

# ***Choosing an Education Contractor: A Guide to Assessing Financial and Organizational Capacity***

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## About This Guide

This Guide was developed jointly by The Finance Project and the Comprehensive School Reform Quality (CSRQ) Center, operated by the American Institutes of Research (AIR). This Guide builds on the work of both AIR and New American Schools, a business-led organization focused on school improvement that became part of AIR in 2004. In 2001, NAS convened a national panel of prominent education and business leaders to develop the *Guidelines for Ensuring the Quality of National Design-Based Assistance Providers* (<http://www.naschools.org/uploadedfiles/guidechart.pdf>). These guidelines established indicators of the quality that consumers could use to assess the strengths of external design-based assistance models (also known as comprehensive school reform (CSR) providers) in a number of dimensions including impact on student performance and quality of assistance to schools. The guidelines also established, for the first time, a set of indicators that consumers could use to assess the financial health and organizational capacity of providers.

Building on the foundation of the NAS work, the CSRQ Center developed a Quality Review Tool (QRT) to review and rate widely implemented school reform models. Its reviews are published in a set of consumer-friendly reports called CSRQ Center Reports, which are described below. Recognizing the challenges that the entire education community faces in selecting contractors for a broad range of educational services, as well as the need to ensure that schools and districts make sound investments, the CSRQ Center worked with The Finance Project to develop *Choosing an Education Contractor: A Guide to Assessing Financial and Organizational Capacity*. This Guide can serve as an important complement to the CSRQ Center Reports. The CSRQ Center also worked with The Finance Project to develop a detailed series of rubrics and an accompanying training module for use in conducting a more in-depth reviewing and rating of school reform models' financial viability and organizational capacity. Organizations interested in obtaining and applying these rubrics and an accompanying training module are encouraged to contact the CSRQ Center or The Finance Project.

## About the CSRQ Center

The CSRQ Center is funded by the U.S. Department of Education's Office of Elementary and Secondary Education through a Comprehensive School Reform Quality Initiative Grant, S332B030012, and is operated by AIR. The mission of the CSRQ Center is to provide timely and reliable tools and technical assistance to help educators and education decision makers in choosing the highest quality school improvement programs to meet locally defined needs. The CSRQ Center aims to help raise student achievement and improve other important student outcomes for millions of America's children by helping education decision makers identify and apply "what works" in the area of whole school reform. To meet its mission, the CSRQ Center produces reports and makes them widely available; develops partnerships with communities and education and policy organizations; and provides technical assistance to selected states, districts, and schools.

The CSRQ Center reviews CSR and related programs and is issuing its findings in an ongoing series called *CSRQ Center Reports*. The reports provide scientifically based, consumer-friendly reviews of program quality and effectiveness and the guidance needed to use this evidence to make effective, locally defined choices.

In addition to this Guide, the CSRQ Center has several reports and services available on its Web site (<http://www.csrq.org>), including:

- ***CSRQ Center Report on Elementary School CSR Models.*** This report offers a scientifically based, consumer-friendly review of the effectiveness and quality of the 22 widely adopted elementary school CSR models.
- ***CSRQ Center Report on Education Service Providers.*** This report provides the first-ever review of the quality of seven widely used education service providers—for-profit or not-for-profit organizations that contract with new or existing public, charter, or private schools and districts to provide comprehensive reform services.
- ***Moving Forward: A Guide for Implementing CSR and Improvement Strategies.*** This guide and accompanying workshop lead readers through an effective step-by-step process for implementing school reform and improvement strategies.
- ***CSR Model Registry.*** This online database allows models not reviewed in the CSRQ Center reports to submit nonevaluative information about their models, and provides a search function to help readers identify a model that meets their needs.

#### **About the American Institutes for Research (AIR)**

Since 1946, AIR—one of the nation's largest nonpartisan, nonprofit behavioral and social science research organizations—has engaged in thousands of research, evaluation, technical assistance, consulting, and communication projects that help to make research relevant to policymakers and practitioners. AIR's overriding goal is to use the best science available to bring the most effective ideas and approaches to enhancing everyday life. The organization's work spans a wide range of substantive areas: education, student assessment, international education, individual and organizational performance, health research and communication, human development, usability design and testing, employment equity, and statistical and research methods. For additional information about AIR, visit <http://www.air.org>.

#### **About The Finance Project**

AIR's collaboration with The Finance Project is focused on helping education leaders make solid investments with their limited resources. The Finance Project is a specialized nonprofit research, consulting, technical assistance, and training firm for public and private sector leaders nationwide. The Finance Project's mission is to support decision making that produces and sustains good results for children, families, and communities through research, tools, and technical assistance for improved policies, programs, and financing strategies. The goal of The Finance Project's education reform practice group is to help leaders better understand, implement, and evaluate financing and service delivery practices that best meet the needs of their K–12 school districts, students, and teachers. This Guide was developed by The Finance Project under a subcontract with AIR. The Finance Project and AIR will continue to collaborate in providing customized technical assistance to support states, districts, and schools in using this Guide and in implementing school improvement strategies. For more information about The Finance Project, visit <http://www.financeproject.org/>.

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We are also particularly grateful for the participation of the two CSR models that served as pilots for the CSRQ Center's rubrics on which this Guide is based. These two sites, Modern Red SchoolHouse and Expeditionary Learning Outward Bound, helped to ground the initial rubrics in the reality of their work with schools. For assistance on some of the finer points of audits, internal controls and other accounting matters, the authors would like to thank Terry Holthause of The Finance Project, Greg Gibson of Gibson Consulting Group, and Susan Bardouil of AIR for their helpful advice. Finally, we wish to acknowledge those who provided detailed comments and suggestions on final drafts of the Guide including Ward Huseth of Knowledge Learning Corporation and the aforementioned members of the Advisory Subcommittee, Steve Honneger and Steven Ross.

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## I. Introduction

Educators have long sought solutions to help them prepare all students for the challenges of the 21st century. The influences of standards-based reform, as well as recent changes to federal and state education laws, have forced schools to re-examine their methods, practices, and policies, and their own accountability. The passage of the federal No Child Left Behind Act (NCLB) in 2001—with its emphasis on holding schools and districts increasingly accountable for results, reducing achievement gaps, and implementing scientifically based reforms—prompted many decision makers to look to outside providers of education-related services for assistance. Whether a school is looking for a particular curriculum, professional development provider, whole school reform model, or another type of education-related service, decision makers face an expanding market of potential contractors from which to choose. These education contractors vary widely in size, experience, and organizational characteristics and in the variety, scope, and quality of services offered.

As a potential consumer of such external educational services, you may be faced with the difficult decision of choosing from among many potential contractors. Your primary concern is the type and quality of the services provided and whether the scope of services offered is a good fit for your needs. The Comprehensive School Reform Quality (CSRQ) Center and others have produced a number of resources to help you identify research-proven providers of education services and determine whether the services offered can help raise student achievement and improve other important outcomes (see “About the CSRQ Center” on pages i–ii, as well as “Additional Resources,” for more information). When comparing your options, it is equally important to consider potential contractors’ financial health and overall organizational capacity to support clients like you. It is easy to overlook these two important elements. However, you need to be certain that your chosen contractor will be able to provide you with quality services over time, especially when you face short deadlines, financial limitations, and pressure to achieve results quickly. In short, if you plan to invest significant school, district, or state resources in contracting with a provider of educational services, it is critical that you assure yourself that the contractor is in a healthy position to deliver the services you need.

### WHO SHOULD USE THIS GUIDE?

This Guide was developed to provide state or local education agency staff—including state departments of education, school districts, charter school authorizers, or individual schools—with information about the importance of *financial viability* and *organizational capacity* and with guidance on how to assess these concepts. It offers tips and tools to help you gather information and use it to evaluate potential education contractors’ financial and organizational health. It outlines the important issues you should be thinking about, points you to information sources, and guides you in assessing a contractor based on that information. The end goal is to help you make a solid investment decision.

### WHY ARE FINANCIAL AND ORGANIZATIONAL CAPACITY IMPORTANT?

Taken together, financial viability and organizational capacity represent the backbone of a contractor’s capacity to meet the needs of its clients. Without solid performance in these two areas, even a contractor with a research-based design, strong implementation, and proven outcomes may not be the best choice for you. For example, professional investors would not consider investing in a company without detailed information on the company’s financial health and its potential for long-term sustainability and success.

Similarly, education service consumers need to know: Is this a sound investment of precious resources? Will the contractor be able to maintain quality as it takes on new clients and assignments? Does the contractor manage its assets responsibly and in a manner that will benefit consumers?

Any school, district, or state willing to invest the significant time, effort, and money necessary to work with an education contractor should consider these questions about a potential contractor. Education consumers need to know that the contractor in which they choose to “invest” has the financial capacity to sustain quality services and customer support over the long term. Moreover, although a strong organizational management and staffing structure alone cannot guarantee that the provider will be able to offer quality services to your school, district, or state, these structures indicate that the organization has the capacity to meet this goal. This Guide can help you evaluate whether the contractor you are considering will be able to deliver quality services to you over time and at scale.

