# Lakeland Community College

## Performance Audit Summary

## WHAT WE LOOKED AT

Lakeland Community College (LKCC or the College) is located in Northeastern Ohio and primarily serves the residents of Lake County, just east of Cleveland. LKCC is a two-year institution offering a variety of Associate Degree programs as well as professional certifications and continuing education opportunities. In the 2022 Fall Semester, the College had approximately 5,000 students enrolled. This included full-time students, part-time students, and high school students attending college through the College Credit Plus program.

After reaching peak enrollment figures around 2012, the College has seen steady declines in the number of students it educates. This is a common occurrence across Ohio as the number of college-aged residents has declined. In addition to declining enrollment, new technology and the availability of online learning methods present both challenges and opportunities to the College. As LKCC continues to seek to meet the needs of the local community and provide positive educational opportunities to the public, an independent review of operational effectiveness, efficiency, and transparency can be an important tool for decision making purposes. Our performance audit reviewed the College's operational efficiency, effectiveness, and transparency in the areas of financial management, academic offerings, collective bargaining agreements, facilities utilization, and Information Technology.

## WHAT WE FOUND

Many key operational decisions regarding faculty, programs, and facilities, date back to the early 2010s during a time of peak enrollment. Since that point in time, the College has seen enrollment decline by nearly 50 percent, but the administration has not made decisions to reflect the changes in operations. Staffing has not been significantly reduced, new facilities have been acquired, and courses are being held with minimal enrollment. Based on projected population trends, it is highly unlikely to see significant increases in enrollment over the next decade. Due to this, the Board of Trustees is at a point in time where key operational decisions should be made to guide the college into the next decade.

The College has historically maintained low fund balances, opting to use available funds on direct student services. This policy does not provide a significant cushion to weather times of difficulty, such as incurring unforeseen expenses or sudden declines in revenue. We found that, in recent years, without federal relief funds due to the COVID-19 pandemic, the College would have had an operating deficit and been more reliant on fund balances for general expenditures.

Overall, we found that LKCC leadership, both the Board of Trustees and the administration, will need to come together and make strategic management decisions to ensure the continued operations of the College. When informed with critical information identified within the report, these individuals will be in a better position to make key strategic decisions.

## KEY OBSERVATIONS

**Key Observation 1:** The College relies on public funds – local property taxes and state funding – for the majority of its operational revenue. As such, the Board and Administration must work to be good stewards of public resources and ensure decisions are made to reflect the changing landscape of higher education and the local area. We found that the College has failed to make major operational adjustments as enrollment has steadily declined over the past decade. As a result, based on current enrollment, the college is overstaffed, burdened with debt related to facilities that are significantly underutilized, and is offering hundreds of course sections that do not meet minimum enrollment thresholds each semester.

**Key Observation 2:** During the engagement, members of the Board of Trustees reported that they were unaware of the deteriorating financial condition of the College. Additionally, the Board lacked insight into key operational decisions. As the main governance body for LKCC, the Board must obtain appropriate information from the administration to understand the current status of the College's operations. Further, it must identify proactive solutions that can help to align operations with the current market conditions of Lake County.

**Key Observation 3:** As enrollment declines, revenue from student tuition and state funding will also likely decline, which will lead to potential budget issues if expenditures are also not reduced in a similar manner. However, while other community colleges have seemingly reacted to changes in enrollment trends, the administration at LKCC has not similarly adapted its operations. As such, the student to teacher ratio at LKCC is significantly lower than the statewide community college average.

**Key Observation 4:** The college has a total of 4,476 seats on the campus in various classroom and laboratory settings. During the 2023 Spring semester, the total student enrollment dropped below this number. Further, one third of students attended courses exclusively online and did not require any classroom space. Considering that the entire student body would never be attending classes at the same time due to scheduling, the number of classroom and laboratory spaces maintained by the College greatly exceeds the demand of the student body.

**Key Observation 5:** Based on our analysis, nearly half of the classroom and laboratory space at LKCC is considered underutilized based on industry standard criteria. The buildings on the main campus are interconnected with each other. This building design makes the elimination or mothballing of existing space challenging. Despite this low utilization rate, declining enrollment, and shift to online learning, the College recently broke ground on a 16,000-foot expansion on the main campus. Choosing to expand its campus outwards rather than addressing the existing space that is underutilized may further exacerbate issues related to maintaining excessive classroom and facilities space.

**Key Observation 6:** The Holden University Center was purchased by LKCC in 2014 for $13.5 million through the issuance of bonds. The purpose of the building was to host programs offered by four-year institutions. During the course of the audit, the Holden Building was mothballed by the College, meaning that it is no longer in use and any programs being held were moved to facilities on the main campus. While the College will eliminate some expenditures related to the operation of the Holden University Center there is still outstanding debt related to the purchase of the building, which will be fully paid in 2039. The building is separated from the main campus by a major roadway, and the College should consider options related to the sale or lease of this building.

**Key Observation 7:** Because of the choices that were, or were not made, over the past decade, the College finds itself at the precipice of fiscal watch, and in fact had to institute a reduction in force during the engagement. The Board and Administration have the opportunity to work together to make decisions to align operations to meet current demand for services and guide the College over the next decade. Difficult choices regarding staffing levels, program offerings, and other operations may need to be made during this process but will ultimately help to ensure the sustainability of the College into the future.

