

Outsourced Business Management Services: When, Where & How?

National Charter Schools Conference

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Charter School Services Corp.
A Building Hope Affiliate



Renaissance
School Services, LLC

Outsourced Business Management Services: When, Where and How?

Introductions

- Joe Keeney, 4th Sector Solutions
(jkeeney@4thsectorsolutions.com)
- Richard Moreno, Charter School Services Corporation
- Rich O'Neill, Renaissance School Services



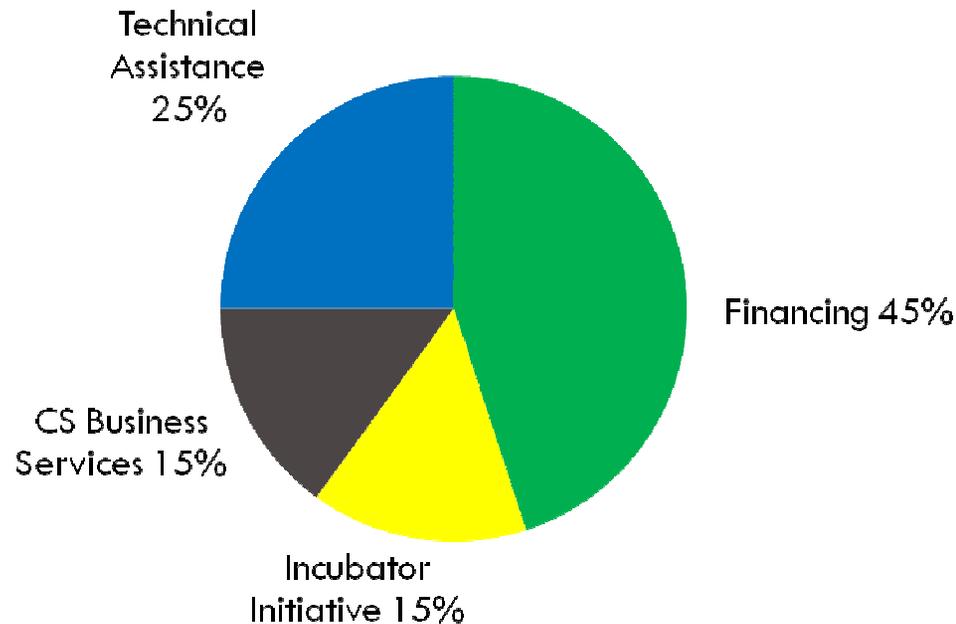
- Mission: Deliver outstanding support services to fourth sector organizations, enabling them to fulfill their own missions more effectively and efficiently.
- 19 clients – LA, NY, DC, CT, MI, UK, UAE. Clients include Harlem Village Academies, Friendship Public Charter School, and Mentorship Academies.
- Services range from complete turnkey back office services to financial management only to pure consulting.
- Focus on building capacity in client organizations over time.
- Sponsor www.charterschooltools.org, leading online resource for charter school operators.

Renaissance School Services

- A leading service provider in school turnaround, charter school operations, and research.
- Leadership team that has more than a dozen years working in whole charter school management, school turnaround, and more recent engagements in research.
- RSS is among the most experienced school operating and improvement teams in the country, which has led some of the nation's leading education reform funders and researchers to ask us to work with them on commissioned research projects.
- RSS works directly with charter school boards, district administrations, and state policy makers to help produce outstanding schools.

Building Hope

Mission: To close the achievement gap by providing student access to high quality charter school facilities through the provision of the following services:



Technical Assistance

- Assisted over 100 charter schools with business planning, real estate, and finance
- Speakers at national conferences and U.S. Department of Education programs
- Led ground-breaking conversion of 7 Catholic schools to charter schools
- Provide grants for feasibility studies
- Support/manage charter school applications for surplus DC school facilities
- Project management to build or renovate facilities

Financing (Loans and CE's)

- \$62 million in total lending since 2003
- Over \$17 million in guarantees
- Supporting \$431 million in facility costs
- Supporting over 23,000+ seats
- 65+ transactions

CS Business Services

- Provide accounting and I.T. services to over 25 charter school campuses
- Prepared eRate applications for over 50 schools
- HR Management
- Property Management

Incubator Initiative

- Partnership with DC Gov't
- Established 5 incubators for 6 charter schools
- Leased and renovated over 110,000 sq ft creating seats for approximately 1,000 students.