### **ASSESSING FINANCIAL VIABILITY AND ORGANIZATIONAL CAPACITY: HOW TO USE THIS GUIDE**

As you can imagine, financial viability and organizational capacity can be difficult to assess, particularly for someone who is outside the contractor’s own organization. In order to review an organization along these two dimensions, you will need information about the organization’s finances and internal operations. Typically, there is little data publicly available about a contractor’s organization in these areas, and you may have to ask the contractor for information considered to be sensitive or proprietary. Therefore, we provide information on the most important elements to look for and provide you with a step-by-process for collecting and reviewing this data as well as worksheets and other tools to use in the process. The process involves first collecting what information you can from publicly available resources, and then conducting interviews and gathering additional information from contractor’s staff and recent clients. The Guide provides you with a simple framework and user-friendly tools for assessing financial viability and organizational capacity.

#### **What Do We Mean By Education Contractor?**

Throughout this Guide we use the term *education contractor*. Examples of education contractors may include:

- *Whole School or Comprehensive School Reform Models.* A school or district interested in improving student achievement might establish a multiyear contract with a comprehensive school reform model to provide schoolwide services including organizational processes, curriculum, instruction, and professional development.
- *Subject-Specific Curriculum Developers.* A school or district may contract with a curriculum developer to provide assistance in implementing a new reading, math, or other curriculum.
- *Education Service Providers.* A district, state, or charter school authorizer may contract with a school management organization for overall management services.
- *Special Education Service Providers.* A state or district might contract with a company that runs nonpublic schools that serve special education students.
- *Professional Development Service Providers.* A district might enter into a short- or long-term contract with a specific provider of training and professional development for teachers, principals, or other school staff.
- *Supplemental Education Service (SES) Providers.* States are required to develop a list of approved SES providers, and districts are required to contract with local state-approved providers chosen by families whose children are eligible for the program.

**Section II. Assessing Financial Viability** helps you examine an organization's:

- Financial management system
- Financial stability
- Funding diversity and sustainability

**Section III. Assessing Organizational Capacity** helps you examine an organization's:

- Management and staffing capacity
- Internal performance analysis
- Customer service orientation

In these first two sections, we lay out the following concepts:

**Questions to Ask.** First, we recommend key questions you can ask to guide your decision making. Some of these questions refer to specific information sources or documentation that you may obtain from the provider. Each set of questions includes a discussion section that provides additional information on what to look for and how to find and interpret answers to these questions.

**Information Sources.** We then provide further details of what documentation you should look for to inform your decision and how best to obtain it. This documentation may be publicly available or you may need to request it from the contractor. In some cases there may not be any specific documentation to request, only questions to research and pose to the contractor or the contractor's recent clients.

**What to Look For.** We then provide a summary of the ideal financial and organizational capacity characteristics of a contractor. Not every contractor will have all of the ideal characteristics. We are not suggesting that these contractors, in all cases, are not worthy of your investment. You will need to determine which of these characteristics are more or less important to you and how their presence or absence may affect the contractor's ability to meet your needs.

**Red Flags.** Finally, we present characteristics that we consider to be "red flags." These are considerations that indicate serious concerns about a potential contractor's financial viability or organizational capacity. Again, the presence of one or more red flags does not mean that you should eliminate a contractor from consideration. However, it does indicate an issue of concern to which you should pay attention. For example, you may want to raise the issue with the contractor to learn more about it. Some red flags may not be cause for serious concern if the contractor is aware of the issue at hand and has taken steps to improve it.

**Section IV. Suggested Review Process** provides detailed guidance on conducting your review, including steps to gathering and assessing the information.

**Section V. Conclusion.**

The Guide concludes with a series of tools you can use in conducting your review including:

**Section VI. Worksheets** is intended to be helpful as you are interviewing your finalists. The Documentation Checklist includes all of the Information Sources recommended in this Guide. The Assessment Worksheet captures the contact information for those you interview and summarizes all of the Questions to Ask and Red Flags in a format that you can use to record the information you gather.

**Section VII. Glossary** defines terms in this Guide that are specific to financial and organizational capacity, some of which may be unfamiliar to you. All bolded terms in blue throughout the Guide are defined in the Glossary.

**Section VIII. Additional Resources** includes reports and other resources that may contribute to your overall review of potential contractors beyond financial viability and organizational capacity.

### Assessment Worksheet

The Assessment Worksheet found on page 24 is a comprehensive, user-friendly tool that summarizes all of our suggested questions and information sources. Though we recommend reading through the Guide in its entirety first, this worksheet may serve as a time saver for you, as it provides an outline of all of the information you will want to gather to help you assess a potential contractor's financial viability and organizational capacity. It serves as both a quick reference guide and data collection tool as you are performing your review of potential contractors. However, please keep in mind that any individual Red Flags identified in the Worksheet are not necessarily "deal breakers," but should be assessed in context and take into account your needs and the guidance provided in the main text of this Guide.

In this Guide, we outline the many important factors and steps to consider as you review potential contractors' financial viability and organizational capacity. As you conduct your review, you may wish to modify our suggested process to best fit the time and other resources you have available. We leave it up to you to determine the comprehensiveness and depth of the review that will satisfy your purposes. The nature and scope of your review will likely be relative to the total investment you are considering. For example, a more limited review may be sufficient if you are looking at a short-term, finite task for a contractor to complete on a small budget. Make sure you conduct a level of "due diligence" that fits your needs and level of risk tolerance.

### Disclaimer

This Guide attempts to lay out a relatively simple and easy-to-understand review process, along with some considerations and brief guidance to help you select an education contractor. The process is intended to be reasonable in scope and scale and relies on contractor self-reports in many cases where external information is not available. We cannot guarantee that all contractors will fully cooperate with you in your review process, nor can we guarantee that the process laid out in this Guide will result in a positive experience with the educational contractor you select. It is important to recognize that no review process, no matter how extensive, guarantees that the provider you choose will be the perfect fit; there are risks inherent in contracting with any organization. While this Guide is not intended to make any decisions for you or to offer specific advice on selection of a specific contractor, we hope that it provides you a helpful roadmap in going through your review process.

## II. Assessing Financial Viability

In business and philanthropy, potential stockholders or funders are advised to seek information on an organization's financial health and its potential for long-term sustainability and success when considering investing in a company or providing funding to a nonprofit organization. Likewise, education consumers need to know that the contractor in which they choose to invest has the financial capacity to sustain quality services and customer support to its clients over time. We provide guidance for assessing three critical components of a contractor's financial viability: financial management system, financial stability, and funding diversity and sustainability.

### FINANCIAL MANAGEMENT SYSTEM

As mentioned above, financial viability refers to a contractor's overall financial health and its potential for long-term sustainability. A well-functioning financial management system puts internal policies and practices in place for a contractor to monitor and maintain its financial health and to help ensure its long-term sustainability. An organization's financial audit documents provide an independent assessment of the organization's financial management system and are a good way to get a quick sense of the degree to which it is meeting basic financial management standards.

#### **What to Look For**

Ideally, to demonstrate that a contractor has a very strong financial management system, a contractor will be able to show that its *three most recent* financial audit(s) have:

- ✓ Received an **unqualified opinion**<sup>1</sup> from the auditor
- ✓ No **reportable conditions** and/or **material weaknesses** in internal controls
- ✓ A minimal number of comments, recommendations, or observations

#### **Questions to Ask**

- 🗨 **Does the organization conduct a yearly or biannual financial audit?**
- 🗨 **Has the contractor ever received a qualified opinion on its audit?**

A key indicator of good financial management is a solid history of “clean” **audits** performed by an external auditor. Conducting an audit represents good business practice. It assesses whether the financial reports of the contractor are presented fairly and whether the contractor has complied with applicable laws and regulations. A clean audit is one with an **unqualified opinion**, meaning that the auditor did not find any reason to qualify his or her opinion. This opinion is shared in the **Independent Auditor's Report** (also called the **opinion letter**), which is usually a one-page letter written on the auditor's letterhead and addressed to the board of directors or to the management. If the audit is unqualified (remember, this is a good thing!), there should be some language in the last or second to last paragraph stating that the auditors believe that the organizational materials they reviewed represent “fairly, in all material aspects” the financial position of the contractor. Three years of clean audits will provide you with a good history. Keep in mind that a clean audit does not address whether the contractor is performing

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<sup>1</sup> All bolded terms in blue are defined in the Glossary at the end of this Guide.

well financially, only that its financial statements are presented accurately. The section on Financial Stability will provide more information on assessing the financial health of the contractor.

