Inadequate coordination of revenue and expenditure allocation processes

Control Deficiency While conducting our procedures IAAS noted control deficiencies in the Center's coordination of its processes related to revenue and expenditure allocation including the following:

- The process for allocation of revenue resulting from Center training courses and other activities does not enable efficient comparison and alignment of revenue and expenditures incurred to generate the revenue. This is because the revenue allocation process does not include recording the funding source(s) for expenditures incurred to provide the course or activity. For example, when a course is planned the Center does not record whether or not expenditures to provide the course are paid by one or more sponsored programs, and if so, which specific sponsored program(s). Therefore, when revenue from the course is received, its proper allocation among sponsored programs and other types of funds might be unclear.
- The internal accounts receivable process does not include adequate verification that costs to be charged to an account through the process have not already been paid by the account through another method. For example, from June 2011 through January 2013 most of the Center's travel that had mileage costs charged to a sponsored program through the internal accounts receivable process also had vehicle fuel costs charged to a sponsored program through use of an MSU purchasing card. In addition, the state vehicle used for the travel was

purchased by one of the Center's designated funds that received revenue that might constitute program income resulting from sponsored program activities.

- The revenue and expenditure allocation processes do not include guidelines for determining whether or not the dollar amount of a revenue or expenditure transaction (or type of transaction) is large enough to merit the cost that would be incurred to determine how to allocate it in accordance with relative benefits received. For example, whether to allocate based on relative benefits received expenditures for printed materials for Center training courses attended by participants for whom the course fee is paid by a sponsored program and attended by other participants.

Criteria/Risk

US OMB Circular A-21, Cost Principles for Educational Institutions, Section C.4.d. Allocation and documentation standard states:

(3) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then notwithstanding subsection b, the costs may be allocated or transferred to benefited projects on any reasonable basis, consistent with subsections d. (1) and (2).

US OMB Circular A-133, Compliance Supplement, Part 3 – Compliance Requirements, Introduction states:

Federal agencies are required to take actions to prevent improper payments, review Federal awards for such payments, and, as applicable, reclaim improper payments. Improper payment means:

1. Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.
2. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments).

MOM, Section 399 Internal Control Guidebook, Internal Controls over Financial Reporting Self-Assessment Tool, Expenditures/Disbursements includes the following control description:

Post-payment audit procedures and exception reports have been developed for detection of duplicate payments.

Recommendation The Center should evaluate its key processes related to allocation of revenue and expenditures to determine the extent to which coordination among, and perhaps within, the processes should be improved to help ensure allocation of associated revenue and expenditures is adequate and is conducted without undue effort or cost. During this evaluation, the Center should:

- Consider whether documentation of the processes and of the relationships between the processes is adequate; and
- Consult with MSU Extension and OSP about the nature, scope and results of this evaluation.

Mgmt. Response (See Appendix – Response from Michael Vogel on page 23.)

Concur with recommendations.

The Weatherization Center Program Director with assistance from the administrative assistant will determine the appropriate project all expenditures align to when a purchase is made as per the grant budget or, if other sources of funds are more appropriate for the purchase. Training revenues will be deposited into an account that aligns with the grant per the Weatherization Grants PI and/or Center Program Director.

7. Inadequate revenue reconciliation

Control Deficiency Revenue recorded in the Center's alternate accounting system, CatBooks, was not reconciled to MSU's administrative system, Banner, which contains the university's official records.

In addition, the Center's two administrative associates who have accounting related duties had different understandings as to which of them was responsible to reconcile revenue.

Criteria/Risk CatBooks is useful to the Center because it provides features that cannot be performed with Banner. Data that is contained in both systems, such as the amount of Center revenue, should be perfectly consistent, so reconciliations should be performed to ensure that errors are detected timely and to verify that information in both systems is accurate. In addition, this lack of reconciliation could provide the opportunity to mislead management by manipulating CatBooks financial information.

