Additional Perspectives

CFO Perspectives: The Community College is one in a series of white papers that looks at the role of the CFO within different institutional or operational settings. Each white paper, available free from NACUBO and released monthly during the 50th anniversary, focuses on the unique demands of a particular type of institution and how to manage strategy and business operations within that distinctive context.

Written by authors with extensive experience in financial operations, the white paper series offer insights that may prove helpful to new CFOs or board members, presidents, senior administrators, faculty, and staff. For a list of the other titles available in this CFO Perspectives series, please visit www.nacubo.org.

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The American Association of Community Colleges (AACC) counts 1,167 community colleges in the United States. The majority of these (993) are publicly supported, with 143 being private and 31 being tribal. Whatever their primary funding source, community colleges differ from other institutions of higher education in their commitments to:

- **Open, affordable access.** Open access, the paramount element of a community college’s mission, translates into no entrance examinations and few admissions requirements for enrollment. A potential student needs only demonstrate an ability to benefit and make a small tuition payment to participate in the college’s programs. Even so, many students require financial, academic, and counseling support to attend and to succeed. In many instances, new students also need remedial help so they can improve their academic skills enough to meet the required prerequisites of some academic programs.

- **Community building.** As their name implies, community colleges provide education that benefits individual students as well as entire communities. Often, this means turning on a dime to marshal the human, capital, and financial resources needed to respond to changes in the local employment market or new legislative mandates. Such flexibility, however, can be hampered by the fixed costs associated with tenured faculty, who typically represent the largest portion of a community college’s expenses. When restructuring academic programs and student services in response to market-based changes, the college must carefully manage its non-teaching staff so it has the resources to deploy to the faculty.

- **Comprehensive offerings.** To respond to the wide array of educational needs within its area, a community college must offer a wide array of courses and programs, both academic and vocational. Even the smallest community colleges—those having full-time-equivalent (FTE) enrollment of fewer than 2,000 students—share the same mission as community colleges with an FTE of 40,000 students. Nevertheless, small colleges are expected to provide similar programs and services as their much larger counterparts.

Most often, a community college meets these three commitments with resources provided by local and state tax revenues. In fact, AACC reports that state and local appropriations represent more than half (55 percent) of the average community college’s revenue, with tuition and fees adding another 16 percent of revenue and 29 percent coming from other sources. In other words, grants and contracts, endowment revenue, private gifts, and auxiliary enterprises play a smaller, although still important, part at community colleges when compared to other types of institutions. The conundrum for a CFO at a community college is how to keep tuition rates low for students while minimizing the amount needed from public revenues to subsidize the total cost of education.

### The Biggest Challenges

If there is any difference between the CFO working at a community college versus one working at another type of educational institution, it will be in the degree of personal, hands-on involvement the CFO must exercise to achieve the community college’s goals.

This difference has its roots in the flat administrative configuration of a community college, whose funding limitations leave no room for a deep bureaucracy. Given the small staff in the business office, a CFO must be more than a specialist in financial management. Rather, the CFO at a community college must be adept at every facet of finance and administration—and be a quick learner, open to on-the-job training.

In particular, the community college environment calls upon the CFO to:

**Simplify financial planning and reporting.** Rather than mystify the president, senior staff, and others with accounting minutiae or complexity, the financial planning process should be easily understood. An arcane, confusing planning process acts as a deterrent to participation, becomes a source of resentment, and serves as an obstacle to building the trust needed to accomplish the college’s mission.

Ease of understanding, however, does not always come easily. For example, the public sector often employs formula-based budgeting. Because the formula comes from the government already packaged in a complicated format, the CFO must translate the complex formula into...
understandable terms. The formula will need to be broken into pieces that an academic manager can readily grasp; otherwise, financial planning will fail its duty to efficiently allocate dollars. The CFO, although a competent translator of the formula, will not be viewed as the appropriate person to determine the best use of resources for instruction or student services.

A governing board ultimately holds the responsibility for ensuring that a college’s finances are both accurate and appropriate. They can take on this responsibility only when financial reports prove intelligible to them. Most likely, not all members of the board will possess financial acumen, so the CFO must educate them on the nuances and constraints of formula and government funding. In addition, the CFO needs to provide the board with clear, concise reports about the college’s financial condition; explain any major financial issues the college faces; and ensure compliance with generally accepted accounting principles, disclosure requirements, and regulatory reporting.

**Implement and enforce sound controls.** Certifying financial reports falls to CFOs at community colleges, where internal audit units often do not exist and where part-time student workers accomplish many business office and accounting operations. Therefore, the CFO must develop controls that backup what non-professionals do for the business office. It is especially important to safeguard the integrity of student and employee records, restricting access only to authorized personnel.

The separation of duties required to safeguard institutional funds proves especially challenging for small community colleges, where the CFO and one assistant may constitute the only business office staff. Even so, there is no excuse during audits for sloppy records, inaccurate accounting of transactions, missing financial reports, or misspent money: The CFO remains responsible regardless of the size of his or her staff.

**Remain politically aware.** If the institution receives significant funding from local tax revenues, the CFO, working with the president, may need to convince the college’s governing board—often politically elected—to place tax and bond initiatives before the town, county, or regional governing authority. Because public employees are prohibited from political advocacy affecting their agencies, the CFO usually cannot actively advocate for increased tax revenues. The CFO, however, should help board members and other advocates make their case by providing compelling financial justification for the initiative.

Unfortunately, if the request for additional tax revenue fails, the CFO may be blamed. That’s why it benefits the CFO to continually build local support for the institution through membership or leadership in local chambers of commerce, community-service groups, charitable organizations, and cultural groups. When community leaders know a CFO and respect his or her integrity, they become more willing to support the college when it asks government officials for more money.