### 🗨️ Have any of the last three audits identified any substantial concerns with internal controls?

As part of the audit, the auditing firm also examines the organization's internal controls. Internal controls are an organization's accounting and other fiscal control policies and procedures that seek to minimize the likelihood that assets are misused or accounts are misstated. For example, one policy might address the separation of accounting functions among several people to prevent the misuse of funds. The auditor will note any significant problems with these policies and practices in either the opinion letter or in a separate **management letter**, which often accompanies the audit. The letter may contain general comments, sometimes labeled observations or recommendations for improvement. A significant problem will be identified as a **reportable condition** or, for more serious breaches, a **material weakness**.

After obtaining and reviewing the audit, including the opinion letter and the management letter (if applicable), if you have any concerns or questions, you should talk to the contractor about the results of the audit, the circumstances of any problems identified, and what steps the contractor has taken to remedy the problems.

#### Information Sources

##### *Publicly available*

- Few education contractors are publicly held companies, but if you determine that a contractor is a public company, visit the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) Web site at <http://www.sec.gov/edgar.shtml>. The Securities and Exchange Commission requires publicly held corporations to submit their audit results and makes them available to the public either on the EDGAR Web site or upon written or verbal request.

##### *Documentation to request from contractor*

- Copy of financial audit: We recommend requesting audits from the last 3 years.
- Independent auditor's report (opinion letter): The report is usually included as the cover letter to the audit.
- Management letter, if available: A management letter may not be issued by the auditor if he or she does not have any recommendations for improvement.

#### **Red Flags**

- 🚩 No audit. The absence of an audit is cause for concern, unless the organization is very new. If no audit is available, ask the contractor for an explanation.
- 🚩 A qualified opinion, as noted in the opinion letter, in any of the last 3 years. A qualified auditor's opinion is rare and demonstrates that there are some very serious issues with a contractor's financial management.
- 🚩 Any material weaknesses in internal controls, as noted in the opinion letter or management letter. A serious reportable condition may be labeled a *material weakness*, which demonstrates a significant problem in the contractor's financial management. If there is a material weakness, be sure to question the contractor and determine how the contractor has responded to the issue.

## FINANCIAL STABILITY

In this Guide, financial stability refers to an organization's ability to manage the flow of funds into and out of the organization, and its ability to deal with a short-term cash shortfall. A financially stable contractor will maintain good credit and access to a funding reserve that could support it in times of need. In addition, the contractor will maintain its client base (i.e., its main source of revenue) and expand in a reasonable manner to take advantages of opportunities for growth in the market, while not overextending itself. To assess financial stability, it is also a good idea to have a general sense of the overall size of the contractor and the types of clients it typically serves.

### What to Look For

Indicators of a financially stable contractor include:

- ✓ Access to cash or sufficient reserves
- ✓ Good credit rating
- ✓ A minimal number of canceled contracts

### Questions to Ask

- 🗨 **What is the contractor's total annual budget?**
- 🗨 **How many clients does the contractor serve? What types of clients are they (schools vs. districts, large or small districts, rural or urban, low income or not)?**

A contractor's total **annual budget** serves as an indicator of its general size, and perhaps the scope of its services and the size of its client base. Information on the contractor's total budget can be found in the budget itself or in the audit under **total annual revenues**. Learning more about a contractor's client base provides more information on its ongoing projects and its income. Depending on its size and the services it provides, a contractor may work with many types of clients in many types of environments. Knowing more about who a contractor serves will not only inform you about how you would fit into that client base, but can also provide some relevant information on the contractor's workload and the number of different sources of revenue it has.

- 🗨 **Does the contractor have a reserve of funds or ready access to cash?**
- 🗨 **Has the contractor ever had to delay payroll?**

Well-managed organizations maintain a **line (or lines) of credit** or at least some access to cash in case they experience a short-term shortfall or otherwise need access to cash quickly. Information on lines of credit can often be found in a contractor's audit, in the **Notes to the Audit** section. Additionally, you may want to ask the contractor if they have set aside any funds in case of an unexpected financial shortfall. Ideally, a contractor should have access to enough money to cover 3 months of operating expenses. One possible outcome of not maintaining a reserve of cash—and certainly a sign of significant financial problems—is the delay of a contractor's payroll. You should ask the contractor directly if it has ever had to delay payroll and, if the answer is “yes,” this fact should be taken very seriously.

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*Ideally, a contractor should have access to enough money to cover 3 months of operating expenses.*

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### 🗨️ What is the contractor's credit risk?

The contractor's credit report is a good source of information on the organization's financial status. A credit report prepared by an independent agency provides an assessment of the organization's history of bill payment timeliness as well as other factors to determine if the contractor is credit worthy. Dunn & Bradstreet (D&B) provides these reports, which are a recognized standard for financial risk assessment. See Information Sources below for more details on accessing these. If there is no credit report available, be sure to question the contractor. It could be that the contractor has changed names or has a different DBA (doing business as) name under which it may be listed.

Locate the Risk Summary section of the D&B report and the Risk of Late Payment "gas gauge" visual. The left-most section corresponds to the lowest risk, and the right-most section is highest risk. Ideally, the contractor will fall somewhere towards the Lowest Risk end of the spectrum. In addition you can also use this report to see payment performance trends for the organization (to assess whether they have had payment problems in the past), as well as information on bankruptcies, court judgments, liens, and lawsuits. Be sure to question the contractor if any issues show up on the credit report.

### 🗨️ Has the contractor ever had to cancel a contract or contracts? If so, why?

There are many reasons why a contractor may have to cancel contracts from time to time. Some may not necessarily reflect on the contractor's performance; for instance, a contractor and client may decide they are not a good fit, or the client may have to cancel the contract due to a lack of funds to pay the fees. However, a canceled contract may be due to negligence or poor performance on the contractor's part, so you should find out if the contractor has had to cancel a contract in the last two years, and if so, ask why. You may also want to ask for the names of clients with whom contracts have been cancelled so that you can contact them in order to understand the client's perspective. Multiple canceled contracts may lead to financial instability, as the contractor is losing projected revenues.

#### Information Sources

##### *Publicly available*

- **Dunn & Bradstreet Credit eValuator Report:** To determine if the contractor has a D&B credit rating, go to the D&B Web site at <http://www.dnb.com/us/> and enter the contractor's name in the "Find A Company" fields in the upper-right corner of the home page. The credit reports cost approximately \$35 to access.

##### *Documentation to request from contractor*

- **Organizational Budget:** We recommend requesting the organization's most recent budget.
- **Copy of Financial Audit:** We recommend requesting the most recent audit for evidence of a line (or lines) of credit and/or any cash reserves. More information on where to find these items is included in the **Glossary**.

#### **Red Flags**

- 🚩 Contractor does not have sufficient reserves or access to cash.
- 🚩 Contractor has had to delay payroll at least once in the last year.
- 🚩 Poor credit rating (medium to high risk of late payment).
- 🚩 Contractor has had to cancel multiple contracts.

### Additional Measures: Ratios and Other Financial Calculations

If you have access to a copy of the contractor's most recent audit and you are interested in knowing more about an organization's financial stability, you may wish to perform the following basic financial calculations. If you are interested in these measures, but feel as if you need some help finding and analyzing the information, an accountant or your financial officer may be able to help. These professionals may also suggest additional measures or other analyses they can help you with. Keep in mind that the audit data used in these measures are historical and, while they may have some predictive value for the future, they are based on past performance only.

- **Average Collection Period** =  $\text{Receivables}/(\text{Revenues}/365)$

This financial measure evaluates how many days, on average, it takes the contractor to collect payments from their clients. A shorter average collection period suggests that a contractor is effectively maintaining its credit policies for clients and, thus, has more liquid assets. Generally speaking, 45 days is considered a good average collection period, but depending upon the contractor's client mix, they may have a longer collection period.

→ *Information on accounts receivable (or **year-end receivables**) can be found in the contractor's **statement of financial position**. **Total annual revenues** can be found in the **statement of activities**. Both of these statements are part of the **financial statements** included in the contractor's **audit**.*

- **Current Ratio** =  $\text{Current Assets}/\text{Current Liabilities (or Debts)}$

This indicator of short-term solvency evaluates the contractor's ability to meet short-term debt obligations. The higher the ratio, the better able the organization is to access cash (or convert its assets to cash), and therefore to meet its short-term debts. A current ratio of 2 is considered very good, while a current ratio of less than 1 would be a cause for concern.

→ ***Current assets** and **current liabilities** can be found in the **statement of financial position** included in the contractor's **audit**.*

- **Debt Ratio** =  $\text{Total Debt}/\text{Total Assets}$

This debt burden indicator evaluates the total amount of debt the contractor bears in relation to its total assets. A lower ratio means a more manageable debt burden. A debt/asset ratio of 40% or less is good, while a ratio of 80% or more would be cause for concern.

→ ***Total assets** and **total debts (or total liabilities)** can be found in the **statement of financial position** in the contractor's **audit**.*

## DIVERSE AND SUSTAINABLE FUNDING

Healthy businesses receive their funding from a variety of clients and other sources and work to ensure that the funding is sustainable over the long term. A well-developed business model suggests that charging fees that accurately reflect the cost of service is a more viable approach than relying heavily on grants or other funding sources, as fees are more sustainable over the long term, and direct payment of fees in many cases provides a more reliable indicator of the perceived value of the services. Many education contractors depend primarily on fee compensation for the services they provide. However, there are different business models that may rely more heavily on foundation or government grant revenue.

