

**ENHANCING THE DELIVERY OF PUBLIC  
SERVICES  
BY NONPROFIT AGENCIES**

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# ENHANCING THE DELIVERY OF PUBLIC SERVICES BY NONPROFIT AGENCIES

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## *Executive Summary*

The purpose of this report is to identify best practice among nonprofit organizations that deliver human services and to make recommendations to Sedgwick County for improving its contracting procedures to enhance the delivery of public services provided by nonprofit agencies. The study used a variety of methods including literature review, interviews, focus groups, review of the performance standards of several professional associations, and content analysis of human service contracts for a number of urban counties.

The nature and extent of contracting between government and nonprofit organizations is changing. Governments are contracting out more services to nonprofit organizations and nonprofits are receiving larger amounts of their total revenue from government. "Until now, the nonprofit sector has benefitted from being small and largely out of sight. Success has changed this, with growing demands for accountability" (Weisbrod, 1997:552). When governments produce services directly, accountability to the public is assured through the electoral process and the presence of a hierarchical bureaucracy that makes line workers answerable to supervisors who are ultimately answerable to elected officials. When governments contract for services with for-profit firms, market competition enforces accountability for cost and service quality. Nonprofit organizations lack both political and market feedback systems to ensure accountability. Increased contracting with government requires development of additional methods. This report summarizes three basic models of nonprofit accountability: standards/compliance, outcomes/performance and capacity building. It is recommended that Sedgwick County, acting as an individual contracting institution, employ a combination of the first two methods, while working with other funding agencies to explore the feasibility of supporting capacity building in the local human service nonprofit sector.

According to its Legal Department, Sedgwick County contracts with a wide variety of for-profit and nonprofit organizations. In 1999 the department prepared 657 contracts that ranged from equipment leases to large capital improvement projects. Of those 657 contracts, approximately 250 were for programs operated by the Division of Human Services. The value of human service contracts in 1999 exceeded \$50 million including Medicaid reimbursements.

## **Best Practice**

This study explores best practice in governance, administration and financial management among nonprofit organizations throughout the United States.

Very few nonprofit boards concentrate sufficiently on governance. Board members are too often selected for their fund-raising or public relations potential with little sensitivity

to the importance of governance and the interdependence between the organization's mission and the **community's** assets and needs. No single model of governance will work for all nonprofits. Individual boards should examine the various models and determine what will work best for them, keeping in mind that boards of the most effective organizations maintain a healthy, collegial tension between the board and the agency's management.

The best nonprofit organizations practice principles of strategic management. They have clearly articulated missions that are reviewed periodically. They have annual operating plans that include specific goals. Programs are evaluated regularly for both service levels and client outcomes. Employees are provided opportunities for professional development. Personnel problems are handled promptly, fairly and consistently. Accurate records are maintained and available for audit. Agency operations are guided by budgets and mission. Financial reports are produced and reviewed on a regular schedule. Managers are cognizant of production costs and set consumer charges and contracted service rates accordingly.

### **Recommendations**

The recommendations presented in the body of the report from pages 17- 25 are based on the findings of best practice in nonprofit organizations. They are organized into three content areas - governance, administration and financial management of nonprofits - each with respect to prevention, warning signs and early interventions.

Sedgwick County should insist that agencies with which it contracts be able to document implementation of basic principles of strategic management and policy governance, including clear mission statements, annual budgets and operating goals, accurate and timely financial reports and regular program evaluation. The County should sponsor and fund training for board members and administrative staff to help agencies acquire or refine skills.

Sedgwick County should maintain a checklist of early warning signs of problem behavior on the part of contracting agencies. If an agency demonstrates four or more of these warning signs, the County should immediately begin a conversation with the agency board chair or executive director to clarify the situation and resolve problems. In the event that early intervention fails, the County should retain the authority to apply financial or reporting sanctions and ultimately to cancel any contract for which the nonprofit agency consistently fails to meet performance levels.

Enhancing the delivery of public services by nonprofit agencies requires that Sedgwick County invest in its own capacity to contract effectively. The County needs improved information systems and workers skilled in contract negotiation and management. Sedgwick County should strengthen its commitment to its mission to "establish, maintain and nurture partnerships to ensure effective and efficient delivery of services" by improving communication with nonprofit organizations, by involving nonprofit agencies more heavily in joint planning, and by examining and clarifying the multiple roles played by COMCARE.

The current public human service system is the result of numerous piecemeal changes that have taken place over several years. Now is an ideal time for elected officials to engage in a public discussion of basic policy questions about what human services should be publicly provided, who should receive them, and who should deliver them.

# ENHANCING THE DELIVERY OF PUBLIC SERVICES BY NONPROFIT AGENCIES

The purpose of this report is to identify best practice among nonprofit organizations that deliver human services and to make recommendations to Sedgwick County for improving its contracting procedures to enhance the delivery of public services provided by nonprofit agencies. Three content areas will be addressed - governance, administration and financial management of nonprofits - and recommendations will be made with respect to prevention, warning signs and early interventions.

