

Savings on Administrative Costs: Are Central Business Offices the Answer?

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SUMMARY: With increased budget pressures, schools are taking another look at potential benefits of transferring business operations to BOCES Central Business Offices (CBOs) to save costs, institute financial controls, and meet state standards. This issue brief profiles recent research on CBOs across New York State. Research is based on published reports and interviews with BOCES, school district, and Department of Education officials during 2012-13.

Central Business Offices in several BOCES units were established in the mid-1990s, but their use has increased substantially and is still growing. Today, at least eighteen BOCES offer partial or full-service business offices, with most having started between 2005 and 2012. Many more are completing feasibility studies. Use of BOCES for business services accelerated after the State Comptroller recommended separating internal control methods.^a In addition, school districts often turn to CBOs to replace retiring business officers or when a district is not large enough to attract qualified staff.

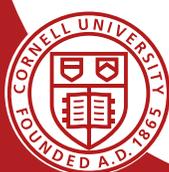
What are CBOs?

CBOs are centralized offices operated by BOCES consisting of a small to medium number of staff, ranging from 3 to 46 full time positions. These offices provide one or more back-office services to participating districts (See Table 1). This means that a district may retain some business staff, while “contracting out” for back-office services not provided by the staff it retains. CBOs often start as shared services between only two or three districts, after which other districts would join and services would slowly evolve. Other CBOs were started after a study of transferring personnel from many districts covering many services.

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Example Back-Office Services That May Be Transferred to CBOs

Category	Services
Accounts Receivable / Billing	Generating invoices and receiving payment owed
Benefits	Enrolling and assisting employees with insurance and other benefits
Budget Administration / Development	Creating 5-year budgets, instituting proper budget control strategies, monitor and provide updates to administration
Capital / Project management	Manage capital projects such as renovations
Cash Management	Manage deposits, receipts, and withdrawals
General Accounting	Analyzing and interpreting records, auditing, ensuring proper procedures are followed
Internal Claims	Examining all accounts, invoices, payroll claims, or other financial demands of the school district
Inventory Monitoring	Tracking inventory of supplies
State and Federal Reports	Creating mandated reports and coordinating with state and federal agencies
Personnel/HR	Recruiting, evaluating, and managing personnel
Purchasing	Purchasing supplies, fuel, and regularly-needed services
Records Management	Creating proper controls for recordkeeping, providing records when needed
Secretarial/Clerical	Correspondence, data entry, administrative assistance, office management



What Benefits Do CBOs Offer?

There is no comprehensive statewide cost-benefit study of BOCES CBOs, and conflicting data on whether CBOs offer cost benefits. A 2012 audit of 4 BOCES found business operations to be more expensive through the CBO than provided in-house.^b However, this audit only provided a “snapshot” of before and after, without taking into account changes over time or other benefits. Other studies have shown savings over time. Broome-Tioga completes self-studies of savings created by its CBO, and has found **it saved its largest district a cumulative 1.8 million dollars 1995-2005**^c.

Cost Savings

CBOs achieve cost savings largely through attrition. When a district joins a CBO, a staff member may transfer from that district to the CBO. Then, when someone in the CBO retires or moves on, he or she is not replaced if remaining staff can cover the workload through improved efficiency. Other cost savings increase over time as software, courier, and office supply costs are reduced as school districts eliminate functions and redundant software programs and compete in larger cooperative bids.

Improved Oversight and Separation of Duties

Several Comptroller audits of school districts have recommended reducing potential of fraud by separating duties, especially cash receipts and disbursements.^a Smaller school districts often have insufficient staff to accomplish this, but may transfer their operations to a CBO. In addition to specialized staff, CBOs have additional internal control tools developed to reduce fraud, mistakes, and improper recordkeeping.

Increased Professionalism

Districts that participate in CBOs also report increased professionalism. Not only are staff more specialized, but there is additional oversight from supervisors and colleagues. For example, in Broome County, a vendor was “shut out” of a district because of a personal conflict with a staff person in one of the districts until the district transferred operations to a CBO.

Other Benefits

Districts participating in CBOs report other benefits, including:

- Uniform reporting methods to assist in long-term planning and benchmarking
- Redundant staff in case of back-up emergency need and to avoid lapses in service
- Ability to attract talent in geographic areas where it is difficult to replace retiring business officials

The Two Dominant Models of BOCES CBO

CBOs generally follow one of two models:

Model 1: Each CBO staff member specializes in two or more school districts. This allows the staff member to become familiar with the school’s practices and software.

Model 2: Each CBO staff member specializes in one or more specific tasks, such as Accounts Payable. This allows the staff member to gain greater expertise and find efficiencies for those tasks. However, all participating districts must use uniform methods and software.