In addition it is important that a contractor maintain a good mix of revenue sources—either from client fees or other sources, rather than depending heavily on one or two large contracts or grants in order to sustain itself. A contractor that maintains this diversity of funding will be better positioned to remain viable even if it loses a contract with a client or if a grant ends.

## What to Look For

Indicators of a diverse and sustainable funding base include:

- ✓ Funds are largely made up of fees for service.
- ✓ Funds come from multiple sources.
- ✓ The contractor is not overly dependent on one large client or source of funding.
- ✓ The contractor has reasonable growth plans.

## Questions to Ask

- 🗨 **What proportion of the contractor’s annual revenues is from client fees?**
- 🗨 **What proportion is from grants or other funding sources?**

As mentioned above, best practices would indicate that most contractors should receive the large majority of their funding from client fees—ideally, at least 75%. If you have obtained the contractor’s most recent audit, you can attempt to evaluate how much of their **total annual revenues** are made up of client fees. The fees may be broken out in the **Statement of Activities**. It is likely that you will need more information from the contractor on what items in the Statement of Activities refer to the fees it receives from clients, or how to separate various fees if the contractor provides more than just education-related services. If you do not have the audit or cannot tell from the audit what percentage of revenues comes from fees, you can ask the contractor to break it out for you. If a contractor appears to rely more on grants than fees, try to learn more about the contractor’s business model in the interview process. Though it is not ideal for a contractor to depend largely on grants for funding, longer-term grants are a better sign of financial stability and sustainability than shorter-term grants simply because they are more secure and require less effort for the organization to continue to bring in funds. Similarly, longer-term contracts for client fees are also an indicator of sustainability.

- 🗨 **What is the contractor’s largest funding source, considering all client contracts, grants, and other funding sources?**
- 🗨 **About what percentage of the contractor’s annual budget is represented by this largest funding source?**

You will also want to determine the contractor’s largest funding source either by looking at the audit or by asking the contractor. It may be a contract for fees from a large client or a large grant from a foundation or other entity. A contractor that is relying heavily on a single source of

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*Ideally, a contractor will not receive more than 30% of its funds from a single source.*

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revenue may be at higher financial risk if that source of funding is eliminated for any reason. Ideally, a contractor will not receive more than 30% of its funds from any single source.

- 🗨 **Does the contractor have plans to grow the business?**

The field of education services is growing quickly and many contractors are considering expanding to grow with it. However, growth that occurs too quickly or without forethought can actually hinder sustainability if a contractor’s revenues cannot keep up with its increase in staffing and other expenses. You should consider asking contractors about their growth plans and how they plan to maintain their financial stability and continue to provide quality services to their existing clients during this growth.

**🗨️ How has the contractor’s funding base changed in response to internal or external circumstances?**

By asking a contractor for more detailed information on changes in its funding base over the last 3 years, you may gain some insight into how it manages its contracts and grants over time, the overall diversity of its funding base, and how it addresses its need for funding in periods of contraction, maintenance, or growth.

**Information Sources**

*Documentation to request from contractor*

- Copy of Financial Audit: We recommend requesting the most recent audit for evidence of how much of the contractor’s total revenues come from client fees.

**Red Flags**

- 🚩 Contractor receives a large percentage of revenues from grant sources as opposed to fees. *(Note: Long-term grants are less of a concern than short-term grants, as they represent greater stability.)*
- 🚩 Dependence on one or two single large funding source(s).
- 🚩 The contractor receives more than 30% of its funding from a single client, grant, or other source of funds.

### **III. Assessing Organizational Capacity**

Education contractors need to build and maintain organizational as well as financial capacity to ensure quality services and supports to schools or districts. Although strong organizational management and staffing structures cannot, by themselves, guarantee that the contractor will be able to offer quality services to all potential clients, they help to ensure that the organization is ready to meet this goal.

This section will provide a framework for assessing three key components of organizational capacity:

1. Management and staffing capacity
2. Internal performance analysis
3. Customer service orientation

#### **MANAGEMENT AND STAFFING CAPACITY**

The leadership and staffing of any organization are critical to its ability to provide high-quality services to its clients. An organization's management team and its board of directors are responsible for managing and monitoring the capacity and performance of the organization, and the staff are responsible for carrying out the work. The quality of a contractor's management team and staff can be particularly challenging to assess from outside the organization—a thorough job requires in-depth conversations with key leaders, observing the organization in action, and talking to other clients. Because of this last point, it will be helpful to ask the contractor for a list of recent and/or current clients and their contact information. Keep in mind that conversations with former clients may be of particular interest to determine if they ended their contract (or did not renew) because services were no longer needed, or because there were other issues that led them to discontinue work with the contractor. In your conversations with both the contractor and its clients, you will need to use your professional judgment to determine the level of management and staffing capacity sufficient to meet your needs.

#### ***What to Look For***

##### **Management**

- ✓ A management team with a solid background and expertise in the education field, particularly in the area of school improvement.
- ✓ An organizational structure that clearly assigns key functions—such as executive leadership, operations, or finance—to specific members of the leadership/management team. For small organizations, it is fine if one person has responsibility for more than one function.

##### **Board of Directors**

- ✓ A board of directors with appropriate experience, including both education- and business-related experience, to help guide the contractor in a strategic direction and its day-to-day work.

## Staff

- ✓ A large majority (more than 80%) of the contractor's staff who work directly with school personnel have *at least* 5 years of direct K–12 education experience. Depending upon your perspective and needs, you may want to look for an even higher level of experience.
- ✓ A formal training program for new staff and ongoing professional development opportunities for continuing staff.
- ✓ Clients who feel that the contractor's staff are well-trained and have good experience for the work at hand.

## Questions to Ask

- 🗨 **Who are the contractor's key leaders and what is their level of relevant professional experience?**
- 🗨 **What are the leadership roles? Are they clearly designated?**

Effective organizations have a **management/leadership team** with a wide range of skills and expertise. You'll want to carefully review the background and experience of key members of the leadership team to make sure they have the appropriate skills and experience, especially education- and business-related experience, to prepare them for the kind of work they will be doing for you. Does their background indicate that they have acquired the kinds of skills and expertise that will help them address the specific challenges you face? You will also want to make sure that the leadership team has a well-defined structure for internal management. For example, does the leadership team include members who are responsible for each of the following core functions: executive leadership/strategic direction, operations, finance, marketing, staff training, and quality control of the organization? Can the executive director, or the contractor representative you interview, easily identify who is responsible for what?

- 🗨 **What skills and expertise do the members of the Board of Directors bring?**

In any organization, the **Board of Directors** plays an important role in setting the strategic direction of an organization, reviewing financial operations, and providing general programmatic oversight. You will want to gather some information on the background of members of the board. As a whole, are they experienced in K–12 education and in business? At a minimum, the board should include one or more individuals with significant experience in these two key areas. Do they have expertise in other areas critical to organizational management and to the specific focus area of this contractor—e.g., school reform or district leadership? Ideally, the board will include members that are experts in education and business as well as those that have a diversity of experience in other fields such as law, communications, or information technology, which can help them guide the contractor's organizational performance and the quality of their work.

- 🗨 **How does the contractor staff its projects? Is there sufficient staff?**
- 🗨 **Do staff have sufficient relevant K–12 education experience?**

Another indicator to look for is an adequate number of staff with sufficient education experience to meet the needs of the contractor's client base. Ideally, all staff who work directly with clients will have significant education experience and the great majority of staff (80% or more) will have at least 5 years of experience to inform their work with you. You may also opt to consider how important it is to you to work with staff with experience in a K–12 educational setting which closely matches your own.

You may find that many contractors use a combination of full-time staff and consultants to serve their clients. There is no correct staffing ratio of full-time staff to consultants as every contractor will differ in its approach, but you may be interested to find out more about this issue to see how a contractor adjusts its staffing to make sure all of its projects are covered. The general staffing ratio also will give you a sense of the intensity of the contractor's approach—in other words, how many clients are assigned to each contractor staff member or consultant? A higher or lower ratio is not necessarily better or worse. The ratio simply provides you with some information about the contractor's general staffing approach.

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*Ideally, all staff who work directly with clients will have significant education experience and the great majority of staff (80% or more) will have at least 5 years of experience to inform their work with you.*

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Along these lines, you may want to inquire about the contractor's current staffing situation. Do they have many open staff positions relative to the overall size of their staff? Given the length of your potential relationship with the contractor, it also may be helpful to ask about their staff turnover rate. These questions can provide insight into how successfully the contractor handles its workload and manages its staff.