## SUMMARY OF RECOMMENDATIONS

**Recommendation 1: Revise General Fund Minimum Balance Policy.** The reserve fund balance within a college's General Fund accounts for a significant portion of the SB 6 score that is tracked by ODHE. As such, having an adequate fund balance will positively impact an institution's score. LKCC currently has a financial reserve policy for the General Fund which requires it to maintain a balance of at least 10 percent of the previous year's operating expenditures and transfers in the General Fund. This is well below the average of other community colleges and falls below industry minimum standards as identified by the Government Finance Officers Association (GFOA). LKCC should revise its reserve fund balance policy to encourage financial practices that would improve the SB 6 score and maintain balances that would help to address future unforeseen budgetary issues.

**Recommendation 2: Develop and Implement Low-Enrollment Course Cancellation Policy**. The Board has no policy or strategic process to monitor the use of low enrollment courses. The College's CBA has a provision which provides the option for the Administration to cancel a course section if fewer than 12 students are enrolled. Historically, this provision has not been consistently exercised. We found that in the Fall 2022 and Spring 2023 semesters, more than half of course sections met the definition of low enrollment contained in the CBA. The Board should formalize a policy for the cancellation of course sections that meet specified low enrollment criteria. Once this policy is in effect, the Board can then adjust faculty staffing accordingly, which could save the College between $1.9 and $6.3 million annually in salary and benefit expenses.

**Recommendation 3: After the College determines how it will optimize its course offerings, it should develop a strategy for defining and reviewing low enrolled programs that considers the financial impact to the College.** The College conducts routine department and program reviews on a rolling five-year basis. This is done, in part, to comply with accreditation standards set by the Higher Learning Commission. In addition, the College is required to submit a report on low enrolled courses and programs to ODHE on a three-year basis along with proposed action steps for these programs. While LKCC officials are meeting minimum standards relating to these requirements, it does not include a detailed analysis of revenues and expenditures on a program level in the review materials. By requiring a detailed financial analysis on a program level, the Board of Trustees can better understand the impact of programs on the overall operations of the College. Further, this information is necessary for the Board to have as it makes decisions to ensure the College continues to fulfill its mission and meets the needs of the community.

**Recommendation 4: Ensure the administration is communicating KPIs that allow the Board to proactively steward Lakeland's operational health. This should include, at minimum, SB 6 scores, trends on student enrollment to staff ratios, method of instruction for credit hours, and data on the prevalence of low enrolled programs and courses.** Like many institutions of higher education in the United States, LKCC has seen significant changes in recent years regarding its overall enrollment and specific measures of fiscal well-being. Historically, the Board and Administration have focused on the College's overall financial condition, including a broad look at elements such as revenues, expenditures, and the cost of tuition. However, during the last decade, as enrollment has declined and as general macro conditions for colleges have changed, key datapoints, such as the prevalence of low enrolled courses and the declining SB 6 score, have not been emphasized during regular communications. Strategically highlighting key datapoints and trends can help the Board quickly make decisions and set policies to meet the challenges of an ever-changing higher education landscape.

**Recommendation 5: Reduce Health Insurance Expenditures.** The College offers multiple health insurance options that exceed similar institutions in their plan designs. Further, the health insurance plans are more expensive than the peer average while the employee contribution rate is well below the peer average. This results in the College spending more on insurance related expenses than the peer average. Adjusting the insurance offerings and contribution rates would result in significant cost savings to the College.

**Recommendation 6: Renegotiate Faculty Salary Schedule**. At LKCC, faculty salaries are based on educational attainment and years of service. In this analysis, we compared only peers with salary schedules of similar structure. For each level of educational attainment, LKCC has a higher starting pay level compared to the peer average. Step increases are also higher than the peer average, which results in the highest ending salaries among peers. Additionally, the College offers employees longevity pay, which is not a common practice amongst peer community colleges. While we found LKCC's academic year to be 5 days longer than the average, higher compensation offered by LKCC is not offset by increased workdays for faculty. LKCC should work to renegotiate these salary schedules to be more in-line with what is offered by other community colleges to reduce expenditures and maintain fiscal stability.

**Recommendation 7: Renegotiate Faculty Summer Pay Rate.** The College has a CBA for full-time faculty which outlines a number of provisions related to employee requirements and compensation. While most provisions within the CBA align with those of peers, one provision we assessed diverged from peers in structure and related cost. The College's summer pay provision is based on a percentage of salary rather than a fixed rate per workload unit or credit hour. This provision results in higher and less predictable summer pay compared to the peers. Renegotiating this provision could result in cost savings and more budgeting foresight for the College.

**Recommendation 8: Identify Options to Improve Facility Utilization**. The majority of buildings at LKCC were initially constructed more than 30 years ago. More recently, the College has planned expansion or renovation projects during times of peak enrollment around 2010. However, due to declining overall enrollment over the past decade and changes to teaching methods, the College now has more facilities space than is necessary to meet the needs of the student population. LKCC should review how existing space is used and identify opportunities to improve utilization rates. This should be done prior to taking on new debt for the renovation or addition of facility spaces. In addition, the College should seek to reduce expenditures where possible, particularly in relation to buildings that are not connected to the main campus area.

**Recommendation 9: Improve Cybersecurity Internal Controls**. There are multiple standards for IT security that include the development of formalized internal controls. While LKCC follows many of these practices, it is reliant on the institutional knowledge of current employees rather than formal, written policies and procedures. LKCC should formalize and strengthen internal controls around monitoring cybersecurity best practices and continue to work towards complete implementation of an industry recognized security standard.

**Recommendation 10: Maintain Accurate IT Inventory.** LKCC does not have a consolidated inventory of IT hardware that includes the date of purchase or first use. Because of this, the College cannot enforce its own IT Lifecycle Policy. LKCC should maintain an inventory of unique computer assets that includes a proper date of purchase, or date of first use, for each machine in order to enforce their IT purchasing policy relating to hardware lifecycles.