Minnesota State Colleges and Universities
System Procedures
Chapter 7 – General Finance Provisions
Procedures associated with Board Policy 7.3

7.3.16 Financial Health and Compliance Indicators

Part 1. Purpose. As stated in Part 1 and Part 3 of 7.3, Financial Administration policy, effective financial administration will facilitate monitoring, improving managerial performance and evaluating the financial effects of management decisions. The Board of Trustees will be periodically updated on the administration and financial management of the system. This procedure is linked to the system level accountability framework as approved by the Board of Trustees in June 2003.

Part 2. Process for Reporting. The system office is responsible for reporting to the Board of Trustees the financial well-being of the system and each college and university. Each college and university and the system office’s budget will be monitored on a periodic basis in order to insure financial health and stability throughout the fiscal year.

Specific aspects of college and university finances, as described in Part 3 of the procedure, will be reviewed according to their timeline to determine if a financial concern is present at any college or university or the system office. If a measure raises concern, the Finance Division in the system office will work with the Chief Financial Officer at a college/university to resolve the issue. If the financial concern continues beyond a reasonable amount of time, it will be brought to the attention of the Chancellor and the Board of Trustees in an exception report.

Subpart A. Quarterly Chief Financial Officer Compliance Certification. Certain risk factors noted below in Part 3 require that a certification be submitted to the Finance Division of the system office. The college/university Chief Financial Officer is asked to certify that they have reviewed and accepted the documentation related to the risk factor. The certification form can be found at http://www.finance.mnscu.edu/accounting/finhealthindicators/index.html.


Subpart A. Short Term Financial Stability and Financial Administration Risk Factors

1. Repair and replacement expenditures per square foot (-three-year moving average) of at least $1.00 per square foot.

   Monitoring Timeline: Close of fiscal year

   Data source: Data will be extracted from ISRS using the year-to-date fields for Fund 830. Expenditure object codes will be <8000 (excluding transfers out).

   Trigger: Expenditures per square foot of less than $1.00 per square foot.
Consequence: Requires a remediation plan which identifies the specific steps that will be taken to move the college/university above the trigger level. Periodic progress reporting will be required if it is expected that corrective action will take more than three fiscal years. Reporting will be to the Finance Division in the system office within 30 days following the triggering event.

2. Overdraft in a local bank account during the fiscal year.

Monitoring Timeline: Daily

Data source: Chief Financial Officers will be required to submit a quarterly overdraft certification stating specifically that either there have been no bank overdrafts during the period or identifying the specific dates and overdraft amounts shown on the applicable bank statement. The certification must be submitted within 30 days following end-of-quarter. The source for determining the existence of a bank overdraft will be the bank statement. Colleges and universities are expected to monitor cash balances daily using on-line reports and tools as provided by the bank.

Trigger: One overdraft reported in Quarterly Chief Financial Officer Compliance Certification

Consequence: In the event of an overdraft and commencing with the month after the overdraft occurred, the college or university will provide monthly reporting of (1) projected local cash balances and (2) actual local cash balances with a comparison to the prior month’s projection, including explanations for significant variances. Reporting will be to the Finance Division in the system office within 30 days following the triggering event for a period of no less than twelve (12) months. A document titled “Instructions for Cash Flow Forecasting” is available for completing this task at the following url: http://www.finance.mnscu.edu/accounting/finhealthindicators/index.html.

3. MnSCU to MAPS (SWIFT) reconciliation (including adjustments).

Monitoring Timeline: Monthly (general fund); Quarterly (all other funds)

Data source: Chief Financial Officers will be required to submit a quarterly reconciliation certification stating specifically that both reconciliations and required adjustments have been performed as required or identifying the specific periods of non-compliance with monthly and quarterly reconciliation requirements. The certification must be submitted within 30 days following end-of-quarter.

Trigger: Quarterly reconciliation certification by each college and university Chief Financial Officer showing non-compliance with monthly and quarterly reconciliation requirements.

Consequence: For the General Fund only, requires monthly reporting of (1) projected MAPS (SWIFT) cash balances and (2) actual MAPS (SWIFT) cash balances with a comparison to the prior month’s projection, including explanations for significant variances. Reporting will be to the Finance Division in the system office within 30 days following the triggering event for a period no less than twelve (12) months. A document titled
“Instructions for Cash Flow Forecasting” is available for completing this task at the following url: http://www.finance.mnsu.edu/accounting/finhealthindicators/index.html.