#### **Are staff well-trained in the contractor's program and general approach?**

Staff should receive adequate training from their employer to ensure that they provide high-quality services that are consistent with the contractor's approach. Contractors should provide training and orientation to staff at the time of hire, potentially including a formal induction program, as well as ongoing professional development for all staff. Speaking with the contractor's recent clientele will be very helpful in assessing this element of organizational capacity, as they have experienced firsthand the services delivered by staff. They will be helpful in determining if the staff were well-versed in the contractor's approach and strategies and had the appropriate capabilities to apply them to the client's situation.

#### **Information Sources**

##### *Publicly available*

- Check the contractor's Web site for names and resumes or bios of the management/leadership team, board members, and staff.
- If you don't find enough detail on the Web site about the leadership team or board members, you might try conducting an Internet search of a few key staff or board member names.

##### *Documentation to request from contractor*

- If you cannot find sufficient information on the Web, ask the contractor if you can see bios of the management/leadership and board members. From there, you can follow up with any questions or concerns you have regarding the information you find.
- The contractor's organizational chart will likely be helpful in determining the roles and responsibilities of the contractor's leadership team.
- Information regarding staffing, staff expertise, and the internal training made available to staff will likely need to be gathered through your interview with the contractor and its clients.
- A list of recent clients and their contact information.

## Red Flags

- 🚩 Management responsibilities are not clearly assigned.
- 🚩 The contractor's board does not have sufficient expertise in education or business, nor do they have a variety of experiences.
- 🚩 The contractor has many open staff positions relative to its overall staff size and/or a very high turnover rate.
- 🚩 Many staff do not appear to have significant K–12 education experience.
- 🚩 Absence of a clear plan for orienting new staff and/or ongoing professional development for all staff.
- 🚩 Recent clients generally dissatisfied with staffing structure, staff experience or qualifications, or other aspects of contractor personnel.

## INTERNAL PERFORMANCE ANALYSIS

Any organization that is interested in maintaining and improving its organizational capacity should conduct regular and thorough analyses of its work and how it could improve its service delivery, as well as its overall outcomes. A thorough assessment requires reviewing its performance from an internal vantage point, and from an external perspective through its clients' feedback. In response to the information it receives, a contractor that is seeking to enhance its organizational capacity will be able to demonstrate how it has reprioritized and/or redirected resources to make improvements in its products and services.

### What to Look For

- ✓ Regular internal performance analysis on the full range of available products and services
- ✓ Changes made in resource use as a direct result of performance analysis
- ✓ Regular solicitation of client feedback on performance

### Questions to Ask

- 🗨️ **Does the contractor internally review and assess its own quality in regard to the products and services it delivers or the efficiency or effectiveness with which it delivers them? How often?**
- 🗨️ **Can the contractor demonstrate any concrete changes it has made in response to this type of performance analysis?**

Contractors may review and assess their products and services through internal mechanisms or the use of outside consultants. Internal mechanisms may include an internal performance measurement system, a strategic planning process, or solicitation of staff feedback. An outside consultant may also be hired to review and assess their work or to help them with any of these internal mechanisms. A strong organization will regularly and systematically review and assess its performance, not just when there are internal issues or concerns to resolve. For example, a contractor might employ a set of internal performance measures quarterly to help improve service delivery quality and response times. When you speak to contractor staff, they may initially have a hard time quantifying their analysis process. To help make the discussion more concrete, you should ask for examples of any resource redirection or changes made to their products or services based on performance data. These types of changes may be noted in an updated business plan or an updated budget.

- **Does the contractor solicit information from clients to determine their satisfaction with the contractor’s products or services? If so, by what method and how often?**
- **Do clients feel that the contractor responded to or made changes because of the information provided?**

Perhaps the best way for a contractor to evaluate its performance is to go straight to the source—its clients. Any organization that provides services should solicit feedback on the quality of its services and how it could improve. Ideally, a contractor will do this regularly and systematically, as opposed to sporadically. The most useful information will address not only specific services—the information a contractor might gather through a satisfaction survey about a single training event, for example—but the provision of services as a whole and over time. In addition to asking the contractor about this practice, you should contact recent/former clients of the contractor to ask if the contractor has solicited this kind of feedback and whether the client has seen positive changes resulting from the feedback they provided. To further understand the degree to which the organization responds to feedback, you can ask the contractor to point to or document any specific changes it has made in response to client comments or concerns.

### Information Sources

*Documentation to request from contractor*

- A list of recent clients and their contact information.

### Red Flags

- ⚠ Contractor cannot specify any internal assessment efforts.
- ⚠ No evidence of or unwillingness to share information about changes made as a result of internal performance analysis.
- ⚠ Contractor is not willing to share the names of any recent clients.
- ⚠ Contractor does not solicit any feedback from clients or solicits only periodic feedback on specific products or services.

## CUSTOMER SERVICE ORIENTATION

As a potential client, you are, of course, concerned with the customer service orientation of any vendor. Given that contractors will be working closely with you and your staff, potentially over a long period of time, customer service is of particular importance. The customer service elements that you can expect from a contractor, as well as the specifics of all the services provided (e.g., technical assistance or professional development services) should be well-defined and specified in written form, most likely in your contract or in a workplan that accompanies the contract.

### What to Look For

- ✓ Evidence that the contractor has resources in place to provide general assistance and customer service that are responsive to local needs of all clients and relevant client staff in a timely manner.
- ✓ A contract or other written document that specifies the technical services and customer service resources that will be made available.
- ✓ Recent clients who will attest to the presence of the above indicators and who have had an overall positive experience working with the contractor.

## **Questions to Ask**

- **Does the contractor provide adequate and appropriate customer service resources, and do those resources invite feedback and questions from clients?**
- **Are these resources readily available to clients and to client staff?**

Your experience in working with a contractor is defined as much by your regular and routine interactions with its staff as by the ultimate outcomes of the work. To facilitate the development of your working relationship, it is important that a contractor delineates clear pathways for you to get answers to questions, work through the development of the details of workplans or other contractual issues, and provide feedback on services. You will want to make sure that the contractor offers at least a couple of options for school or district leadership and management, as well as staff, to get questions answered in a timely manner and to provide feedback.

Two common and complementary methods contractors may use to provide this type of customer service are (a) help desk telephone number or e-mail address and (b) dedicated client contact. A help desk-type resource can be made available at any time and to all school and district staff—not just senior staff who may be personally involved with the contractor—to answer general questions and to capture unsolicited feedback. A dedicated client contact is a named person (or persons) assigned to provide you with informed, customized, and focused customer service on everything from contractual issues to substantive content. This way, the main client contact can call one person with questions or concerns specific to your situation. You may want to ask how often this person is available to you, either to speak with over the phone, to correspond by e-mail, or to visit your site. Consider asking if this individual is also assigned to other school or district sites. These questions may inform you about how responsive this individual may be to your questions or concerns.

Keep in mind that the unique nature and substance of your contract and the services outlined may not require this level or type of customer service, and that there may be other models of how customer service is provided. Nevertheless, the general principles still apply: you want to find out what types of structures are in place to help you when you need it. To get a clear and practical sense of the contractor's approach to customer service, it will be helpful for you to talk with some of the contractor's recent clients.

- **Does the contract or workplan provide specific details on the type and amount of services to be provided, as well as on the available customer service resources?**
- **How flexible or customizable is the contract?**

The contract, or the workplan that accompanies the contract, should document the type and volume of services you are entitled to receive. For example, if applicable, the contract should specify how much staff time or how many staff days of service you may expect both on- and offsite. In addition, the contract or workplan should generally describe the customer service resources that are available; this ensures that the contractor is taking the necessary steps to make you aware of the resources available to you.

You should consider asking the contractor for a sample contract and/or workplan to determine if these types of resources—both the actual technical assistance and the customer service you are expecting to receive—are detailed in those documents. You may also want to inquire if these elements and other elements of the contract are customizable, in the case that your site has special needs. Finally, it would be valuable to ask the contractor's recent clients if the contract and/or workplan gave them a clear

understanding and expectation of the customer service, technical assistance, and other resources they were entitled to receive. And, you will obviously want to know the clients' opinion of the services they received.

### **Information Sources**

#### *Publicly available*

- Check the contractor's Web site for evidence of some sort of generally available customer service contact for feedback—perhaps a phone number or e-mail address for questions or concerns.

#### *Documentation to request from contractor*

- A sample contract and/or workplan that may document evidence of a help desk or other similar mechanism, a dedicated client contact, and detailed information on the services that will be offered.
- Any other contractual materials or client correspondence that document available customer service resources.
- A list of recent clients and their contact information.

### **Red Flags**

- 🚩 No evidence of a help desk, a dedicated client contact, or other customer service structure.
- 🚩 Recent clients are not aware of the availability of these resources or are dissatisfied with the responsiveness or quality of the contractor's customer service.
- 🚩 The contract and/or workplan does not specify the technical and customer service resources that will be provided.
- 🚩 Recent clients do not have a clear understanding of the services to which they are entitled or are dissatisfied with the amount, timeliness, and/or quality of the services provided.

