

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** June 16, 2010

Agenda Item: Finance and Facilities Division Annual Performance Report

- Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring
- Information

Cite policy requirement, or explain why item is on the Board agenda: The evaluation report of the MnSCU System Office was released by the Office of the Legislative Auditor in February 2010 and included several recommendations.

Scheduled Presenter(s): Laura M. King, Vice Chancellor – Chief Financial Officer

Outline of Key Points/Policy Issues: This report responds to the Office of the Legislative Auditor’s recommendation that the Board of Trustees should exercise stronger ongoing oversight of the system office.

Office of the Chancellor Performance Report
Finance and Facilities Division

I. Multi-year Financial and Personnel Data

Cost Category / Financing	2008-09 Biennium		2010-11 Biennium	
	2008 Actual	2009 Actual	2010 Estimate	2011 Projected
Salaries & Benefits	\$5,362,804	\$5,535,561	\$5,308,579	\$4,981,812
Consulting Contracts	1,647,563	383,368	2,463,552	1,180,438
Other Administrative Costs	5,126,485	5,825,655	5,312,742	4,285,684
Total Administrative Costs	\$12,136,852	\$11,744,584	\$13,084,873	\$10,447,934
Less: External Funding (1)	1,574,483	660,156	1,601,763	1,745,071
General Fund Financed Costs	\$10,562,369	\$11,084,428	\$11,483,110	\$8,702,863
<u>Distribution of General Fund Activities</u>				
Direct Services to Colleges/Universities	\$4,185,753	\$3,412,349	\$4,133,920	\$3,133,031
Systemwide Services	6,376,616	7,672,079	7,349,190	5,569,832
Division Employee FTE	62.38	62.25	59.75	

(1) Includes construction management fees, risk management, workers comp and Revenue Fund

II. Explain the structural distribution between the functional duties performed by this division and similar activities performed by the colleges and universities.

Policy Leadership

Board policies and procedures are prepared for adoption by the board. Implementation occurs at either/both the system level and the college and university level. Colleges and universities as well as the Office of the Chancellor develop local policies within the authority granted by the board to affect activity on their local campus

Budget

Operating budget functions occurs at the system level – request for state appropriation made on behalf of the system and once received are allocated to each college and university. Colleges and universities prepare budgets at the local level adding tuition and other revenue to available resources and then allocating to the departments and functions with the college or university.

Budget unit provides financial planning parameters and tuition guidance for budget development. Colleges and universities develop finance plans and recommend tuition rates.

Budget unit requests state appropriation for the system, allocates available appropriation to the colleges and universities, and monitors various aspects of college and university budgets throughout the year. Colleges and universities develop budgets at the local level (which

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includes appropriation, tuition and other revenue), allocate resources to departments and functions with their individual institution, and monitor/adjust budgets throughout the year.

Board policies and procedures are prepared for adoption by the board. Colleges and universities develop local policies within the authority granted by the board to affect activity on their local campus

Budget unit distributes state appropriation to colleges and universities for base support via an allocation framework. Data is obtained, numerous formulas are run, and a state appropriation allocation is calculated for each college and university. Colleges and universities determine how to spend the appropriation received through the allocation framework.

Budget unit extracts the student enrollment and finance data and distributes to each college and university for their review and completion of cost study. The unit compiles the individual college and university instructional cost studies into a systemwide report. The system cost study as well as individual cost studies are made available to each college and university for use in academic program management.

Each college and university completes an annual instructional cost study using the data generated from the Budget unit. The instructional cost study displays a cost per student for each academic program by level of instruction. Many colleges and universities use the instructional cost data in their program review processes and for academic program management.

Budget unit has overall responsibility for overseeing improvements made to the allocation framework. It staffs a Technical Advisory Committee (composed of academic, student and finance officers) which is charged with on-going analysis and review of the operation and design of the allocation framework and its components.

Issues needing to be analyzed or pursued within the allocation framework may be identified by colleges and universities. Colleges and universities provide feedback on any proposed changes to the allocation framework.