**Manage capital projects.** For most community colleges, keeping current with enrollment demands, technology, and government mandates requires ongoing capital projects. In addition to knowing accounting for capital projects—and how to prepare the appropriate documents for bond sales, leases, or capital requests—the CFO must explain to the board, senior administrators, faculty, and students that appropriations for a specific capital project are restricted for that purpose and, therefore, cannot be commingled with operating funds. Non-financial managers usually don’t understand the prohibitions and liabilities associated with the use of government funds or funds generated from debt—why, for instance, the funds for a new building cannot be applied to the nurse’s office to prevent lay-offs.

Not many CFOs have significant experience in construction; fewer still are professional engineers. Still, if the college has the local authority to acquire its own contractors to build new facilities or update existing ones, the CFO is expected to guide the governing board or its building committee through the construction or renovation process assuring compliance to all applicable regulations.

Although the head of maintenance and ground operations at a community college may have practical knowledge about construction, renovation, and maintenance of facilities and grounds, he or she rarely, if ever, has the authorization to make plant changes in electrical systems, ventilation, plumbing, or buildings without the CFO’s approval. Consequently, the CFO must work closely with the head of the maintenance to recommend and supervise projects, as well as understand the impact
of regulations on new or existing buildings, plant infrastructure, and property owned by the college.

**Ensure a safe and healthy workplace.** Financial professionals know to wear a hardhat in construction areas and not to walk under ladders, but they typically don’t have detailed knowledge of workplace safety policies and Occupational Safety and Health Administration (OSHA) requirements. Because community colleges rarely employ safety engineers, however, their CFOs need more than a layperson’s understanding of safety and security issues. The CFO may even be evaluated on the number and cost of workplace accidents and held responsible for increases in insurance costs due to injuries.

To reduce vandalism and the potential for violent crime, the CFO must look into technologies—such as cameras, emergency phones, and secure locking systems—and develop close relationships with local law enforcement agencies that can provide consultation and assistance. Campus safety also encompasses the preparation of crisis management guidelines regarding campus warning systems, evacuations, shelter-in-place, food supplies, emergency medical services, and combined campus security and police response teams should a natural disaster, epidemic, or other crisis occur. The plan should address all campus segments—the board of trustees, president, senior administrators, faculty, staff, students, parents, and nearby residents—and outline contingency plans if campus facilities become damaged or unusable.

The CFO must convince academic and student leadership of the importance of emergency preparedness and include these constituencies when developing and testing a plan. It’s wise to practice evacuation and shelter-in-place drills in response to fire, tornados, or even terrorist attacks. An emergency preparedness plan cannot simply be imported from outside; it must be tailored to a particular campus and revisited after each drill or incident.

Risk management extends beyond the college’s physical borders. For example, some academic programs at community colleges, such as nursing and health profession programs, may require students to work at off-campus sites. The CFO will need to assess the risks of placing students off campus and insist that the training agreement specifies the risks and assigns liability to both the college and the training site.

With off-site training programs, in particular those involving health services, health agencies prefer to shift the burden of risk to the students or the college to avoid increases in liability and insurance costs. Also, health service agencies prefer to pass to the college and its students the responsibility for maintaining patient privacy under the Health Insurance Portability and Accountability Act (HIPAA). Because most health clinical sites belong to large regional or national organizations, their primary concern may be minimizing their liability and costs; in contrast, the community college focuses on producing the next generation of skilled health service professionals for the local community. The interest of the off-campus training site to limit its liability runs directly into the interest of the college, if it is a government agency, to maintain its sovereign immunity from liability.

To protect the college’s interests, the CFO must often spend hours discussing practical issues with the health program faculty and clinical setting administrators. Working with legal counsel to finalize a binding agreement with the college’s insurers will help provide adequate liability coverage for an off-campus program. Penalties for waiver of sovereign immunity, even if inadvertent, can be high.

**Maintain strong community relationships.** Through scrupulous procurement the college will be seen as being worthy of the public’s trust. At times, legislation or board policy may direct a community college to use established local suppliers or state- or system-wide contracts for purchases. These directives sometimes conflict with the expected rules requiring a community college to select the lowest-price supplier; as a result, local businesses might not win the bidding process. When this occurs, the president and the CFO must be prepared to do some explaining to colleagues at the chamber of commerce or to the college’s political supporters when an out-of-area contractor receives the award, especially for a large capital project.

Another community challenge may arise when the college contracts with local businesses to provide education and training opportunities for their employees. The CFO must ensure that local businesses seeking a new program...
agree to assume costs that are not underwritten by tax or tuition revenue. It is not unusual for businesses to assume that the community college should conduct employee development at no cost; after all, the thinking goes, the businesses pay taxes that support the college. A careful review of service proposals that respond to requests from local businesses will ensure the proposed plans and their attendant costs are accurately estimated.

Serving as the CFO at a community college provides the opportunity to work and develop expertise in a number of different fields—and the challenge of exchanging the finance role for another role at a moment’s notice. For example, it would not be unusual for the CFO to be found driving a snowplow at 4 a.m., to help clear the parking lot before the opening bell. Nor would it be uncommon for the CFO to serve as a first responder to a campus crisis, given the small staff at most community colleges. Above all, however, the CFO must work well with academic and administrative leaders, elected representatives, and community members to achieve the optimum funding to accomplish the college’s mission.

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Takeaway Points

- A higher degree of hands-on involvement characterizes the main difference between the CFO at a community college compared to other types of educational institutions.

- The flat administrative configuration of a community college means the CFO must be adept at every facet of finance and administration, including risk management, emergency preparedness, and management of capital projects.

- CFOs at community colleges in locally funded districts have political responsibilities, which include building support among community leaders for tax and bond initiatives.