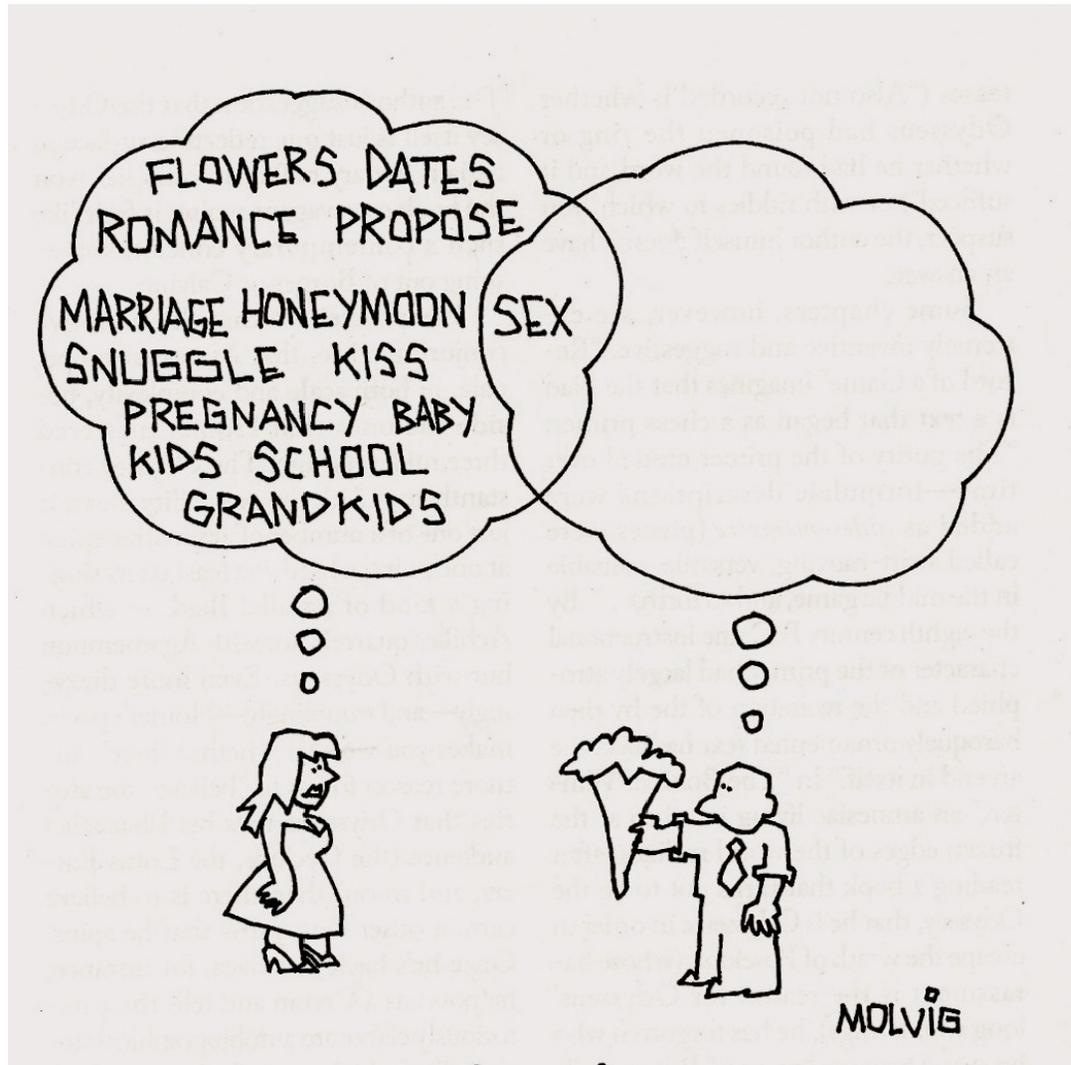
* As a % of staff time

Today's Story

- The charter school back office is typically under-resourced for a job that is extremely complex and demanding.
- Solving this problem is important because it can cost you your charter.
- The evolution of back office services provided by EMOs and CMOs has lessons for how to solve this problem.
- It is possible to build, or buy, a high performing back office.
- Outsourcing can cost less and have many other advantages for charter schools.