Schools must by law retain their treasurers, but can transfer most other business staff to the CBO. Many times, schools retain a business manager as well to assist superintendents with budget development

and other in-house tasks.

Model 2 is often more successful than Model 1, bringing greater cost and quality benefits. In Model 2, staff becomes more specialized as the CBO grows, better delineation of duties is achieved, and greater efficiencies in training and purchasing are achieved because only one software package is needed.

In addition, CBOs that offer more complex services beyond simple accounts payable and payroll bring larger benefits as more staff may be transferred and staff becomes more specialized. For example, Broome-Tioga BOCES and Greater Southern Tier BOCES report that they receive the largest amount of efficiency gains through transferring complex business operations such as accounting and budgeting.

Lessons Learned in 20 Years of CBOs

Early experiments in shared business operations soured districts on centralizing business operations. For example, in the late 1990s, two school districts in Sullivan County, New York, contracted with a private management group to share a business official. The districts ended the contract because of distance staff had to travel, varying skill sets of staff in district, and differences in the procedures each district used.^d

However, successful models and new technology have changed districts' perceptions. Lessons learned in early CBOs such as Broome-Tioga, DCMO, and Otsego Northern Catskills BOCES have been applied in more recently formed CBOs. Comprehensive studies of BOCES CBOs provided key best practices:

- **Retain a CBO manager that has no responsibilities besides the CBO**, is experienced in school business operations, and is knowledgeable about business management practices from both the public and private sector.^d
- **Discuss and document the roles of the district and the CBO** before beginning service.^e
- **Establish a method of regular communication** between the CBO and the district. Teleconferencing and email have overcome barriers of distance.^d
- **Discuss the service with all district staff** that provide business services, even those who devote only a small portion of their time to business services. Staff may bring up different concerns, which should be addressed formally or informally to increase buy-in. For example, when creating the Broome-Tioga CBO, verbal guarantees to school boards and staff that staff reduction would only be made through attrition were necessary.^f
- **Strategically bring school boards into the discussion** early in the process. In some cases, transfers were derailed because of inadequate communication with school boards.^f
- **If transferring operation to a CBO due to an upcoming position vacancy, begin discussion before that position comes vacant** to transfer institutional knowledge.
- **Build a service-oriented culture** into the CBO. Successful CBOs refer to participating districts as “clients” or “customers” that may take their business elsewhere, and therefore treat them accordingly.^d
- **Transition to a single software package** and uniform operations standards as quickly as possible. Multiple software packages have led to inefficiency and inflated or duplicated costs, but school districts have reported high satisfaction even when transferring away from a familiar package.^d
- **Create a clear channel from staff to school administration to address issues and problems.** This minimizes the number of problems brought to school boards, depoliticizing issues and speeding resolution.^f
- When transferring a service, especially sensitive services such as payroll, **CBO staff should work in the district with existing staff prior to transferring service.** This familiarizes both CBO and school staff/faculty with one another’s practices and establishes comfortable communication between CBO and district.^e
- **Allow districts to slowly add services** as staff retire, rather than an all-services-or-nothing approach. St. Lawrence-Lewis switched from an all-or-nothing model to an a la carte model. To date, no districts have dropped services, but new districts have joined the CBO and begun building trust and communication channels.^f

Capturing CBO Benefits

CBOs have been the subject of studies across the State.^j Three examples show the difficulty of capturing the full range of benefits of a CBO in a single study. These examples were selected to highlight the range of issues that affect whether cost savings can be achieved:

2011 Feasibility Study for St. Lawrence-Lewis BOCES^d

St. Lawrence-Lewis BOCES created a CBO program budget proposal to compare salaries, fringe benefits, and material costs before and after school districts transferred additional services to the existing St. Lawrence-Lewis CBO. Although the feasibility study projected a 32% reduction in costs before aid by switching to the existing CBO, they found that component school districts estimated their business costs very differently even when filling out identical program budget forms. This underscores that although **CBOs can save costs, especially when the CBO infrastructure is already built; measuring the exact amount saved by transferring to a CBO is difficult.**

2009 Feasibility Study of Sullivan BOCES^e

Sullivan BOCES found in a 2009 study that a CBO would eliminate three full-time positions through attrition from expected retirements. However, these savings would be offset by the increased overhead of leasing a new facility for the CBO, purchasing new equipment, and other operation and maintenance costs, meaning the overall CBO costs would be more than districts currently paid. Current business operations costs for all 7 districts in the study were estimated at \$2,608,368 in 2008, and projected costs of using a CBO for similar services was \$2,719,791 (Cost to districts before BOCES aid). **The critical cost driver in this case was that a new facility would need to be provided**, and the cost would drop if existing facilities and equipment could be used.