Recommendation Reconcile revenue recorded in CatBooks to Banner on a regular basis, no less than monthly, to ensure that data is consistent between the two systems. Responsibility to perform this reconciliation should be clearly assigned. This reconciliation should ideally be performed by someone other than the person

receiving, maintaining and recording revenue collections. If such ideal segregation of duties is not possible, this reconciliation should be reviewed by someone other than and not under the supervision of the person performing this reconciliation.

Mgmt. Response (See Appendix – Response from Michael Vogel on page 23.)

Concur with recommendations.

Reconciliation of deposits will take place by the Administrative Assistant for Extension Housing and Environmental Health. Reconciliation will take place against funds deposited in Banner, Catbooks, the receipt book and in comparison to registration records. This reconciliation will support the segregation of duties in verifying the income and providing appropriate checks and balances.

8. Inadequate segregation of duties for revenue collection

Control Deficiency One of the Center’s administrative associates was authorized to execute transactions by maintaining most accounts receivable, receiving cash, maintaining custody of cash until deposit, recording transactions in CatBooks and reconciling daily receipts to CatBooks records.

In addition, the Center’s training program coordinator was authorized to independently maintain accounts receivable for Center training course registration fees and receive the cash.

Therefore, segregation of duties for revenue collection was inadequate because there was a lack of segregation of the duties of authorization, custody, recording and reconciliation without adequate compensating controls.

Criteria/Risk *US OMB Circular A-21, Cost Principals for Educational Institutions, Section C.4.d. Allocation and documentation standard states:*

(2) Internal controls. The institution’s financial management system shall ensure that no one person has complete control over all aspects of a financial transaction.

MOM, Section 399 Internal Control Guidebook, Section VI.B.1 states:

Segregation of duties is one of the most important features of an internal control plan. The fundamental premise of segregated duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake and review the same action. These are called incompatible duties when performed by the same

individual. Examples of incompatible duties include situations where the same individual (or small group of people) is responsible for:

- Managing both the operation of and recordkeeping for the same activity.
- Managing custodial activities and recordkeeping for the same assets.
- Authorizing transactions and managing the custody or disposal of the related assets or records.

Stated differently, there are four kinds of functional responsibilities that should be performed by different work units, or at a minimum, by different persons within the same unit:

- *Authorization to execute transactions:* This duty belongs to persons with authority and responsibility to initiate and execute transactions.
- *Recording transactions:* This duty refers to the accounting or recordkeeping function, which in most organizations, is accomplished by entering data into a computer system.
- *Custody of assets involved in the transactions:* This duty refers to the actual physical possession or effective physical control/safekeeping of property.
- *Periodic review and reconciliation of existing assets to recorded amounts:* This duty refers to making comparisons at regular intervals and taking appropriate action to resolve differences.

The advantage derived from an appropriate segregation of duties is twofold:

- Fraud is more difficult to perpetrate because it would require collusion of two or more persons, and most people hesitate to seek the help of others to conduct wrongful acts.
- By handling different aspects of the transaction, innocent errors are more likely to be found and flagged for correction.

At a minimum, an agency's plan of internal control [for revenue activities] should ensure that the following activities are properly segregated: [...]

- Individuals who receive cash into the office should not be involved in preparing bank deposits.
- Individuals who receive cash or make deposits should not be involved in reconciling the bank accounts. [...]
- Individuals responsible for maintaining accounts receivable records should not be directly involved in the billing process or cash receipting.

If agencies do not have sufficient staff to accomplish an optimum division of duties, management will need to be more actively involved in reviewing reports and reconciliations and ensuring transactions are adequately documented and properly authorized.

Recommendation The Center should more adequately segregate duties for its revenue collection process or implement controls to compensate for its lack of adequate segregation of duties.

In addition, the Center should evaluate whether some duties within its revenue collection process are assigned to more individuals than necessary to efficiently manage and maintain adequate segregation of duties over revenue collection. For example, this evaluation should include consideration of whether more than one person needs to be assigned to generate accounts receivable invoices.

Mgmt. Response (See Appendix – Response from Michael Vogel on page 23.)

Concur with recommendations.