The budget unit has responsibility for conducting research and preparing systemwide studies and reports such as tuition and fees, cost of attendance, and various legislative reports. The tuition and fee study addressed current tuition and fees policy, tuition comparison at national level, tuition revenue dependency, the role of financial aid in the cost of attendance, and total spending per student comparison at national level. System studies are designed to assist the Board of Trustees in the areas of program design and policy setting.

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Colleges and universities may as part of their tuition setting process compare their individual tuition rates to peer institutions. Colleges and universities conduct research and prepare institution-level reports on a variety of topics important to their local environment.

Facilities

Facilities planning: Staff provides policy guidance and technical oversight for the preparation of campus master facilities plans. Per board policy, staff tracks five-year update milestones and works with campuses and their architectural consultant in developing the master plan update. Staff makes recommendations for plan development, critiques technical substance and progress, and recommends approval action to the Vice Chancellor - CFO. Colleges and universities engage the consultant and manage the master plan update with campus constituencies based on the OOC guidelines and timetable for review and approval.

Staff provides technical oversight for the preparation of capital project predesigns, a necessary and required component of planning prior to capital project funding. Colleges and universities engage the architectural consultant and develop the predesign document based on board and OOC guidelines. Staff review the document at various stages of development, make recommendations to the campuses, and make final recommendation for approval to the Vice Chancellor - CFO.

Capital budget preparation: Staff develops biennial capital budget guidelines to frame the development of capital projects for state funding. After board approval of the budget guidelines, staff manages development of the capital budget with input from each college and university. After approval of the capital budget by the board, staff manages the submission of the capital budget to the governor and Legislature, and advocates for legislative approval of the board-approved project list. Staff assists campuses with legislative visits during which legislators learn more details about capital project needs. Staff acts as primary source of project information for MMB, governor's office and the Legislature.

Sustainability: Staff develops policies, procedures and guidelines to assist campuses with their efforts towards building and maintaining a sustainable campus. Included are guidelines and standards for facilities planning, design and construction; reporting accomplishments to the board; and researching various methods of contracting with consultants to achieve positive results on campus. Staff develops a systemwide method to measure, compare and report on energy consumption and conservation. Campuses are responsible for taking the necessary actions to conserve energy, engage faculty and students, and generally promote on-site sustainable actions and initiatives.

Facilities design and construction: Staff develops policy and procedures for all contract actions for capital and other projects' design and construction. Staff oversees contracting at colleges and universities and provides assistance, training, monitoring, reporting of progress,

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and resolving problems with project delivery. Staff ensures compliance with state procurement requirements for design and construction, including design and construction standards, prevailing wage requirements, a number and variety of statutory requirements, quality assurance, and fiscal integrity. Colleges and universities manage the day-to-day design and construction work activity with oversight and assistance provided by Office of the Chancellor staff.

Real estate management: staff manages and oversees the entire portfolio of over 26 million square feet of space located on over 6,000 acres; provide assistance to campuses for real estate transactions, including easements, licenses, property sales and dispositions; reviews documents for conformance to state and system requirements. Staff creates and maintains systemwide data bases of real estate holdings, leases, campus boundaries and related information.

Revenue Fund: Staff manages the Revenue Fund from a central perspective, as the fund is legally and financially a single financial enterprise. Based on campus input, staff develops long and short ranges capital requirements and plans, and executes revenue bond sales in support of campus capital requirements. Staff provides oversight to annual Revenue Fund operating budgets and reporting to the board. Operation of site-specific Revenue Fund activities, including residence halls, student unions, wellness centers, some parking and dining services is accomplished on campus.

Risk management: Staff provides systemwide perspective and oversight of many risk management activities principally centered on casualty, property and liability insurance; coordinates with the state Admin in the management of a property and casualty program, and other insurance products as needed by campuses.

Emergency planning: Colleges and universities prepare local emergency plans, and coordinate their development with the Fire Center which provides oversight, guidance and assistance as needed.

Safety and environmental health: Staff assists campuses with local compliance activities in the area of employee and student safety, hazardous waste disposal, and a variety of environmental compliance activities. Campuses are responsible for effective day-to-day management of safety and environmental compliance.