Broome-Tioga BOCES CBO^{h,i}

Broome-Tioga BOCES CBO began as a shared service between Vestal and Union-Endicott. It took two years to fully transfer staff from the schools to the CBO, beginning with accounts payable and payroll, then phasing in services such as budgeting, purchasing, and fixed assets. After the CBO was fully established, Binghamton City transferred its staff. It took three to five years to begin achieving cost benefits, because of the time it took to reduce staff through attrition and familiarize remaining staff with the system. However, after that period, **Union-Endicott saw an annual savings of \$300,000-\$400,000.**

What should Districts and BOCES keep in mind when transferring service?

In addition to best practices, studies of BOCES CBOs found “trouble spots” that each district or BOCES must negotiate through discussion. Some of these issues include:

- **There may be up-front costs to transferring services.** For example, additional software may need to be purchased if the district doesn't currently use a package supported by the CBO.^g
- **Initial start-up costs are even greater if a CBO has yet to be established.** In some cases, districts have joined another BOCES' CBO rather than starting one in their “home” BOCES.^f
- **There is no standard method of charging CBO fees to districts**, meaning that new CBOs must negotiate this with districts. Common methods are a rate per district RWADA (Resident Weighted Average Daily Attendance) or per CBO staff hour utilized.
- **When staff is transferred to CBO, they may have to drive to the central location**, which is a problem for some staff members.^f

Smaller districts carry special problems:

- Despite an initial belief that large districts with many transactions would take the most staff time, these districts actually were organized and well-suited to working with a CBO. **Smaller districts had a learning curve that needed to be navigated with the CBO.**^f
- Some smaller districts reported difficulty moving their business staff to BOCES because that **staff provides many non-business services to the school.**^f
- **Districts must maintain one staff member.** In cases where a single staff member is doing all business operations already, savings are difficult to achieve without staff reorganization.^d

Conclusion

Over the last several years, the Statewide trend has been toward CBO utilization. However, studies of cost savings associated with these CBOs have mixed results. Positive outcomes in Broome-Tioga highlight that CBOs can reduce or control administrative costs for schools. In addition, there are clear quality benefits among all studied CBOs. On the other hand, some studies reveal a lack of true cost savings.

Nevertheless, a review of studies reveals that even if there aren't first-year cost savings, the savings tend to grow over time. In other words, joining a CBO is often a long-term investment that pays off after several years. Importantly, it appears the full benefits of CBOs can only be realized if the CBO is large enough to allow for proper specialization, if a single software package is used by all members of the CBO, and if proper protocols for transition and communication have been established.

Endnotes

a) Conroe, S. (2011, January 15). *Business offices turn to BOCES*. Cortland Standard

b) New York State. Office of the State Comptroller. (2012). *Cost-effectiveness of BOCES, non-instructional services: Report of examination*. Albany, NY: New York State, Office of the State Comptroller, Division of Local Government & School Accountability.

c) New York State. Department of Education. State Aid Work Group. (2008). *Boards of Cooperative Education Services: A report to the regents subcommittee on state aid*. Albany, NY: New York State, Department of Education

d) Zettek Jr., C., & Center for Government Research. (2009). *Feasibility of creating a Central Business Office for the Sullivan County BOCES component districts*. (Prepared with funds provided by the New York State Department of State under the Local Government Efficiency (LGE) Grant Program). Rochester, NY: Center for Government Research.

e) Sweeny, D. (2011). *St. Lawrence-Lewis Board of Cooperative Educational Services regional consolidation, reorganization, and shared services feasibility study*. Ithaca, NY: New York State Rural Schools Association; Organizational Leadership Services, LLC.

f) Personal interviews.

g) Nelson A Rockefeller Institute of Government. (2008). *The sole Supervisory District of Otsego, Delaware, Schoharie, and Greene Counties: A study of potential educational reorganization of the Otsego Northern Catskills BOCES*. (Prepared for the Commissioner of Education New York State Education Department). Rochester, NY: Nelson A Rockefeller Institute of Government.

h) Pryor, D. E., Zettek Jr., C., & Center for Government Research. (2004). *Thinking beyond boundaries: Opportunities to use local and regional strategies to strengthen public education in the Broome-Tioga region*. (Prepared for Broome-Tioga BOCES). Rochester, NY: Center for Government Research.

i) Sinclair, T. (2005). *Broome County Shared Services Summit Final Report*. Binghamton, NY: Binghamton University.

j) Hayes, C. (2013). *Intermediaries Facilitating Shared Services: What can New York State BOCES Teach Local Government?* (Master's thesis). Cornell University, Ithaca, NY.