The Weatherization Training Coordinator will coordinate the registration process and provide the Administrative Assistant for the Weatherization Center with the registration roster so that money is collected when payment is mailed to the Center, the participant arrives for training or an invoice is generated for the participant. A receipt will be written in a three part receipt book in which the original will go to the participant, the second with the training registration and the third to remain in the book. The Center Program Director will review the training registration and receipt books monthly to be reconciled and verified as accurate.

9. Inadequate communication of internal and external requirements

Control Deficiency The Center did not provide some of its employees who have key operating roles with enough information about the Center's policies, procedures and practices and/or about the Center's sponsored program agreements to efficiently coordinate and meet some of their responsibilities such as the following:

- Training course planning and performance reporting. For example, the Center did not always provide the Center's training program coordinator with a copy of sponsored program agreements to provide training courses. The agreements are a basis for course planning and performance evaluation. However, the coordinator was able to obtain a copy directly from the sponsor.

- Accounts receivable management, such as for training course registration fees and Center facilities use fees. For example:
 - A Center administrative associate was responsible for reconciling expected, actual and recorded revenue. She did not have access to records of training course registrations that were maintained by the Center's training program coordinator. Course registrations are a basis for determining course fee accounts receivable. In addition, she was not provided with written criteria for when facilities use fees may be waived by the Director.
 - Three Center employees who had training course accounting, planning and/or instructional related duties had different understandings as to whether a course should be paid for by a sponsor or billed to and paid by the outside entity that received the training. The instructor had not seen any sponsored program agreements.
- Equipment use assignment. For example, the Center's administrative associate who purchased a piece of capital equipment using sponsored program funds and the Center's instructor who used the equipment had different understandings regarding for which activities the Center was allowed to use the equipment. The instructor had not seen any sponsored program agreements.

Criteria/Risk

MOM, Section 399 Internal Control Guidebook, Section V.A Control environment states:

Assignment of authority and responsibility. This factor includes management's responsibility for defining key areas of authority and responsibility and establishing appropriate lines of reporting. Management should provide policies and direct communications so that all personnel understand the agency's objectives, know how their individual actions interrelate and contribute to those objectives, and recognize how and for what they will be held accountable.

MOM, Section 399 Internal Control Guidebook, Section VI.B.6 Documentation control states:

Detailed written evidence of the internal control system, its objectives and activities, is essential. This documentation is valuable to managers in controlling their operations and is useful to auditors or others involved in analysis and reviewing operations. Written documentation facilitates job training by communicating specific responsibilities.

In addition, documented procedures are essential to ensuring that repetitive processes are completed in a consistent and predictable manner, which leads to more effective management of risks associated with an activity.

MSU PI Guide, Section 720.00 Role of Departmental Business Managers/Accountants in Post-Award Administration states:

The departmental business manager/accountant helps administer the award. They play a key role in the financial management of a project. At MSU, the departmental business manager/accountant often acts as a liaison between the PI and OSP. Although responsibilities vary by department, typically their responsibilities include:

- Having knowledge of and understanding MSU policies and procedures related to grant management, as well as the terms and conditions that apply to individual awards.
- Maintaining budgetary control through departmental accounting systems, assuring that expenditures comply with the approved budget.
- Assisting the PI in reviewing expenditures to assure appropriateness and correctness.
- Assisting the PI in all business aspects of grant management.
- Monitoring, along with OSP, grant expenditures to assure that overspending does not occur.

Recommendation The Center should more adequately communicate, in writing if feasible, its internal and external requirements to its employees who have responsibilities related to meeting those requirements.

Mgmt. Response (See Appendix – Response from Michael Vogel on page 23.)

Concur with recommendations.

With direct oversight by MSU Extension Administration and related MSU departments, the Montana Weatherization Training Center has initiated the following actions to improve Center communications:

- Beginning in the fall of 2013, all staff of the Extension Housing and Environmental Health Program (including the Montana Weatherization Training Center) will attend bimonthly trainings on all aspects of grant management, University policies and related topics. This training will be organized and provided by MSU Extension Administration.
- Center and Extension Housing and Environmental Health Administrative Assistants will attend all MSU Grants and Contracts Roundtables, P.I. training, and Business Office Updates.