Financial Reporting (includes Campus Assistance)

Financial reporting group: Staff provides leadership, guidance, training and tools aimed at college and university management and improvement of campus financial health and financial operations. Financial health is measured on an accrual basis with a focus on a composite financial index measurement basis, which is also used by the Higher Learning

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Commission of the North Central Association to assess members' financial health in relation to accreditation.

The group provides professional accounting and audit pronouncement interpretation and implementation guidance. The group is responsible for Fundware, the supplemental accrual accounting and reporting package used to produce GAAP financial statements, systemwide financial reports and related audits including the systemwide consolidated annual report and the Revenue Fund annual report, and directly supports the external GAAP audits of thirteen universities and colleges and unaudited financial statements and related annual internal of twenty-three unaudited colleges.

The group establishes and maintains appropriate accounting policies and procedures ranging from those with a day-to-day focus to those required for year-end financial statements. The Campus Assistance group is responsible for resolving accounting and procedure issues, monitoring systemwide financial data to ensure data integrity, training of college staff in areas such as local and state treasury bank reconciliations, and providing a wide range of additional accounting, business process, payroll, ISRS finance modules' support and other support to campuses as requested.

Other college/university and systemwide reporting is also supported to varying degrees and includes items such as quarterly Interim Financial reporting, IPEDS reporting, Higher Learning Commission CFI reporting, meeting state and federal government requirements, and ad hoc reporting as needed to support campus management needs.

The colleges and universities are responsible for campus use of ISRS finance modules including the accounting module and all student services uses, preparation and analysis of campus financial statements and supporting footnotes, calculation of required financial performance measures, preparation of other financial reports, responding to auditors' questions and documentation requirements, compliance with board accounting and reporting policies and procedures, and internal controls documentation and maintenance.

Tax and Financial Services

Staff ensures accurate and timely payment of Minnesota State Colleges and Universities federal and state tax obligations as well as compliance with federal and state reporting requirements. As a single legal entity, the system has a single federal taxpayer ID that in turn drives federal consolidated compliance and reporting combining all System colleges and universities. Primary tax compliance and reporting areas include:

1. Unrelated Business Income Tax (UBIT)—The *Tax and Financial Services group* files a federal combined system unrelated business income tax return for all colleges and universities and works closely with each campus to determine their individual taxable

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income. The group also provides tax planning and advice for campuses' revenue contracts and other potential UBIT transactions.

- Campuses provide local management, data and analysis, and implement tax planning if applicable.
2. Year End Tax Forms and Reporting—the *Tax and Financial Services group* prepares, prints, distributes and files (with the IRS, Social Security Administration, state Department of Revenue, etc.) approximately 300,000 student tax forms each year.
 - Campuses provide primary support for student questions.
 3. Student Payroll Tax (consolidated withholding payments & reporting)—The *Tax and Financial Services group* reports wages to the IRS/Social Security Administration and state authorities for approximately \$35,000,000 of payroll for 21,000 student employees; this includes remitting withholding tax and all federal and state tax filings. Tax Services answers campus student payroll questions.
 - Campuses hire the students, verify hours, pay the students and enter pay data in the system.
 4. Minnesota Nonresident Entertainer Taxes—The *Tax and Financial Services group* files the summary report each month with the Minnesota Department of Revenue regarding the required 2% tax withholding on campus payments to out of state entertainers; each year 15 – 20 colleges and universities have approximately 100 such transactions for several hundred thousand dollars.
 - Campuses must identify the transactions and code them properly allowing proper capture, reporting and withholding remittance.
 5. Nonresident Alien Taxation (NRA)—Foreign students, vendors, and faculty and the colleges & universities face a completely different and complicated set of tax rules than U.S. citizens. The *Tax and Financial Services group* devises forms and procedures for NRA compliance and works with campuses to ensure proper paperwork, tax filings and payments are completed.
 - Campuses must maintain all required documentation including requirements from Customs and Immigration, IRS, and Homeland Security and advise students, vendors and faculty.
 6. Sales Tax—*Campuses* file their own sales tax returns; the *Tax and Financial Services group* assists with the many questions that arise including dealing with vendors to ensure campuses are exempted from sales tax where applicable and Tax Services issues guidance such as a three page sales tax guide for campuses.

