



To: Senator Matt Dolan, Chairman, Senate Finance Committee  
Representative Jay Edwards, Chairman, House Finance Committee  
Senator Vernon Sykes, Ranking Minority Member, Senate Finance Committee  
Representative Bride Rose Sweeney, Ranking Member, House Finance Committee  
Ms. Kimberly Murnieks, Director, Office of Budget & Management  
Ms. Wendy Zhan, Director, Legislative Service Commission

From: Mike Duffey  
Chancellor

Date: June 11, 2024

Subject: Third Quarter Financial Reports for FY24

Please find enclosed the quarterly financial reports for the third quarter of fiscal year 2024, which were submitted by Ohio's 37 public institutions of higher education. Pursuant to Ohio Revised Code §3345.72, these reports are to be distributed to you.

The report contains thirteen questions to be answered by the campus fiscal officer or an appropriate designee. The questions are designed to probe for any serious cash flow problems and to provide early warnings of significant problems with the current year budget. The desirable answer to each question is *No*. It should be noted that this quarter's reports include a new question that asks whether an institution is subject to heightened reporting standards by the federal government or a regional accrediting organization.

Of the 37 public colleges and universities, Central State University, Eastern Gateway Community College (EGCC) and Lakeland Community College each answered yes to at least one of the thirteen questions in their quarterly report. Central State acknowledged that they are under Heightened Cash Monitoring 1 (HCM1) with the US Department of Education (USDE); EGCC acknowledged that they are under HCM2 with USDE, have received advances of state subsidy and have been late in paying vendors; Lakeland acknowledged that they are experiencing declining fund balances and increases in liabilities resulting from a Voluntary Separation Program which will negatively impact their FY 24 SB6 Composite Score. In addition, Lakeland is estimating that their FY 24 SB 6 score will be 1.3. Per the Ohio Administrative Code, if an institution's SB 6 score is below 1.75 for two consecutive years, then they will be placed in Fiscal Watch. Lakeland's FY 23 score was 2.2. Additional information is provided in the attached.

Please note, senior management at ODHE and EGCC have weekly update calls to keep each other apprised of the current status of EGCC with respect to ongoing interactions with the Higher Learning Commission and USDE, and of new developments. In addition, ODHE has established a bi-weekly cadence of meetings with members of the General Assembly and their respective staff to ensure open lines of communication.

ODHE is monitoring the financial status of all our colleges and universities very carefully, and we would be glad to discuss the information in this report in greater depth if it would be helpful. Should you have any questions concerning the content of the enclosed reports, you are welcome to contact me personally.

Enclosures

**The following yes responses have been received:**

**Eastern Gateway Community College (EGCC)**

- ❖ Reportable Events #1 Request an advance of state subsidy?
- ❖ Reportable Events #5 Fail to make payments to vendors, as scheduled, due to a cash deficiency or a substantial deficiency in the payment processing system?
- ❖ Reportable Events #7 Receive notification from the federal government or regional accrediting organization that the institution is subject to heightened reporting standards or special monitoring status?

***Narrative submitted by Eastern Gateway Community College:*** Eastern Gateway Community College continues to be on Heightened Cash Monitoring HCM2 by the US Department of Education (USDE). This is the result of USDE findings of prior practices at EGCC that identified a lack of controls within the Financial Aid area and the submission of ineligible and inadequately documented recipients to the Department for federal aid. Since being placed on HCM2, EGCC has been able to recover less than two-thirds of anticipated aid revenue from the 2022-23 academic year. In addition, the College has been unable to recover any aid from Fall 2023 or spring 2024. Delays in federal reimbursement have further complicated EGCC's cash flow challenges.