- To ensure staff access to associated Center grants/contracts and Center Policies/Procedures, starting with contracts for July 1, 2013-June 30, 2014 documents will be posted on the Center's Intranet "Buffalo Station" site.
- Daily oversight of Center activities and communication, as of July 1, 2013 has been strengthened with the appointment of a Weatherization Center Program Director.
- With MSU Extension Administration, the Weatherization Center Program Director will continue to review and revise the Center policy manual. Ongoing training will be conducted to review Center Policy Manual revisions with all Center staff.
- The Center Program Director and Extension Housing and Environmental Health Specialist will host periodic individual and group "listening sessions" for staff to better understand and respond to Center operations and staff needs/issues.

10. Unclear and potentially inefficient process for purchasing approval

Control Deficiency

The Director and some of the Center's employees had different understandings of the Center's process for purchasing approval, which led to internal approval of purchases not always being provided to meet important operating needs in a timely manner. In addition, the process was not documented. The following are the specific misunderstandings:

- Which purchases require prior approval by the Director and
- Who other than the Director was authorized to execute purchases, such as by going to the store.

The Director described the Center's approval process as follows:

- His prior approval is required for all non-travel purchases over \$50.
- One of the Center's administrative associates was authorized to make purchases up to \$50 from any merchant using her MSU purchasing card, as well as to authorize other employees of the Center to make a purchase up to \$50 from one merchant who bills the Center.
- All of the Center's employees were authorized to make travel purchases using their MSU purchasing card.
- Purchases may be executed by the authorized employees.

Some of the Center's employees said that the Center requires prior approval by the Director for nearly all the Center's purchases regardless of dollar amount and that no one other than the Director was authorized to execute approved purchases. In addition, they said this resulted in purchases not always being made to meet important operating needs in a timely manner.

Criteria/Risk

MOM, Section 399 Internal Control Guidebook, Section V.C Control activities states:

By control activities, we mean the policies, procedures, techniques, and mechanisms that enforce management's directives. Control activities occur at all levels and functions. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, security measures, and the creation and maintenance of appropriate documentation. In short, these activities represent basic management practices.

Managers should be careful to avoid excessive control which can be just as harmful as excessive risk. Unnecessary controls can result in increased bureaucracy and reduced productivity. When a problem arises, before implementing a new policy or procedure, managers should make sure that a relevant policy does not already exist that just needs to be enforced.

MOM, Section 399 Internal Control Guidebook, Section IV.F Limitations of internal control states:

Internal controls, no matter how well designed and operated, can provide only reasonable assurance to management regarding the achievement of an entity's objectives, the reliability of reports, and compliance with laws and regulations. Certain limitations are inherent in all internal control systems.

Cost will prevent management from installing an ideal system and, for this reason, management will choose to take certain risks because the cost of preventing such risks cannot be justified. In addition, *more* is not necessarily *better* in the case of internal controls. Not only does the cost of excessive or redundant controls exceed the benefits, but a negative perception may also result. If employees consider internal controls to be "red tape," this viewpoint can adversely affect their regard for internal controls in general.

Recommendation

The Center should evaluate its internal process for purchasing approval to determine the extent to which it should be improved to help ensure proper approvals are obtained without an undue effort or negative effect on operations. This evaluation should include consideration of establishing dollar amount thresholds for when prior approval is required and when after-the-fact review or other monitoring is reasonably sufficient.

In addition, the Center should clearly communicate the Center's purchasing approval process to the Center's employees. This communication should include who is authorized to execute approved purchases, such as by physically going to a store.

Mgmt. Response (See Appendix – Response from Michael Vogel on page 23.)

Concur with recommendations.

With guidance from MSU Extension Administration, the Montana Weatherization Training Center has evaluated its internal process for purchasing approval and executing purchases and will, starting July 1, 2013, initiate staff training for new purchasing policies and procedures.

MTWTC Purchasing Procedure

All MSU Purchasing Policies and Procedures will be followed. Employees having more than three non-compliant purchase incidences will lose purchasing privileges. Employees will be encouraged to plan needed purchases with adequate time to procure the best pricing and availability of supplies.