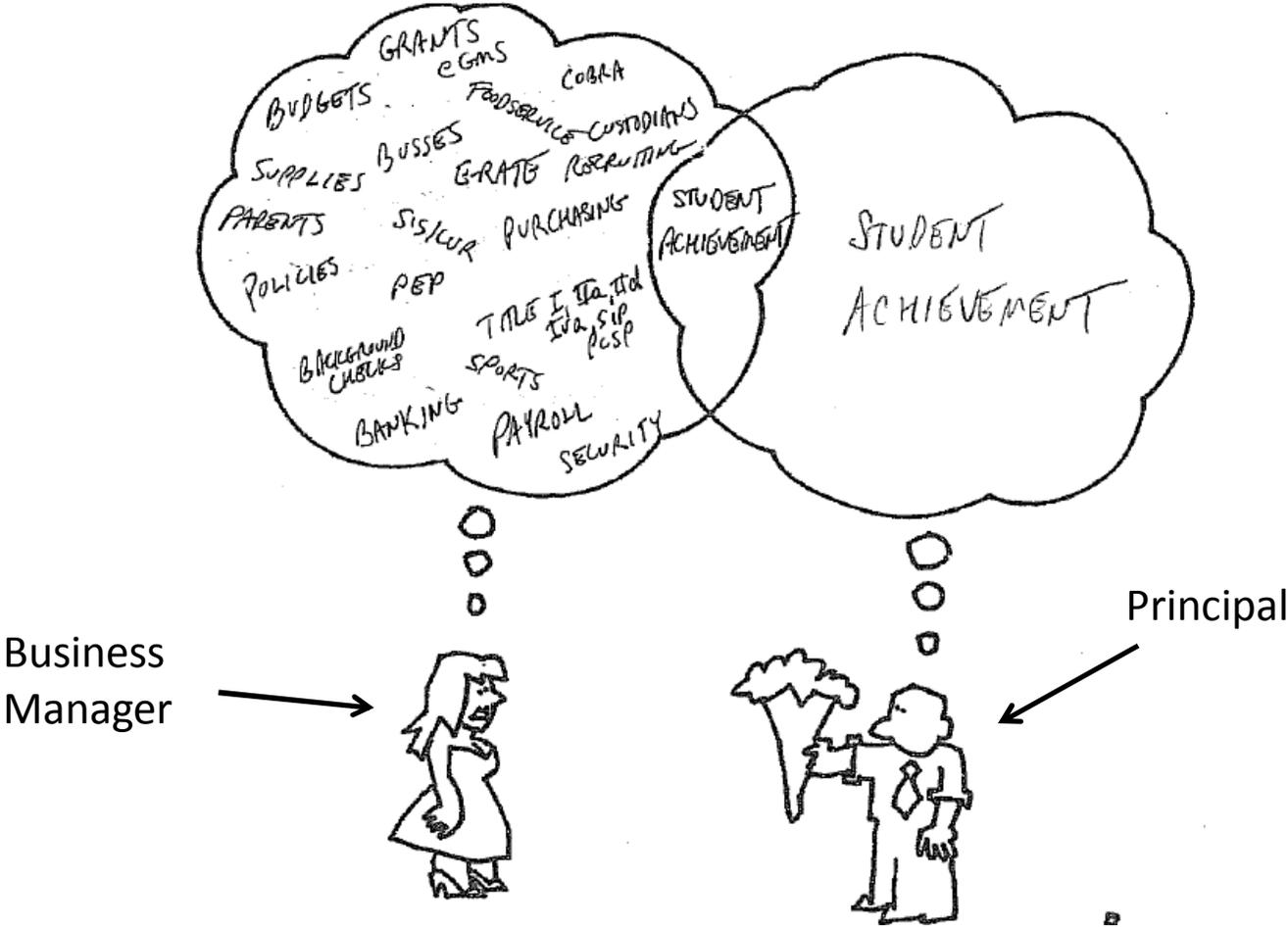
Roles and Responsibilities

Why Is It So Difficult?