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7. Tax Compliance—the *Tax and Financial Services* group reviews tax law changes, researches tax questions and provides appropriate assistance to campuses and system office departments, and prepares campuses for and coordinates tax audits and responses to notices from tax authorities. This involves regular updates and periodic training.

Business Office/Financial Operations

The unit includes three groups, the Business Office group, Student Loans group and Office Services group.

The Business Office group ensures the accurate and timely handling of System Office transactions through appropriate application of board policy and state laws. The Business Office group provides a range of accounting and payroll services for operations of the Office of the Chancellor and related staff. All college and university presidents are deemed employees of the OOC such that payroll and expense reporting and processing is conducted at the OOC. Further, the Grants Accounting role of the Business Office Group provides grant accounting services in direct support of campuses. Business Office group responsibilities include: accounts receivable, business expenses, disbursements, employee forms repository, OOC financial management and accounting, fixed asset inventory, grants accounting, auxiliary operations controllership services, and OOC procedures required for these areas.

Campuses interface with presidential payroll and business expenses when such expenses are transferred to campuses for appropriate accounting and reporting. Similarly, campuses are responsible for local grant accounting.

The Office Services group provides support for the operations of the Office of the Chancellor, including staffing the main reception desks, mailroom, meeting room set-up and tear-down, office supplies inventory, vehicle scheduling and maintenance, furniture procurement, internal office and cubicle moves, copier and fax machines' maintenance, records storage, and other related tasks. *There are no campus-related activities.*

The Student Loan group manages collection and repayment of \$34.1 million in Federal Perkins' loans for over 13,000 of the Systems' highest need students at 20 colleges and universities. The unit also plays a lead compliance and reporting role assuring compliance with complex federal student loan regulations. Laxity in loan collection efforts can result in higher loan default rates, which in turn can result in overall Perkins Loan program ineligibility.

The Student Loan group provides a centralized student loan collection unit for all Minnesota State Colleges and Universities that participate in the Federal Perkins Loan program. (20 colleges and universities) currently 34.1 m; 13,560 loans. *Colleges and universities* award

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and disburse the funds and completes the annual Fiscal Operation Report filed with the federal government

The Student Loan group manages the loan from the time the student leaves school until the loan is paid in full, provides the schools' data on a monthly basis for input into ISRS and, provides loan data to Financial Reporting group for financial statement support purposes.

The Student Loan group also administers the online e-payment process (web payments) where student tuition and fee payments can be made via the web using a credit card or e-check. Processing is through a single vendor processing contract. FY2009 volume was \$100 million representing 175,658 individual payment transactions. Centralization of this e-payment process has resulted in significant cost savings through elimination of multiple set-up and maintenance costs and volume-based fee reductions. Centralization has also greatly reduced the System's risk of noncompliance with Payment Card Industry Data Security Standards for transactions processed through this single contract. Sensitive payment data is collected and maintained by the vendor, not by the system.

e-Payments (on-line student payments)

1. Money is received daily by the group and paid out the next day to colleges and universities; payment card fees are charged monthly and the group collects from each campus.
2. Campuses provide information to the *Student Loan group* in order to respond to merchant disputes in a timely manner and the group provides assistance to campuses and customers as needed.

III. Cite any recent or planned redistribution of costs or personnel between this division and colleges/universities for this functional area.

The **Budget** unit has not made any nor has plans to redistribute costs or personnel between the unit and the colleges and universities.

Facilities Design and Construction: For 2010, OOC/Facilities Unit personnel will track their personal time applied towards the oversight of specific capital projects financed by state GO bonds. Personnel who are performing work in support of this activity but who cannot reasonably apply their work hours to a specific GO financed project, will revert to tracking their financial support from the GEN fund. Overall, charges against bond-funded projects should decrease, while an increasing requirement for GEN funding will be seen. This change is undertaken at the direction of MMB.