## IV. Suggested Review Process

Your research into contractors' financial viability and organizational capacity is likely part of a larger process of reviewing potential education contractors to identify one that meets your specific needs. The process we lay out here will help you to gather the critical information you will need to assess the financial viability and organizational capacity of the education contractors with which you are considering working. In this section, we recommend a multistep process that involves first collecting what information you can from publicly available sources (marketing materials, Web sites, etc.), and then conducting interviews with the contractor's staff and talking to some of its clients.

This section also provides some concluding thoughts about how to assess the entirety of the information you collect. Section VI. Worksheets provides a Documentation Checklist and an Assessment Worksheet to help you organize the process, record notes, and make your assessment.

Because of the time involved and the sensitive nature of some of this information, we recommend that you narrow your selection of vendors to one or two possible candidates based on other factors before you initiate this part of your review. Even with a short list of candidates, be aware that contractors may ask you, as a prospective client, to sign a confidentiality agreement before they release some of their more sensitive financial information, including audit documents. If contractors are hesitant to provide you with their full audit, they may consider sharing some of their more basic financial information (e.g., total revenues, assets, etc.) without asking for a confidentiality agreement.

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*Even with a short list of candidates, be aware that contractors may ask you, as a prospective client, to sign a confidentiality agreement before they release some of their more sensitive financial information.*

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As you are researching and collecting information from potential contractors, you will want to make sure that you are including staff in your review who can help put this information in context. For example, you will likely want to involve personnel with key decision-making abilities (e.g., a principal, superintendent, or program director) as well as someone with an understanding of financial matters (e.g., a chief financial officer or budget officer). These individuals will be able to help you interpret what you learn about potential contractors and determine how well the contractors' financial and organizational capacity fit your needs.

### Using an RFP Process to Solicit Information on Financial Viability and Organizational Capacity

The full review process outlined in this section requires a significant amount of staff time from both you and the potential contractors you are considering. The time required could be mitigated by incorporating some of the key questions and requests for documentation suggested in this Guide into a Request for Proposal (RFP) process through which potential contractors provide a full proposal for services. Contractors can then provide information and respond to the same questions in the same format. Contractors are likely very familiar with an RFP process and would readily participate for a chance to earn your contract.

### 1. RESEARCH CONTRACTOR BACKGROUND

Once you identify a contractor that you are interested in learning more about, begin by doing some background research. First, find out if the contractor has a Web site. The Web site will likely provide

good general information about the contractor, as well as some of the information included in the Documentation Checklist (see Section VI), which may include:

- Names and resumes or bios of the management/leadership team, board members, and staff
- Organizational chart
- Information on the customer service resources available

Then, start gathering and reviewing the publicly available information detailed in the Guide, as some of this information will help to inform your interview with key staff and clients of the contractor. The publicly available information sources are also summarized in the Documentation Checklist. It will also be helpful to review Sections II and III of the Guide and make notes about which issues, questions, and red flags are particularly important to you. You may want to make notes on the Assessment Worksheet that you will be using to record the information you receive during the interview.

## 2. PERFORM CONTRACTOR INTERVIEWS

With the information you have gathered from the contractor's Web site and/or publicly available sources of information, determine your remaining questions and identify who in the contractor's organization will likely be able to address them. Typically, the following staff will be most helpful to interview:

- *Chief Financial Officer* or someone with an understanding of the contractor's financial situation who can help answer questions regarding financial management, stability, and diversity and sustainability
- *Executive Director* or someone with an historic leadership perspective
- *Chief Operating Officer*, client relations manager, or someone with a detailed understanding of the contractor's internal operations (staffing, customer service and client feedback, internal processes, training and induction for staff, etc.)

You will then want to set up a phone or face-to-face interview. The discussion of financial viability and organizational capacity could take anywhere from 30 minutes to an hour and a half, depending on how many individuals you are speaking with at a given time, and how thorough you wish to be on these subjects. In setting up the interview, explain the purpose of the interview, the names or job descriptions of the staff you would like to speak with, and provide a general sense of how long you think the interview will take. It may make sense to schedule multiple interviews to speak with everyone you have identified, depending on your schedule and theirs. Given that you are a potential client, you may be expected to speak with a staff member responsible for marketing or client relations. If this staff member is not able to answer all of your questions, you should ask to speak with the appropriate staff.

You may want to begin the interview with a brief description of your affiliation (school, district, state education agency, etc.) and the services of which you are in need. You may also want to begin by reviewing the information you have or asking for some general information, such as:

- The size of the contractor's organization and staff
- The general makeup of its clientele
- The overview of services provided

From there, moving through the categories laid out in this Guide and using the Assessment Worksheet to record information, ask your questions and request any documentation that you feel is necessary. Keep in

mind, the contractor staff may not be willing or able to answer every question or share every document you request, given that you have no contractual relationship or confidentiality agreement at this time. Use your best judgment to determine if the contractor's refusal of any of these items reflects poorly on their willingness or ability to serve you as a client. During the interview, use the Assessment Worksheet to note any issues that come up with the contractor about which you would like to follow up with clients.

### **3. PERFORM INTERVIEWS WITH THE CONTRACTOR'S RECENT CLIENTS**

At some point during the interview with contractor staff, it will be useful to request the names and contact information for some of the contractor's recent clients—at least three is ideal, but you may want to ask for more. The clients you speak with may be current clients of the contractor or those who have used the contractor's services in the recent past; the important consideration is whether the clients can speak to a fairly current picture of the contractor's financial and organizational capacity. Once you have concluded the interviews with contractor staff, contact as many clients as you feel necessary to “firm up” your assessment of the contractor and complete your process.

You may want to review the *Questions to Ask* sections in the Guide that specifically apply to the contractor's clients before you begin your interviews. At the start of the interviews, you may want to inquire about the nature of the relationship between the contractor and the client and ask some general questions about the client's affiliation to determine how well its experience may reflect on your own. During the interviews, use the Assessment Worksheet to refer to any issues that came up with the contractor that you would like to follow up on with clients.

### **4. BRINGING IT ALL TOGETHER: REVIEW THE INFORMATION AND MAKE YOUR ASSESSMENT**

Once you have gathered the documentation and completed your interviews with contractor staff and clients, you will want to look back over the total set of information to make your final assessment. You should consider how well the contractor matched up to the items outlined in the *What to Look For* sections. In areas where a contractor does not meet the criteria, consider why not and think about how important those specific measures are to you and how much they will impact the services you expect to receive. It will also be particularly important to note and consider any *Red Flags* that turned up in your interviews and/or the documentation you acquired. If you had the opportunity to ask about these issues, consider the contractor's response. If you uncovered these issues after your initial conversation, you may wish to follow up with the contractor. There is no set formula to determine how many *Red Flags* are acceptable or unacceptable, or even that any single red flag is reason not to consider contracting with a particular provider. Again, look at each area and consider your assessment in the context of your organization's needs, the overall picture of the contractor, and the extent of the working relationship you plan to have with the contractor.

We recognize that assessing financial stability and organizational capacity is probably only part of a larger set of considerations and review you are undertaking in choosing an education contractor. While the above steps are framed as a discrete process focusing only on a contractor's financial viability and organizational capacity, you will likely incorporate them into a larger, more comprehensive review process that takes into account all the various questions and performance dimensions you are considering as you assess contractors (see the box on Requests for Proposals on page 19). Though we have provided guidelines and advice on what information on financial stability and organizational capacity to collect and how, it is ultimately up to you to make a determination of how well a contractor will meet your needs based on all the information you gather.

## **V. Conclusion**

We hope that this Guide, including the frameworks, process, and tools it encompasses, will help you make a more informed decision when choosing an education contractor. Your contract will likely represent a significant investment of time and resources and, by following this Guide, you should feel confident that you have obtained and considered the best information available on financial information and organizational capacity that you need to help you make a wise decision.

## VI. WORKSHEETS

### DOCUMENTATION CHECKLIST

Below are 13 data sources we recommend collecting, starting with those that are publicly available. Each source may address multiple issues or questions that you will be examining in your review.