4. Timely and complete bank reconciliation (including adjustments).

Monitoring Timeline: Monthly

Data source: Chief Financial Officers will be required to submit a quarterly bank reconciliation certification stating specifically that either all bank reconciliations have been completed and necessary adjustments recorded or identifying the specific bank account(s) not reconciled and the month(s). The certification must be submitted within 30 days following end-of-quarter.

Trigger: Quarterly reconciliation certification by each college and university Chief Financial Officer showing non-compliance with monthly reconciliation requirements.

Consequence: Requires monthly reporting of (1) projected local cash balances and (2) actual local cash balances with a comparison to the prior month’s projection, including explanations for significant variances. Reporting will be to the Finance Division in the system office within 30 days following the triggering event for a period of no less than twelve (12) months. A document titled “Instructions for Cash Flow Forecasting” is available for completing this task at the following url: http://www.finance.mnsu.edu/accounting/finhealthindicators/index.html.

Subpart B. Long Term Financial Health Risk Factors

5. Negative accrual based net operating revenue (“Income (Loss) Before Other Revenues, Expenses, Gains or Losses”).

Monitoring Timeline: Close of fiscal year

Data source: The accrual reporting measure for each college and university is contained in the Supplement Report to the Annual Financial Report.

Trigger: Negative net operating revenue for two consecutive years

Consequence: Requires a Financial Recovery Plan (FRP) which includes the specific steps that will be taken and expectations as to how these steps will improve the college’s or the university’s financial health above the trigger level. The FRP will be submitted to the Finance Division in the system office. Periodic progress reporting will be required if it is expected that corrective action will take more than one fiscal year. The FRP must include:

- Fund-level detailed, measurable steps tied to the fiscal year and the projected impact of the steps;
- Analysis of mid-year interim financial statements addressing FRP and the degree to which actual results match expected results; and
□ Narrative linking the FRP to Higher Learning Commission criteria for accreditation; how are planned steps expected to improve college/university ability to achieve specific criterion.

6. Low accrual primary reserve level.

Monitoring Timeline: Close of fiscal year

Data sources: The primary reserve ratio is one of the four ratios in the Consolidated Financial Index and as such is an important accrual measure of financial strength. The primary reserve level as measured in the number of months is computed by multiplying the ratio (before applying a strength factor) times 12; the resulting figure is the number of months of operating expenses covered by expendable net assets.

Trigger: Primary reserve level of less than 1.6 months for 2 consecutive years.

Consequence: For the General Fund only, requires monthly reporting of (1) projected MAPS (SWIFT) cash balances and (2) actual MAPS (SWIFT) cash balances with a comparison to the prior month’s projecting, including explanations for significant variances. Reporting will be to the Finance Division in the system office within 30 days following the triggering event for a period of no less than twelve (12) months. A document titled “Instructions for Cash Flow Forecasting” is available for completing this task at the following url: http://www.finance.mnscu.edu/accounting/finhealthindicators/index.html.

7. Low Composite Financial Index (CFI) score

Monitoring Timeline: Close of fiscal year

Data source: The CFI score is computed annually by each college and university as part of a fiscal year-end analysis of financial trends and highlights. It is also computed by the Finance Division in the system office and reported to the Board of Trustees.

Trigger: A CFI score less than 1.5 (based on a two-year moving average) OR a CFI score under 0.5 for the most recent year.

Consequence: Same as #5 above.

Date of Implementation: 12/09/03,
Date of Adoption: 12/09/03,

Date and Subject of Revision:
1/25/12 – The Chancellor amends all current system procedures effective February 15, 2012, to change the term “Office of the Chancellor” to “system office” or similar term relating the grammatical context of the sentence.
2/14/11 – In Part 3, Subpart B, references to general fund were removed.
2/2/11 - The revision to the financial exception reporting process reduces the number of risk factors and adds a consequence for each risk factor. In addition, Guideline 7.3.16.1 has been incorporated into the procedure.
1/7/08 - Amended Part 3 to update the financial exception reporting measures to assure the short- and long-term stability indicators properly reflect effective financial administration throughout the system.