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IV. Cite performance metrics and major accomplishments from the past year (tie to prior year division/committee work plan, if possible).

2010 Work Plan Accomplishments

Developed a framework which provides assumptions for FY2011-2013 budget planning for colleges and universities and the Office of the Chancellor.

Identified key indicators to measure college and university financial health.

Assisted with reduction planning for the Office of the Chancellor including staffing the Structural Review Committee, preparing survey instrument for office employees and compiling a report of results. First set of reductions complete for the Office of the Chancellor. Second round of budget planning underway and will be reported to the board in December.

Provided the board committee with a comprehensive look at the role of financial aid in the cost of attendance – how financial aid interacts with tuition and fees rates to assist with tuition planning discussions.

Provided the board committee with detailed system data and information to which a budget planning framework was developed. Having a framework resulted in operating budgets and tuition recommendations that were approved by the board.

Once again accomplished clean audit opinions on system wide and 12 college and university audits.

Completed 2008-2013 and 2010-2017 Capital Budgets; gained board approval, and submitted to the governor and legislature. Successfully advocated for the capital improvement program at the Legislature and governor's office, achieving appropriations of \$241 million in 2008, \$40 million in 2009 and \$106 million in 2009.

Managed over \$500 million in design and construction capital projects funded by state general obligation bonds and Minnesota State Colleges and Universities revenue bonds. As of June 2010, 70% of the funds have been obligated or spent, reflecting successful management oversight throughout the system. The Legislature has consistently recognized the system for exceptional management of project execution.

Developed strategy to promote sustainability and energy conservation on campuses, in particular an energy benchmarking system using campus energy data on a web-based software platform. This will enable monitoring of energy consumption around the system, set goals, measure performance, and work towards greater energy efficiencies.

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Developed an “All Hazards” planning program to encompass Emergency Preparedness, Continuity of Operations and Crisis Intervention for all campuses. Most notable were the efforts of individual colleges and universities, with leadership by the Office of the Chancellor, in preparing for the potential pandemic flu outbreak of 2008/2009.

Architectural security guidelines were completed and posted for campus use.

A program called “Students First” was approved by the EIC at its September 2009 meeting. Finance combined planning efforts with the Integrated Student Services Advisory Group, a cross-functional group including representatives from the student associations, leading to development of a mid to long-range enterprise IT investment strategy focused on student service needs.

Finance collaborated with ITS to complete a systemwide Payment Card Industry Data Security Standards (PCI DSS) compliance project through use of an outside contractor (NetSPI). This project included mandatory self-assessment questionnaires, four mandatory quarterly vulnerability scans against college and university systems and identification of weaknesses and possible remediation steps. The effort is transitioning to an ongoing campus-focused compliance effort supported by a collaborative OOC- and campus-staffed PCI DSS Advisory Council.

Finance implemented a financial trends and highlights review process with all 24 accredited, non-audited colleges participated in one of several regional financial trends and highlights meetings. These meetings involve from one to five colleges and included presidents, CFOs and many academic leadership personnel. Working from a base package of performance measures centered on the Composite Financial Index, a round-table discussion highlights positive and negative developments and encourages a free exchange of financial performance information across campuses.

Tax authorities have not assessed colleges and universities with any tax penalties relating to payments, reporting, or audit/notice.

Positive OLA Audit Findings Relating to Tax Services. More than 90 percent of presidents gave the division high marks for each of the following functions “...helping campuses comply with tax laws and regulations”.

Under Students First Single Bill/Payment, a Tax Services proposed project is underway to provide students with electronic tuition tax statements and W-2's with the potential to save colleges and universities in excess of \$100,000 annually upon full implementation.

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V. Identify major division/committee work plan activities planned for upcoming year.

- FY2012-2013 Biennial Operating Budget Request
- FY2011 Office of the Chancellor Budget Update
- FY2012 Operating Budget
- Continuous Improvement of the Allocation Framework
- FY2010 Financial Statements
- College and University Financial Health Indicator/Measurement Project
- Revenue Fund Bond Sale
- FY2012-2017 Capital Budget Request