Documentation	Source	Received	Notes
Electronic Data Gathering, Analysis, and Retrieval (EDGAR) data	Publicly available from <a href="http://www.sec.gov/edgar.shtml">http://www.sec.gov/edgar.shtml</a>	<input type="checkbox"/>	
Dunn & Bradstreet Credit eValuator Report	Publicly available from <a href="http://www.dnb.com/us/">http://www.dnb.com/us/</a>	<input type="checkbox"/>	
Bios/resumes of management/leadership	Publicly available (may be available from contractor's Web site) OR contractor	<input type="checkbox"/>	
Bios/resumes of board members	Publicly available (may be available from contractor's Web site) OR contractor	<input type="checkbox"/>	
Organizational chart	Publicly available (may be available from contractor's Web site) OR contractor	<input type="checkbox"/>	
Most recent audit (including independent auditor's report)	Contractor	<input type="checkbox"/>	
Audit from the year prior (including independent auditor's report)	Contractor	<input type="checkbox"/>	
Audit from 2 years prior (including independent auditor's report)	Contractor	<input type="checkbox"/>	
Management letter from any of the past 3 years, if issued	Contractor	<input type="checkbox"/>	
Current organizational budget	Contractor	<input type="checkbox"/>	
List of recent clients	Contractor	<input type="checkbox"/>	
Sample contract or workplan	Contractor	<input type="checkbox"/>	
Other contractual materials or correspondence on customer service resources	Contractor	<input type="checkbox"/>	

**ASSESSMENT WORKSHEET**

**Name of Contractor:** \_\_\_\_\_

**Staff Contact #1:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Client Contact #1:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Contact Information:** \_\_\_\_\_  
 \_\_\_\_\_

**Contact Information:** \_\_\_\_\_  
 \_\_\_\_\_

**Staff Contact #2:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Client Contact #2:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Contact Information:** \_\_\_\_\_  
 \_\_\_\_\_

**Contact Information:** \_\_\_\_\_  
 \_\_\_\_\_

**Staff Contact #3:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Client Contact #3:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Contact Information:** \_\_\_\_\_  
 \_\_\_\_\_

**Contact Information:** \_\_\_\_\_  
 \_\_\_\_\_

FINANCIAL VIABILITY		
Question	Key Information Sources	Notes
<b>Financial Management System</b>		
1. Does the organization conduct a yearly or biannual financial audit?  <b>Red Flag: No audit<sup>2</sup></b>	Audit	
2. Has the contractor received a “qualified” opinion on the audits of the last 3 years?  <b>Red Flag: At least one “qualified” opinion</b>	Audit; independent auditor’s report	
3. Have any of the last three audits specified any substantial concerns with internal controls?  <b>Red Flag: At least one material weakness</b>	Audit; independent auditor’s report; management letter	

<sup>2</sup> For more details on how to interpret the Red Flags listed here, be sure to review the guidance provided in the main text of the Guide.

FINANCIAL VIABILITY		
Question	Key Information Sources	Notes
<b>Financial Stability</b>		
4. What is the contractor's total annual budget? How many clients does the contractor serve?	Annual budget; audit	
5. What types of clients does the contractor serve (schools vs. districts, large or small districts, rural or urban, low income or not)?	Contractor interview	
6. Does the contractor have a reserve of funds or ready access to cash?  <b>Red Flag: Insufficient reserves/access to cash</b>	Audit; contractor interview	
7. Has the contractor ever had to delay payroll?  <b>Red Flag: Contractor has delayed payroll</b>	Contractor interview	
8. What is the contractor's credit risk?  <b>Red Flag: Poor credit rating</b>	Dunn & Bradstreet Credit eValuator Report	
9. Has the contractor ever had to cancel a contract, or contracts? If so, why?  <b>Red Flag: Canceled multiple contracts</b>	Contractor interview; client interviews	
<i>Additional Measures: Ratios and Other Financial Calculations (optional)</i> <ul style="list-style-type: none"> <li>■ <i>Average Collection Period (Receivables/(Revenue/365)</i></li> <li>■ <i>Current Ratio (Current Assets/Current Liabilities)</i></li> <li>■ <i>Debt/Asset Ratio (Total Liabilities/Total Assets)</i></li> </ul>	Audit	

FINANCIAL VIABILITY		
Question	Key Information Sources	Notes
<b>Diverse and Sustainable Funding</b>		
10. What proportion of the contractor's annual revenues is from client fees?	Audit, contractor interview	
11. What proportion of the contractor's annual revenues is from grants or other sources of funding?  <b>Red Flag: Large percentage of revenues from grants</b>	Audit; contractor interview	
12. What is the contractor's largest source of funding, considering all client contracts, grants, and other sources of funding?  <b>Red Flag: Dependence on one or two sources</b>	Audit; annual budget; contractor interview	
13. About what percentage of the contractor's annual budget is represented by this largest source of funding?  <b>Red Flag: More than 30% of revenue from one source</b>	Audit; annual budget; contractor interview	
14. Does the contractor have plans to grow the business?	Contractor interview	
15. How has the contractor's funding base changed in response to internal or external circumstances?	Contractor interview	

ORGANIZATIONAL CAPACITY		
Question	Key Information Sources	Notes
<b>Management and Staffing Capacity</b>		
16. Who are the contractor's key leaders and what is their level of relevant professional experience?	Bios/resumes; contractor interview	
17. What are the leadership roles? Are they clearly designated?  <b>Red Flag: Management roles not well defined</b>	Bios/resumes; organizational chart; contractor interview	
18. What skills and expertise do the members of the Board of Directors bring?  <b>Red Flag: Insufficient expertise</b>	Bios/resumes; contractor interview	
19. How does the contractor staff its projects? Is there sufficient staff?  <b>Red Flag: Many open positions or high turnover</b>	Contractor interview; client interviews	
20. Do staff have sufficient relevant K–12 education experience?  <b>Red Flag: Insufficient staff experience</b>	Contractor interview; client interviews	
21. Are staff well-trained in the contractor's program and general approach?  <b>Red Flag: Lack of training for staff; clients dissatisfied with staffing</b>	Contractor interview; client interviews	

ORGANIZATIONAL CAPACITY		
Question	Key Information Sources	Notes
<b>Internal Performance Analysis</b>		
22. Does the contractor internally review and assess its own quality in regard to the products and services it delivers or the efficiency or effectiveness with which it delivers them? How often?  <b>Red Flag: No internal assessment</b>	Contractor interview	
23. Can the contractor demonstrate any concrete changes it has made in response to this type of performance analysis?  <b>Red Flag: No sign of changes</b>	Contractor interview	
24. Does the contractor solicit information from clients to determine their satisfaction with the contractor's products or services? By what method, and how often?  <b>Red Flags: Contractor won't share client list; contractor does not solicit feedback or solicits only periodic feedback</b>	Contractor interview; client interviews	
25. Do clients feel that the contractor responded to or made changes because of the information provided?	Client interviews	

ORGANIZATIONAL CAPACITY		
Question	Key Information Sources	Notes
<b>Customer Service Orientation</b>		
26. Does the contractor provide adequate and appropriate customer service resources, and do those resources invite feedback and questions from clients?  <b>Red Flag: No customer service structures</b>	Contractor interview; client interviews	
27. Are customer service resources readily available to clients and to client staff?  <b>Red Flag: Clients unaware or dissatisfied with resources</b>	Contractor interview; client interviews	
28. Does the contract or workplan provide specific details on the type and amount of services to be provided, as well as on the available customer service resources?  <b>Red Flags: No details on available services or resources; clients unaware of or dissatisfied with services/resources</b>	Contractor interview; client interviews	
29. How flexible or customizable is the contract?	Contractor interview; client interviews	

## VII. Glossary

**Annual Budget:** The document showing projected expenditures and revenues for a contractor's planned activities over a fiscal year.

**Audit:** The inspection of the accounting records and procedures of a contractor by a trained accountant for the purpose of verifying the accuracy and completeness of the records. We recommend an audit conducted by an outsider (an independent audit) according to the generally accepted accounting principles (see *GAAP*). Each audit should be accompanied by an **Independent Auditor's Report** (also called an **Opinion Letter**).

**Average Collection Period (ACP):** The average length of time it takes a contractor to collect payments from its clients. A shorter ACP suggests that a contractor is effectively maintaining its credit policies for clients and has more liquid assets. ACP is computed by dividing average daily revenues into accounts receivable:  $ACP = \text{Receivables}/(\text{Revenues}/365)$

**Board of Directors:** The governing body that is responsible for representing the best interests of the contractor (and its shareholders, if a for-profit corporation). The board members are elected by the contractor's shareholders if the contractor is a for-profit corporation, or selected by its leadership and/or existing board members if the contractor is a nonprofit corporation.

**Current Assets:** Assets that a contractor can reasonably expect to convert into cash within a year.

**Current Liabilities:** A contractor's short-term debt obligations, or those obligations that will require the use of **Current Assets**.

**Current Ratio:** The ratio of **Current Assets** to **Current Liabilities**. The higher the ratio, the better able the organization is to access cash (or convert its assets to cash), and therefore to meet its short-term debts.

**Current Ratio = Current Assets/Current Liabilities**

**Debt Ratio:** The total amount of debt (both current and long term) the contractor bears in relation to its total assets. A low debt ratio suggests that the debt burden is more manageable for the contractor.

**Debt Ratio = Total Liabilities/Total Assets**

**Dunn & Bradstreet Credit eValuator Report:** A report from Dunn & Bradstreet, a global company that provides business tools and information, which determines a contractor's credit risk. These credit reports are a recognized standard for financial risk assessment.

**Financial Statements:** The presentation of a contractor's financial data including **Statement of Financial Position** (or Balance Sheet), **Statement of Activities** (or Income Statement) and Statement of Cash Flows, or any supporting statement that is intended to communicate an entity's financial position at a point in time and its results of operations over a set period of time. These statements are part of the **Audit**.