*On December 18, 2023, the Controlling Board authorized an advance of SSI of the equivalent of \$6,091,917, or three months of SSI, through March 2024. On March 4, 2024, the Controlling Board approved the advance of the remaining FY 2024 SSI amount of \$6,091,917. It is currently being distributed to EGCC as necessary to pay critical expenses associated with the successful completion of spring semester. As part of their ongoing review of EGCC, USDE recently directed EGCC to fully reconcile student accounts beginning with the Fall 2022 term to the Spring 2024 term. EGCC hired Educational Compliance Management (ECM) to complete that task. In their review, ECM has found numerous instances where student accounts have not had financial aid disbursed appropriately to their accounts. Many of these instances date back prior to the initial Look Back period that started in Fall 2022. Based on EGCC's own research, this issue goes back to the Fall 2019 term. Therefore, USDE is now directing EGCC that the Look Back period should begin with the Fall 2019 term. The exact number of students impacted and the fiscal impact will eventually be determined by ECM.*

**ODHE notes:** ODHE continues to monitor Eastern Gateway Community College very closely. ODHE staff monitors the college's cash balances and level of spending on a daily basis. EGCC recently implemented its second and third reductions in force this fiscal year. EGCC has submitted a voluntary withdrawal of academic accreditation to the Higher Learning Commission (HLC), effective November 1, 2024. Following the decision to withdraw accreditation and cease academic operations, the College has developed a plan for the continued reduction of staff and eventual closing of the institution. In the meantime, EGCC has eliminated non-essential expenses to the degree possible. However, even with these efforts cash flow will be a major challenge

through the remainder of the fiscal year. Additionally, sustained operations through the next fiscal year are not feasible at this time, based on cash flow projections, and a lack of personnel. In recognition of this reality, EGCC plans to offer limited course offerings through August, 2024, and then dissolve the college by October 31, 2024.

EGCC has acknowledged within their third quarter report that they will likely not receive any additional reimbursement from USDE. In fact, EGCC now anticipates that they are likely to be liable for additional refunds to students for earlier aid that was not processed appropriately. In turn, they anticipate that they will end FY 24 with negative net assets, meaning liabilities will exceed assets. They are now projecting an SB 6 score of 0 for FY 24.

### **Lakeland Community College (LCC)**

- ❖ Reportable Events #6 Relative to its original budget for the fiscal year, experience any actual or anticipate any projected financial changes (such as unbudgeted decreases in revenues or unbudgeted increases in expenditures) that will result in a substantially reduced fund balance or larger deficit this fiscal year?
- ❖ Additional Questions #1 An unanticipated decrease in operating cash and investments?
- ❖ Additional Questions#5 An increase in liabilities that do not occur during normal business operations (including new debt issues)
- ❖ Additional Question #6 Any other facts or circumstances that could negatively impact the SB 6 composite score?

***Narrative submitted by Lakeland Community College:** Due to a loss of \$6.5 million Federal Stimulus revenue compared to FY 23. The College has reduced operating expenses to offset some of the revenue loss and will continue to reduce expenses the rest of FY24 and into FY25.*

*The College offered a Voluntary Separation Program (VSP) / severance package as part of our cost containment measures. The full cost of the VSP (\$1.4 million) has been accrued in FY24. The \$1.4 million expense related to the VSP was unbudgeted. The VSP and other position eliminations took place mid-year, so only one-half of the projected annual savings will be realized in FY24, with the full impact being realized for FY25 forward. The College will continue to reduce operating expenses the rest of FY24 and into FY25.*

### **Central State University (CSU)**

- ❖ Reportable Events #7 Receive notification from the federal government or regional accrediting organization that the institution is subject to heightened reporting standards or special monitoring status?

***Narrative submitted by Central State University:** The University's audit is late. This was due to the FY22 audit lateness and thus impacting the start of FY23. The University and its Foundation were being audited by the Auditor of State. This special audit has led to*

*additional delays in the completion of the FY22 and FY23 audits. We are addressing the issues that led to the special audit and we are developing internal controls and steps to address the matter.*

*The institution is working diligently to respond and complete the FY23 audit. Our anticipated date of completion is June 30, 2024. In addition, the University has put in place corrective actions to address the findings and process delays related to the audits. We have hired additional personnel and improved systems to improve our processes. The University has also initiated continuous board oversight and engagement in this process to reestablish strong processes and accountability.*

*The University does not expect any significant impact on year-end financial position as a result of the late audit. The HCM1 designation does not impact our cashflow or ability to receive timely reimbursement of financial aid. The HCM1 status is the process we already observe related to our financial aid drawdowns.*