With approval from Extension Director and MSU OSP, the Weatherization Center Program Director has been added as Co-PI (with the Extension Housing and Environmental Health Specialist) to Center grants.

For tracking of purchases and assigning of grant index, all Center purchases will be documented using a three-part department purchase tracking form (pink retained for the staff making the purchase, yellow provided to the administrative assistant and original/white copy retained by the Center Program Director for approval and index assignment). The form will be approved by the Center Program Director before purchases are made.

All full-time Center staff will be authorized to make one-time purchases, not to exceed \$100.00, within a seven day time frame. Transactions of purchases exceeding \$100.00 will be completed by the Center Administrative Associate.

Within the scope of the Center grants, (the Center Program Director and Extension Housing and Environmental Health Specialist have jointly created a list of approved purchases) staff may execute using their designated P-card (workshop/training supplies, handouts, etc.) provided MSU purchasing policies and procedures are followed.

All purchases are restricted to use of P-card purchases only (no charging).

Within 24 hours of the P-card purchase employees must return the pink approval form with the original purchase receipt to the Center Administrative Associate for processing.


All purchase BPAs will require two approval signatures. With approval from MSU Extension Administration, the Center Grant PI, Center Program Director and Administrative Assistant have been designated with signature authority.

Prior to the implementation of this Center Purchasing Policy, the Center Program Director will provide training to all Center staff.

Appendix – Response from Michael Vogel



MEMORANDUM

TO: Daniel Adams, Director, Institutional Audit and Advisory Services
FROM: Michael P. Vogel, MSU Extension 
RE: Montana Weatherization Training Center
DATE: July 11, 2013

Housing &
Environmental
Health Program

Montana Weatherization Training Center Organizational Modifications.

Following months of thoughtful Center operation and policy review with MSU Extension Administration, MSU Office of Sponsored Programs and associated MSU Departments, as of July 1, 2013 several key strategic refinements of the Montana Weatherization Center have been made in response to the Control Deficiency Report and to meet the unique demands of the Center. Notification of all Center changes will be provided to Center staff, implemented by the Center Program Director, and for future reference be placed on the Center Intranet “Buffalo Station” site and, when appropriate, included in the Center Policy Manual.

Effective July 1, 2013, the following is a summary of Center operations refinements: A full-time Weatherization professional staff will assume daily leadership of Center operations as Center Program Director. Duties of this appointment include:

- Serve as co-PI of Weatherization Grants.
- Promote the Weatherization Center as an outreach and engagement component of Montana State University Extension.
- Advocate for and contribute to the efforts of MSU Extension in meeting the goals and objectives of the Extension strategic plan.
- Maintain regular communications with FCS State Program Leader - MSU Extension Housing and Environmental Health Specialist.
- Plan strategically with State Program Leader and MSU Extension Housing and Environmental Health Specialist and stakeholders to allocate Weatherization Center space, prioritize initiatives, identify funding sources and deliver non-biased, research based programming.
- Manage and coordinate activities taking place at the Weatherization Training Center.
- Make decisions about the finances and management of the Training Center in accordance with MSU policy, funding sources and approved budgets.
- Provide reports and maintain documentation in accordance with MSU policies and procedures as required by granting agencies and other funding sources.
- Schedule trainings and necessary instructors to meet grant directives and deliverables in coordination with the State of Montana DPHHS,
- Maintain office space at the Weatherization Training Center and allocate resources.

*Montana State University,
U.S. Department of
Agriculture and Montana
Counties Cooperating.
MSU Extension is an equal
opportunity/affirmative
action provider of
educational outreach.*

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Fax (406) 994-5417

Mountains & Minds

- Negotiate the lease for the Weatherization Training Center in accordance to MSU policies and procedures and in agreement with the State Program Leader and MSU Extension Housing and Environmental Health Specialist, and the State of Montana DPHHS.
- Operate and arrange the Training Center as necessary to increase efficiency and foster positive employee morale, while ensuring compliance with grant directives and deliverables in coordination with the State of Montana DPHHS and MSU policies and procedures.
- Conduct annual performance reviews of Center staff in agreement with State Program Leader and MSU Extension Housing and Environmental Health Specialist.
- Coordinate with Center staff to prepare and verify operational and fiscal reports as required by MSU and the State of Montana DPHHS.
- Attend appropriate meetings associated with Center operations in coordination with the State Program Leader and MSU Extension Housing and Environmental Health Specialist, State of Montana and DPHHS.
- Provide monthly (approximately 8-16 hours) of non-grant Extension related training or services in coordination with other members of MSU Extension