**Independent Auditor's Report (also referred to as an Opinion Letter):** A letter signed by an auditor that vouches for the reliability and fairness of the organization's financial statements. The letter is usually

presented at the front of the *Audit* document and is addressed to an organization's management or board. The letter will note whether the organization has received an *Unqualified Opinion*.

**Line of Credit:** An agreement between a contractor and a financial institution in which the financial institution promises to lend up to a certain amount and the contractor is required to reduce the debt whenever the limit of the full amount of credit has been reached. Information on a contractor's Line(s) of Credit will likely be found in the *Audit*, and more specifically, in the *Notes to the Audit*.

**Management Letter:** A letter that may accompany the *Audit* and identifies issues relating to internal controls. If these issues identified are substantive enough, they may also be noted in the *Opinion Letter*. The management letter may also include recommendations for improving internal controls.

**Management/Leadership Team:** The key staff members of the contractor who are responsible for core functions, which may include, but are not limited to executive leadership/strategic direction, operations, finance, marketing, staff training, and quality control.

**Material Weakness:** A significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

**Opinion Letter:** See *Independent Auditor's Report*.

**Notes to the Audit (or Notes to the Financial Statements):** A detailed set of notes immediately following the *Financial Statements* contained in the *Audit* that expands upon and/or explains in some depth the information contained in the financial Statements.

**Reportable Condition:** A matter coming to the auditor's attention relating to significant deficiencies in the design or operation of the contractor's internal controls that could adversely affect a contractor's ability to fulfill future obligations with customers and/or the payment of debts (or liabilities).

**Statement of Activities (or Income Statement):** An itemized statement that shows a contractor's *Total Revenues* and total expenses over a specific period of time. The statement is contained in the *Audit*.

**Statement of Financial Position (or Balance Sheet):** An itemized statement that lists the *Total Assets* and *Total Liabilities* of a contractor to portray its net worth as of a specific date. The statement is contained in the *Audit*.

**Total Annual Revenues:** The total annual income of a contractor from services provided and grants and other sources of funds received.

**Total Assets:** The total of all assets, both current and long term.

**Total Liabilities:** The total of debts a contractor owes, both current and long term.

**Unqualified Opinion:** An auditor's opinion indicating that no deficiencies in the financial statements or the auditing of accounting standards were found (also known as a "clean opinion"). The auditor may issue

an Unqualified Opinion only when there are no identified material weaknesses and when there have been no restrictions on the scope of the auditor's work.

***Year-End Receivables:*** Money for products and services provided that is due to a contractor at the end of the year, but which has not yet been received.

## VIII. Additional Resources on Selecting Comprehensive School Reform Models and Other Education Contractors

As mentioned in the body of this Guide, your review of a potential education contractor's financial and organizational capacity will most likely be a component of a larger scale assessment of the scope and quality of services offered by the contractor and the fit of those services with your needs. Below are several resources related to comprehensive school reform models, one type of education contractor that may aid you in your thinking about your overall review of potential contractors.

### CSRQ REPORTS AND RESOURCES (AVAILABLE AT [HTTP://WWW.CSRQ.ORG](http://www.csrq.org))

- *CSRQ Center Report on Elementary School CSR Models* (Fall 2005)
- *Works in Progress: A Report on Middle and High School Improvement Programs* (Winter 2005)
- *CSRQ Center Report on Education Service Providers* (Spring 2006)
- *CSRQ Center Reports on Middle and High School CSR Models* (Fall 2006)
- *Updated CSRQ Center Reports on Elementary School CSR Models* (Fall 2006)
- *Enhancing the Participation of Students With Disabilities in CSR Models* (Spring 2006)
- *Moving Forward: A Guide to Selecting and Implementing Comprehensive School Reform and Improvement Strategies* (Fall 2005)

### GATHERING INFORMATION

#### *An Educator's Guide to Schoolwide Reform*

This guide, issued by the American Institutes for Research, provides independently evaluated, comparative information on the effectiveness, quality, and cost of 24 comprehensive school reform programs. (1999)

[http://www.aasa.org/issues\\_and\\_insights/district\\_organization/Reform/index.htm](http://www.aasa.org/issues_and_insights/district_organization/Reform/index.htm)

#### *Better by Design? A Consumer's Guide to Schoolwide Reform*

The Thomas Fordham Foundation published this review of 10 comprehensive school reform models, evaluating achievement, effectiveness, and cost. (December 1999)

<http://www.edexcellence.net/doc/bbd.pdf>

#### *The Catalog of School Reform Models*

The Northwest Regional Labs offers this catalog, which includes a search engine, to examine 26 external reform models. The catalog analyzes various aspects of each program, including general approaches, results with students, implementation assistance, and costs. (Updated January 2004)

<http://www.nwrel.org/scpd/catalog/index.shtml>

#### *Comprehensive School Reform and Student Achievement: A Meta-Analysis*

Geoffrey Borman of the University of Wisconsin-Madison and a team of researchers from Johns Hopkins University and the University of North Carolina reviewed research on the achievement effects of 29 widely implemented CSR programs. The analysis also looked at how CSR components, and contextual and methodological factors mediate the effects of CSR. (November 2002)

<http://www.csos.jhu.edu/CRESPAR/techReports/Report59.pdf>

*Focus on the Wonder Years: Challenges Facing the American Middle School*

This RAND Corporation report profiles challenges facing middle school educators and reviews evidence of effectiveness for some CSR approaches used in middle schools. (2004)

<http://www.rand.org/publications/MG/MG139/MG139.pdf>

*Improving Low-Performing High Schools: Ideas & Promising Programs for High Schools*

This resource, developed by the American Federation of Teachers, addresses issues specific to high schools including how to perform an appropriate self-study, reduce incidents of violence, and gain cooperation from students. (July 1999)

<http://www.aft.org/pubs-reports/downloads/teachers/lphs.pdf>

*Scientifically Based Research*

The North Central Regional Educational Laboratory offers a guide to understanding the six steps mandated by Title IX to accomplish the scientifically based research component of No Child Left Behind legislation. (2001)

<http://www.ncrel.org/csri/tools/qkey7/science.htm>

*What Works Clearinghouse*

Established in 2002 by the U.S. Department of Education's Institute of Education Sciences to provide educators, policymakers, researchers, and the public with a central and trusted source of scientific evidence of what works in education. The Clearinghouse is administered by the Department through a contract to a joint venture of the American Institutes for Research and the Campbell Collaboration.

[www.whatworks.ed.gov](http://www.whatworks.ed.gov)

## **MAKING YOUR SELECTION**

*Choosing a Model and Types of Models: How to Find What Works for Your School*

This Research Brief by the National Clearinghouse for Comprehensive School Reform (NCCSR) addresses the following questions: what are the types of models and how are they different, what should I look for in a model, and what process should I use to choose a model? (February 2002)

<http://www.csrclearinghouse.org/pubs/research/choo02.pdf>

*Choosing Success*

Johns Hopkins University researcher Sam Stringfield provides guidance to help schools considering a CSR program analyze the program's specific objectives and research base. (1998)

[http://www.aft.org/pubs-reports/american\\_educator/fall98/ChoosingSuccess.pdf](http://www.aft.org/pubs-reports/american_educator/fall98/ChoosingSuccess.pdf)

*Guidelines for Ensuring the Quality of National Design-Based Assistance Providers*

Created by a blue-ribbon panel of school board leaders and prominent education policymakers, this manual provides guidelines, a toolkit, and a checklist to ensure the quality of a chosen school reform model and its implementation. (2000)

<http://www.naschools.org/contentViewer.asp?highlightID=48&catID=86>

*Making Good Choices—A Guide for Schools and Districts*

The North Central Regional Education Lab created this guide to aid in choosing the appropriate CSR program. (Updated 2004)

<http://www.ncrel.org/csri/choices/makegood/title.htm>

## **ASSESSING PROGRAMS AND NONPROFITS**

*Building Excellence in Charter School Authorizing: Authorizer Self-Evaluation Instruments*

The National Association of Charter School Authorizers (NACSA) has undertaken a broad program of research and technical assistance focused on Building Excellence in Charter School Authorizing. NACSA has developed this set of instruments as a companion to their Principles & Standards for Quality Charter School Authorizing. (2005)

<http://www.charterauthorizers.org/files/nacsa/BECSA/Self-Evaluations%20FINAL.pdf>

*Tool for Assessing Startup Nonprofits: A Due Diligence Supplement for Grantmakers*

Written by La Piana Associates, Inc. and published by Grantmakers for Effective Organizations, this publication is designed for use by funders assessing a grant application from a startup nonprofit. It includes suggested interview questions and worksheets to supplement funders' regular due diligence of startup organizations. (June 2003)

[http://www.lapiana.org/consulting/Start-Up\\_Assessment\\_Tool.pdf](http://www.lapiana.org/consulting/Start-Up_Assessment_Tool.pdf)