Career Education REVIEW
The Career College Information Source

A Turnaround Story of Success

By Thomas Kube, Executive Director of Kube & Company

I have consulted with proprietary schools since 1997 and have assisted my clients in solving a myriad of difficult situations. I'm about to relate a story that is in my estimation unique in its complexity. While most issues likely have happened somewhere before, encountering them all in one school was the monumental task I faced in this turnaround case study.

A group of business associates, who own a small career college in the United States Midwest, have hopes to branch the school and acquire a few more schools, forming a nice, well performing group of schools. The group, which is the school's Board, has six equity partners and one additional partner who received equity for his efforts, in lieu of investing capital for the acquisition, for management of the school as CEO. The school had been purchased from a family who had owned it for 15-to-20 years, but the school itself dates back to the late 1950s to early 1960s. Thus, it has an established presence and brand in the rural/suburban community it serves.

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In May 2012, I was called by the

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Mr. Kube earned a BA degree from Colorado State University and an MBA degree in finance from George Mason University. He has also studied Entrepreneurship at the Wharton School of the University of Pennsylvania. He served as a member of the U.S Secretary of Education's Financial Ratio Task Force as part of the 1997 Reauthorization of the Higher Education Act, and has testified before the U.S. Congress on educational research and for-profit education.

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Board regarding their concerns that the school was underperforming and might be having difficulty. They were discussing options. During the course of the conversation, they asked me if I would consider visiting the school, performing a management audit and providing a report on my findings and any recommendations. Given that I have personally evaluated countless institutions and that I enjoy evaluating various school business models, the answer was easy. Yes.

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I visited the school in early June and found a number of fundamental issues that needed to be addressed. Here's where the complexity begins. For clarity I've focused primarily on the business issues, although human resources and the cultural climate of the school were also under review.

Business issues:

- Low enrollments; there were 30 students, with an almost 100 percent drop rate on new starts since January.
- The FY 2011 audit had been delayed and was not completed. It was due by June 30 and the audit firm was not finished, primari-ly due to turnover at the CFO level.
- The school had no cash funds to sustain day-to-day operations.

Although barely one step away from failure, the school had sound fundamentals in its curriculum, certain core staff contributed value and continuity, and the community needed the jobs and identity this school provided. Shortly after my visit I met with the Board to deliver my report. The Board discussed various options ranging from continuation to closure, thanked me for the report, and wanted some time to consider what their next steps should be.

About a week later they contacted me to ask if, in my professional opinion, the school could be saved. Could a successful turnaround be achieved? I replied that indeed it could and I expressed some ideas on how that might be accomplished. The school clearly had value to its community, to the investments of its Board, and to the importance of career schools in our country's higher education opportunities. Following their request for me to act as an interim CEO, I agreed to go there and work on turning the school around in early July 2012.

At the time, I felt fortunate that the senior staff at the school was competent and excited for the opportunity for a positive change in leadership and to reinvigorate the school. Some of the immediate business management steps I took as the interim CEO were:

Business steps:

- Sat down with the CFO and determined the extent of the financial crisis gripping the school and received an update on

Kube's Corollaries

Simple Advice for the off-site owner:

1. Hire honest people (check their backgrounds)
2. Never ever, ever let your CFO/Controller be a single check signer
3. Routinely evaluate Internal Controls
4. Foster and encourage a free and frank exchange with management
5. Visit your school – meet your employees, know your team
6. Ask questions, after all it's your business
7. Use a "Dashboard" with metrics you understand
8. Trust but verify

the late 2011 audit, budget and all matters financial.

- I also hired ADP to do payroll and engaged a Third Party Servicer to handle Financial Aid processing to provide professional management and objective status reports.
- Contacted our suppliers to arrange terms to keep receiving course materials and pay off old receivables.
- Met with and outlined an overall compliance plan that focused on state, accreditation and Title IV issues to resolve outstanding compliance issues.
- Requested a cash infusion by the Board and met with the existing audit firm to ensure a positive report on the school's solvency in their next audit.
- Met with Admissions to focus on improving their enrollment process and help reinvigorate their efforts.

For purposes of confidentiality, the list above is not all-inclusive but gives a good sense of what we addressed immediately on a list of significant issues that challenged the sustainability of the school. Findings from additional evaluations of the business side of the school included necessary strategic actions such as termination of the school's CFO as well as accepting the resignation of the CEO and the Director of Compliance.

With the departure of the CEO, CFO, and the Director of Compliance I reconfigured staff, promoted some bright staff members and kept the outside auditor as a temporary CFO. Working with the Director of Education, fortunately for us a very competent person, we kept the academic side in order and helped the new Registrar set up a better process of monitoring Satisfactory Progress and getting student files current.

To recap, in late 2012 I had taken over a floundering school, found some of the key areas of underperformance, made some significant personnel changes and placed good people there to bring those functions up to required levels of performance and compliance. We also engaged certain outside entities to bring standardization and consistency to the administration of the school. This included replacing the old audit firm and engaging a third party Title IV servicer to address better oversight and compliance.

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It was now time to prepare a budget for FY 2013 and see if we could reasonably project future enrollments and what our realistic potential as a school should be. At this point student enrollment had grown to approximately 100 students. The Board also made a capital commitment to bring us current and to sure-up the balance sheet of the school. Something was definitely working.

The Financial Focus Continued…

Focusing on a budget for the school meant that the managers had to dive even more deeply into the operations of the school from a prior year historical perspective to see what we had spent, why we had incurred the expense and if it was appropriate going forward.

It was apparent that our findings helped to put into perspective why the school was woefully short on cash. It also called into question whether any financial aid fraud was occurring. Our new outside audit firm and a separate independent auditor we engaged after the CFO was terminated confirmed that there were no financial aid irregularities – of this we could now be absolutely certain.

While the initial management audit in mid-2012 found and identified a series of significant issues contributing to the school's dilemma, by this time we had identified and captured the primary underlying causes that had to be treated to restore health to the school. I can say on a personal note that never before had I seen the complexity and interrelationships of such problems in a single entity.

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So Where Did it End?

So far the story ends quite well. We finished FY 2012 with a loss, understandably. We concluded FY 2013 with a positive EBITDA that approached 20 percent of top line revenue and FY 2014 is starting out as planned. Some steps we took in the interim are:

Human Resources steps:

- Hired a talented CFO (with school sector background)
- Promoted a key staff member to Financial Aid Director
- Hired a new Registrar
- Completely trained all of our instructors for improvement in performance

Business steps:

- Worked to improve Admissions (2014 will have us focusing on this area in particular)
- Set up and are using a strong set of internal controls and management information metrics
- We also hold regular, content-rich Board meetings to inform the owners about the school

What About the Compliance Stuff?

Today, the school is meeting all of its obligations and is in full compliance. We received a 5-year renewal from the accrediting agency that reviews the school. We had the Letter of Credit released from the 2009 Change of Ownership and received a full 5-year certification (we were taken off provisional certification) from the US Department of Education. And, we had a good final audit determination for the 2012 audit year.

Looking forward, we are getting poised to open another location in the region and will work with the state licensing authority and our accrediting agency to do this. Most importantly, we are doing this as a team.

Parting Thoughts

This case study is presented to show that even a complexly dysfunctional situation can be made whole and normal again. However, it takes a fully engaged Board/owner, a dedicated management team and a shared vision for success. We had all of these components and got it to work.

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If anyone would like to discuss this situation further, or how specific turnaround issues in your facility might benefit from this story, I'm happy to do so. I can be reached at (480) 451-7205 or by e-mail at tkube@kubeco.com and we can continue the dialog.