As a program of the MSU Extension; to establish Center policy and procedures, the Program Director will work closely with the Weatherization Center grant principal investigator who is the Extension Housing and Environmental Health Specialist/State Program Leader. Duties of the Extension Housing and Environmental Health Specialist/State Program Leader and Weatherization Center grant PI include:

- Promote the Weatherization Center as an outreach and engagement component of Montana State University Extension.
- Advocate for and contribute to the efforts of MSU Extension in meeting the goals and objectives of the Extension strategic plan.
- Meet with the Montana Weatherization Center Program Director regularly to discuss operations and programming while ensuring overall compliance with MSU policies and procedures, grant guidelines and contract deliverables dealing with Center operations.
- Represent, advocate for and identify potential funding sources to support the Weatherization Center.
- Collaborate with MSU Weatherization Center Program Director to complete grant proposals and reports and provide documentation as required by funding agencies.
- Serve as representative and spokesperson for the Montana Weatherization Center in dialogues and discussions on the state and national level in agreement with the Center Director.as appropriate and warranted,
- Promote dialogue and provide guidance to the Center Director as appropriate and within the scope of duties.

CONTROL DEFICIENCY RESPONSES

1. Noncompliance with program income requirements.
2. Noncompliance with time and effort (T& E) reporting requirements
3. Noncompliance with consulting requirements
4. Noncompliance with state resource use approval and compensation requirements
5. Noncompliance with state vehicle operating and fuel card use requirements
6. Inadequate coordination of revenue and expenditure allocation processes
7. Inadequate revenue reconciliation
8. Inadequate segregation of duties for revenue collection
9. Inadequate communication of internal and external requirements
10. Unclear and potentially inefficient process for purchasing approval

1. Noncompliance with program income requirements.

Mgmt. Response: Concur with recommendations.

Working closely with the MSU Office of Sponsored Programs and MSU Extension Administration, the Montana Weatherization Training Center has accounted for, confirmed and categorized all income generated from Center activities (see attachment - *Weatherization Center Income to Related Grants*). All income has been segregated and placed into a single designated MSU account (index 036456). With direct guidance and oversight from the MSU Office of Sponsored Programs, all appropriate center expenses are currently being paid from this designated account. However, to determine the final disposition and management of the income, as of July 11, 2013, the MSU Office of Sponsored program is waiting for guidance from the Montana Weatherization Assistance Program (MT DPHHS). To ensure the Center is operating in compliance with OMB requirements and MSU policies, monthly contact (email and/or phone) by the Center Program Director and Weatherization grants P.I. to MSU OSP Assistant Vice President for Research has and will continue to take place.

2. Noncompliance with time and effort (T&E) reporting requirements.

Mgmt. Response: Concur with recommendations.

In accordance with OMB Circular A-21 and MSU PI Guide, Section 745; starting June 1, 2013, with guidance from MSU Extension Administration, the Montana Weatherization Training Center has developed, implemented and trained Center staff with a new online time and effort tracking system (see attachment – *WTC T&E Employee Monthly Activity Form*). Monthly, time and effort reports are and will continue to be reviewed, verified and approved by the Center Program Director and or Extension Housing and Environmental Health Specialist. If required, salary corrections will be made monthly to reconcile income generated from non- grant activities and aligned with time and effort reporting to the MSU Office of Sponsored Programs. On-going training and oversight by Extension Administration with Time & Effort Reporting will continue.

3. Noncompliance with consulting requirements.

Mgmt. Response: Concur with recommendations.