Roles and Responsibilities

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Roles and Responsibilities

Why Is It So Difficult?

Finance	Operations	Human Resources	Compliance/Student Information
<ul style="list-style-type: none"> • Monthly accruals, bank recs, account recs and accounting closes. • Development and management of school budgets and forecasts. • Reporting of school financial results in compliance with LDE requirements. • Administration of payroll, including payout calculations, termination calculations, problem resolution, deduction adjustments. • Ongoing journal entries, payroll tracking for grants; fixed asset tracking. • Processing of payments, obtain check approvals, vendor issue resolution. • Completion of categorical funding grants applications, including Title I, IIa, IIc, IVa, SIP, PCSP. Federal draw downs, document submission, receivables tracking, and cash flow forecasting. • eGMS grant management system reporting, TRSL reporting, formatting of data in LAUGH format and corresponding reports. • Petty cash reconciliation and replenishment; foodservice cash and activity fund tracking and reconciliation. • Creation and implementation of financial policies and procedures. • Independent audit support. 	<ul style="list-style-type: none"> • Contract with (or hire) and manage major services, including custodial services, foodservices, transportation, security and school safety, and technology. • Process supply requisitions, purchase orders, and check requests. • Repairs and maintenance. • Manage petty cash and make bank deposits. • Coordination of procurement of school supplies. • On-site budget management. • Procure insurance and incident reporting to insurance broker. • Creation and implementation of operations policies and procedures. • Free and reduced lunch forms. 	<ul style="list-style-type: none"> • Development of employee manual. • Coordination of teacher and staff recruiting activities. • On-boarding of new staff. • Assistance with terminations of staff, administration of exit interviews, communications with Department of Labor for unemployment claims, and COBRA administration. • Employee benefits and workers comp administration. • Provide employee relations support. • Coordination of employee background checks. • Support for employee performance reviews. • Presentations at employee orientations and summer training. 	<ul style="list-style-type: none"> • Support student recruiting plan. • Support production of student schedules and report cards. • State reporting: <ul style="list-style-type: none"> - SIS/CUR - SER - PEP - SPC - STS • Student achievement data management.

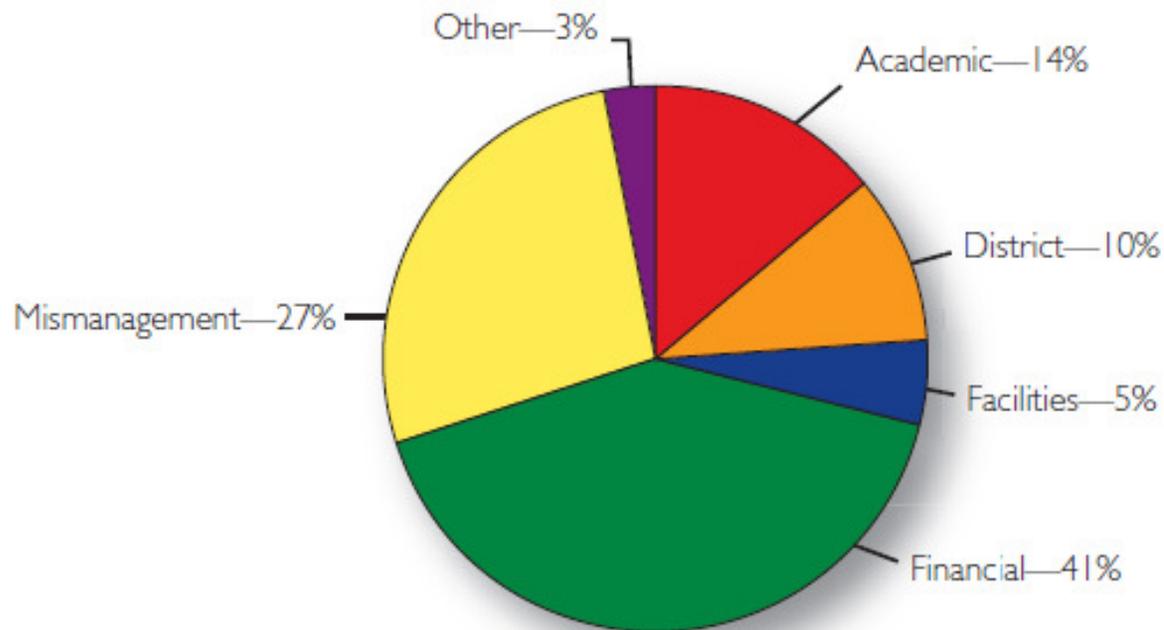
What Can Go Wrong?

