

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

Agenda Item Summary Sheet

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

Agenda Item: College and University Financial Health Indicator/Measurement Project

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring

Information

Cite policy requirement, or explain why item is on the Board agenda: Board Policy 7.3, Part 1 states it is the policy of the Board of Trustees to provide sound financial administration to safeguard the resources of the State of Minnesota, the system, the colleges and universities and the constituencies they serve. Effective financial administration will facilitate monitoring and improving managerial performance and evaluating the financial effects of management decisions.

Scheduled Presenter(s): Judy Borgen – Associate Vice Chancellor for Budget
Tim Stoddard, Associate Vice Chancellor Financial Reporting
Laura M. King, Vice Chancellor – Chief Financial Officer

Outline of Key Points/Policy Issues: Vice Chancellor King has asked staff to work to incorporate budget and accrual measurements into the financial monitoring effort. The College and University Financial Health Indicator/Measurement Project will include focus on three areas: modified exception reporting measures; defined financial performance flags; and early warning of possible financial or control issues.

Background Information: The Finance Division has maintained an exception reporting process since 2004 which generates a monthly/quarterly and annual report to campus leadership. The report draws attention to areas of operational concern in the finance and business office arena. The Finance Division has also implemented an annual overall financial performance review process. The current trends and highlights process was implemented in fiscal year 2006 at colleges and universities and includes the Composite Financial Index (CFI) and other financial performance measures.

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INFORMATION ITEM

College and University Financial Health Indicator/Measurement Project

BACKGROUND

Procedure 7.3.16, Financial Exception Reporting was implemented in fiscal year 2004 and includes a series of after-the-fact measures. The Finance Division has maintained an exception reporting process since 2004 which generates a monthly/quarterly and annual report to campus leadership. The report draws attention to areas of operational concern in the finance and business office arena. Board and management concern over recurring control process audit points—cash overdrafts in local accounts (including delinquent bank reconciliations), potential negative cash position within MAPS and delinquent and/or inadequate MAPS-to-MnSCU reconciliations—requires exception reporting to better flag potential problems or impose more stringent reporting requirements to monitor corrective action. The exception reporting process has effectively drawn attention to these operational areas.

The Finance Division has also implemented an annual overall financial performance review process. The current trends and highlights process was implemented in fiscal year 2006 and includes the Composite Financial Index (CFI) and other financial performance measures. Fiscal year 2009 will be the third year of trends and highlights reporting. Each college and university is asked to prepare a report of financial performance using a standardized template with agreed upon measures. The audited schools present the report as a part of the annual exit conference concerning the audited financial statements. The 24 colleges which do not undertake individually audited financial statements also prepare the trends and highlights reports. These schools meet with the vice chancellor and staff on a regional basis in groups of 3-5 colleges. The financial information is reviewed for each college at these meetings. The regional meetings have come to be known as the “Trends and Highlights” meetings.

Starting with fiscal year 2006 financial reporting, the Higher Learning Commission (HLC) implemented monitoring centered on the CFI. Five system colleges were identified in the fall of 2008, based on fiscal year 2007 data, as requiring additional financial reporting to the HLC with three of these colleges subsequently asked to provide financial recovery plans. This is the HLC’s first step in determining if a college’s ability to carry out its educational mission is at risk, which could lead to a review of accreditation status.

Vice Chancellor King has asked staff to work to incorporate budget and accrual measurements into the financial monitoring effort. Identifying measures capable of being

fine-tuned to the degree they are reliably predictive of future problems has proven to be a challenge.

APPROACH

The College and University Financial Health Indicator/Measurement Project will include three areas of focus as follows:

- *Modified group of exception reporting measures and related flags* will require reporting specific to the exception. Examples include the financial performance reporting in the bullet below (e.g., primary reserves and net operating revenue) and cash balance forecasting in the event of chronic low cash or cash overdraft exceptions.
- *Defined financial performance flags* primarily but not entirely accrual accounting based, patterned on the current Higher Learning Commission program that if triggered will require expanded college and university reporting.
- *Early warning* of possible financial or control issues such that institutions at financial risk or with internal control weaknesses can develop finance and internal control remediation steps and thereby improve financial performance and key internal control processes. Examples include failure to perform timely and accurate bank reconciliations and MAPS-to-MnSCU reconciliations.

Discussions with chief finance officers and the Finance and Administration Committee of the Leadership Council have resulted in the seven proposed indicators listed below. While still in the drafting stage the Finance, Facilities and Technology committee is invited to review the proposed indicators and offer any comments before the guidelines are completed.

Finance Guideline and Exception Reporting “Risk Factors”

Shorter term measures, generally one year or less:

1. Repair and replacement expenses over a two-year period.
2. Overdraft in a local bank account during the past fiscal year.
3. MAPS to MnSCU reconciliation and local bank account reconciliation exception reporting items triggered during the past fiscal year.
4. Forecast General Fund cash balance by month. For any college that triggers either of the following they will be asked to report revenues on a monthly basis.
 - For any college or university with a General Fund balance under an amount equal to fifteen percent (15%) of the prior June 30 General Fund total revenue.

- For any college or university with a General Fund balance equal to or greater than fifteen percent (15%) of the prior June 30 General Fund total revenue and projecting cash in any month to fall below ten percent (10%) of General Fund total revenue.

Longer term measures, generally for more than one year:

5. Accrual net operating revenue measure (“Income (Loss) Before Other Revenues, Expenses, Gains or Losses”) negative for 2 consecutive years.
6. Accrual primary reserve level < 1.6 month for 2 consecutive years OR year-end designated Board reserve balance represents more than 60% of total year-end general fund balance.
7. A Composite Financial Index score between 0.5 and 1.5 for 2 consecutive years or a score under 0.5 for the most recent year. This compares to HLC trigger values of between 0.0 and 1.0 for two consecutive years or a score under 0.0 for the most recent year.

The revisions to exception reporting will in large part look to marry up triggers with defined actions. That is, when a trigger is tripped there will be a defined response expected of the college or university. The response should include appropriate elements of analysis and reporting (e.g., forecasting of monthly cash position) that shine a spotlight on the potential issue (e.g., overdraft) and result in actions that prevent the issue from actually materializing (e.g., reduce or defer spending).

NEXT STEPS

Additional input will be requested before the indicators are finalized. Conversations will occur with chief finance officers as to what triggers will cause what action to be taken. The indicators will be incorporated into board policy and procedure and guidelines developed to identify triggers and resulting reporting that will be necessary. The members of the board will have additional opportunities to comment in the future on this as the policy and procedure are reviewed and finalized.

Date presented to the Board: March 17, 2010