In compliance with “MSU Personnel Policy and Procedures, Section 970.00 Outside Consulting”, the Montana Weatherization Training Center now includes in its Policy Manual, a section dealing with classified and professional staff considering outside consulting work for a fee as well as guidance to determine potential conflicts of interest. MSU Conflict of Interest Policy will be followed and the Conflict of Interest form used. The statement is as follows: “To avoid consulting conflicts, employees must make advanced arrangements for annual leave or leave without pay and conform with institutional policies. Prior to taking on any consulting work for a fee, staff must provide the Center Program Director and MSU Extension Administration with a written request explaining the nature of the work. Prior to taking on any consulting work, staff must obtain written approval from MSU Extension Administration.” The policy will be monitored by the Center Program Director and MSU Extension Administration.

4. Noncompliance with state resource use approval and compensation requirements.

Mgmt. Response: Concur with recommendations.

For any-personal use of the Center, written approval/notice and/ or compensation will be obtained by MSU Extension Administration or the Montana Weatherization Center Program Director.

Use of Office Space for HERA records. All HERA files are scheduled to be relocated to a non-MSU location on July 15, 2013. MSU will no longer receive \$3,120.00 compensation from HERA. For HERA mail, a non-MSU mailing address has been initiated.

Work done at home. Use of personal property by any staff for the production of WxTV episodes or any other Center support function will not take place without written approval by MSU Extension Administration or compensation to MSU.

Non-State employees in state vehicle. Center staff will not transport non-state employees in state vehicles (MSU Extension vehicle and Center vehicles) and will follow all other state and MSU policies regarding state vehicle use.

5. Noncompliance with state vehicle operating record and fuel card use requirement.

Mgmt. Response: Concur with recommendations.

In compliance with 2-17-422, MCA and MOM, Fuel Card Policy, the Montana Weatherization Training Center has provided for each state vehicle a MSU approved use log. Based on the log use documentation, mileage and related vehicle expenses will be billed to the appropriate project or grant account. In compliance with the MOM, Fuel Card Policy, the Montana Weatherization Training Center has obtained state fuel cards for all state vehicles. For all Center vehicles, a check out procedure has been developed and implemented with training provided to staff. A vehicle log with state fuel cards and keys for each Center vehicle is secured, checked-out and maintained by the Center Administrative Assistant.

6. Inadequate coordination of revenue and expenditure allocation processes.

Mgmt. Response: Concur with recommendations.

The Weatherization Center Program Director with assistance from the administrative assistant will determine the appropriate project all expenditures align to when a purchase is made as per the grant budget or, if other sources of funds are more appropriate for the purchase. Training revenues will be deposited into an account that aligns with the grant per the Weatherization Grants PI and/or Center Program Director.

7. Inadequate revenue reconciliation.

Mgmt. Response: Concur with recommendations.

Reconciliation of deposits will take place by the Administrative Assistant for Extension Housing and Environmental Health. Reconciliation will take place against funds deposited in Banner, Catbooks, the receipt book and in comparison to registration records. This

reconciliation will support the segregation of duties in verifying the income and providing appropriate checks and balances.

8. Inadequate segregation of duties for revenue collection.

Mgmt. Response: Concur with recommendations.

The Weatherization Training Coordinator will coordinate the registration process and provide the Administrative Assistant for the Weatherization Center with the registration roster so that money is collected when payment is mailed to the Center, the participant arrives for training or an invoice is generated for the participant. A receipt will be written in a three part receipt book in which the original will go to the participant, the second with the training registration and the third to remain in the book. The Center Program Director will review the training registration and receipt books monthly to be reconciled and verified as accurate.

9. Inadequate communication of internal and external requirements.

Mgmt. Response: Concur with recommendations.

With direct oversight by MSU Extension Administration and related MSU departments, the Montana Weatherization Training Center has initiated the following actions to improve Center communications:

- Beginning in the fall of 2013, all staff of the Extension Housing and Environmental Health Program (including the Montana Weatherization Training Center) will attend bimonthly trainings on all aspects of grant management, University policies and related topics. This training will be organized and provided by MSU Extension Administration.
- Center and Extension Housing and Environmental Health Administrative Assistants will attend all MSU Grants and Contracts Roundtables, P.I. training, and Business Office Updates.
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