Why is this question important?

What Can Go Wrong?

Because only 1 in 7 charter schools that closed did so for academic reasons, but over two-thirds closed because of financial or management failure.

U.S. Charters Closed by Category (657 Schools)



What Can Go Wrong?

- NACSA 's most recent authorizer survey reported that that fiscal issues were the top reason large authorizers closed charter schools outside the renewal process.
- In Louisiana, a recent BESE summary of fiscal compliance showed that 90% of charter schools that do not outsource financial management are not in fiscal compliance.

What Can Go Wrong?

Examples (excluding board governance or academic failure)

- Revenue “leakage” due to lower than actual FRL count (missing forms) or inappropriate grant spending and tracking.
- Overstaffing or wrong-staffing.
- Cash control – e.g., petty cash, student activities funds.
- Lawsuits for wrongful termination, sexual harassment, unreported incidents; failure to conduct background checks.
- Late state reporting; failure to comply with authorizer requests.
- Operational problems that drive parents away (transportation, custodial, foodservice, security).
- Control failure/employee theft.
- Significant enrollment shortfall ; poor budget management in face of enrollment shortfall.
- Material weaknesses identified in audit.

The Evolution of Charter School Business Services

“National EMO” approach

- Organizations like Edison (and to some extent KIPP) set up single national central services office to achieve economics of scale.
- What happened:
 - Duplicative administration with school districts and charter school boards → higher cost.
 - Compliance and reporting prioritized internal needs rather than clients and charter authorizers → lower service.
 - Lack of strong state-specific knowledge → inefficiency and mistakes.

The Evolution of Charter School Business Services

Regional approach

- Organizations like Edison created “area financial management” teams in regions; KIPP set up “shared service teams” and focused on building “clusters” of schools.

Outsourced business services providers

- 1) Provide a shared service team that can serve multiple schools.
 - With strong local knowledge of regulations, revenue streams, compliance issues.
 - Specialized knowledge in each functional area delivers more efficient and effective service than typical school where one person wears many hats (and burns out at a rate of 2-3 people/year).

The Evolution of Charter School Business Services

Outsourced business service providers

- 2) Provide technical assistance with start-up and initial operations
 - Supplement school-based staff with start-up support resources; set-up initial financial management and reporting systems; human resource systems; school operations procedures.
 - Heavy involvement from school opening date +/- 6 months.
 - On-going involvement on ad hoc basis.

- 3) Provide project-based support for operating schools. Examples:
 - Financial audit preparation.
 - Human resource compliance reviews.
 - School operations reviews.

How to Get a High Performing Back Office

(From recent article by Joe Keeney)

Part 1

1. Pay up.
2. Hire right number of people.

Organizational Structures

Rough Rule of Thumb: 1 “back-office” staff per 150 students

Single School



2-3 Schools



3+ Schools



How to Get a High Performing Back Office

(From recent article by Joe Keeney)

Part 1

1. Pay up.
2. Hire right number of people.
3. Hire the right kind of people.
4. Ensure proper financial controls.
5. Consider outsourcing.

How to Get a High Performing Back Office

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Part 2

Performance management and evaluation. Examples:

Value Driver: Create an Environment Conducive to Learning
Key Metrics <ul style="list-style-type: none">• Number of building, health code or safety violations.• 100% of certificates up to date (occupancy, elevator).• Work orders exceeding 3 days.• School hours lost to facilities issues.• % of monthly calendar events submitted by deadline.• Stakeholder satisfaction survey results about facility.• Student surveys: “I feel safe at school.”• Number of workers’ comp claims.• Average time between incident and claim.

Value Driver: Maintain Organizational Strength and Long-Term Viability
Key Metrics <ul style="list-style-type: none">• Number of external reports submitted on time.• Number of e-mail notices of late or incorrect submission received.• Number of formal notices of late or incorrect submission received.• Unscheduled network downtime.• Number of errors identified in internal audit of student data records.• Number of funding applications completed.• Percent approval of timesheets by deadline.• Number of manual checks cut.• Average expense reimbursement time from time of submission.• Number of audit reclassifications and adjustments.• Number of contracts amended to increase amounts.• Percent of expenditures on school site.• YTD revenue and expense vs. budget.• Percent of monthly financial reviews attended by business manager and principal.• Percent of financial reports submitted to board accurately and on time.• Percent of annual budget added to reserves.• Dun & Bradstreet credit rating.• Clean audit; number of issues in management letter.

What Does It Cost?

Charter School Economics

5 Key Lines

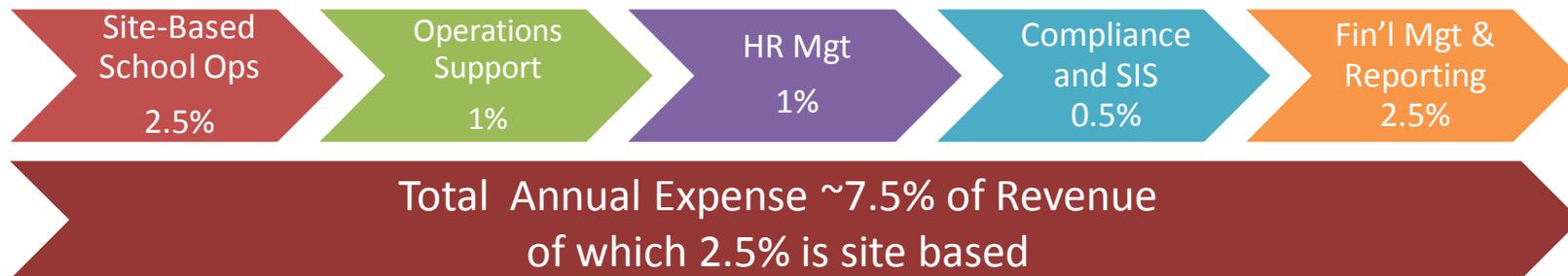
5 Key Variables

Pro Forma

Revenue	Number of Classes	Class Size	Per Pupil Revenue	100%
Teachers	Number	Salary		52%
Adminstrators	Number	Salary		13%
Non-personnel	Fixed	Variable		15%
Facility	Number of Students	Square feet per student	Cost per Square Foot	15%
Surplus				5%

Illustrative Back Office Cost Structure

Typical CMO and EMO management fees are 8-15% of revenue, but “grey area” is what is included in school budget vs. central budget. In general, back office services account for about 7.5% of a school’s budget.



Advantages of Outsourcing

- Knowledge of state and district education department and authorizer requirements, often accompanied by existing relationships.
- Financial experience: delivering reports on time, and successfully completing audits.
- Operational experience: not just making the busses run on time, but fine-tuning the school operations so that fewer instructional minutes are lost to inefficient operations or burdensome reporting by instructional staff.
- Experience in maximizing categorical and grant revenue – many times these are dollars you or the board would never know were missed.
- Independence from the principal and accountability to the board for financial management.
- Lower cost. The efficiency of outsourced providers likely means they can deliver their services for less than it would cost you to hire, train, and retain or rehire your own staff.
- Access to human capital.

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