## INTRODUCTION

Public funding of human services provided by nonprofit agencies has increased significantly over the past 30 years. This has happened for a number of reasons. Federal and state governments have devolved responsibility for many programs to the local level. In Kansas over the last ten years, policies on mental health reform and hospital closure greatly expanded the demand for community-based services for the mentally ill and developmentally disabled. In addition, the state opted to contract case management of Medicaid services for the elderly to Area Agencies on Aging and to establish new juvenile justice programs at the judicial district level.

The emerging realities in the evolution of the relationship between government and human service nonprofit sector are:

- 1) Nonprofit agencies are delivering a diverse array of essential community services.
- 2) Nonprofit agencies increasingly rely on public financing for the delivery of services.
- 3) Increased public financing of service delivery by nonprofit agencies carries demands for public accountability.
- 4) Many local governments are obliged to conduct relations with nonprofit agencies that deliver services to the most vulnerable residents of the community.
- 5) Managed care has emerged as a model of contracting which transfers financial risks from funders to service providers.

When governments produce services directly, accountability to the public is assured through the electoral process and the presence of a hierarchical bureaucracy that makes line workers answerable to supervisors who are ultimately answerable to elected officials. When governments contract for services with for-profit firms, market competition enforces accountability for cost and service quality.

When public services are contracted out to nonprofit agencies, ensuring accountability to the taxpayers and service recipients becomes more complicated than when government produces services directly or contracts with for-profit organizations.

Across the nation, public officials are attempting to better understand and manage their jurisdiction's relationship with nongovernmental agencies.

Government's growing reliance on its partners in the private and nonprofit sectors means that its success in many cases has come to depend in large part on how well those partners perform. That reliance also raises serious questions about governance and accountability. . . . **[G]overnment is no longer a buyer dealing at arm's length with a seller, but a partner in a virtually seamless, mutually dependent interrelationship** [emphasis added] (Kettl, 1993: 13).

Sedgwick County recognized the changing service delivery environment when the Board of County Commissioners adopted its mission statement in November, 1995. "Our mission is . . . to establish, maintain and nurture partnerships to ensure effective and efficient delivery of services."

The County's relationship with human service nonprofits is an important component of its ability to "assure quality public services that provide for the present and future well-being of [its] citizens." This report includes suggestions for how to best develop, nurture and sustain partnerships with human service nonprofit organizations.

#### *Sedgwick County Contracts*

Sedgwick County oversees the delivery of human services in a number of program areas including mental health and substance abuse, aging, developmental disabilities, youth crime prevention, and juvenile justice. The role played by the County differs across program areas. For some programs the County is a direct provider of services. In others it contracts with private agencies to deliver services. The following table summarizes County functions in the various program areas.

| Program Area                            | Planning/<br>Coordination | Direct Service<br>Provision | Contract for<br>Service | Quality<br>Assurance |
|---|---------------------------|-----------------------------|-------------------------|----------------------|
| Mental Health/Substance Abuse           | x                         | x                           | x                       | x                    |
| Developmental Disabilities              | x                         |                             | x                       | x                    |
| Aging                                   | x                         | x*                          | x                       | x                    |
| Juvenile Justice/Youth Crime Prevention | x                         | x                           | x                       |                      |

\* Services are limited to a portion of Medicaid case management.

According to its Legal Department, Sedgwick County contracts with a wide variety of for-profit and nonprofit organizations. In 1999 the department prepared 657 contracts that ranged from equipment leases to large capital improvement projects. Of those 657 contracts, approximately 250 were for programs operated by the Division of Human Services.

Understanding the scope of Sedgwick County's human service contracts is complicated by the fact that each of the programs operates differently and many of the contracts do not involve direct County spending. The County awards "affiliate" status to private organizations. In so doing, those organizations are granted the ability to bill the State for Medicaid reimbursement. Summarizing the contractual situation is further complicated because Medicaid billing is handled differently for mental health, developmental disabilities, and aging services. There is no simple way to determine a single dollar figure for Sedgwick County's human service contracts. Funding sources are often received on a fiscal year basis different than the calendar year used by the County. Many of the contracts are established on an hourly or as needed basis.

It is also difficult to determine the number of clients served by contracted services. For example, the Area Agency on Aging maintains unduplicated client counts for individual programs, but has no information systems that identify unduplicated counts across programs. In other words, a client who receives services from more than one program, e.g. meals and in-home services, would be counted twice if the department reported a count of total clients served. The same problem exists for most of the other program areas.

The following table is a rough estimate of contractual spending for human services in 1999.

**Estimated Sedgwick County Human Service Contracts, 1999**

| Program Area                | Number of Contracts | Number of Agencies | Expenditures   |
|-----------------------------|---------------------|--------------------|----------------|
| Developmental Disabilities* | 45                  | 44                 | \$25.0 million |
| Mental Health*              | 35                  | 19                 | \$5.5 million  |
| Prevention                  | 10                  | 9                  | \$1.0 million  |
| Aging* #                    | 147                 | 113                | \$19.9 million |
| Corrections                 | 21                  | 18                 | \$3.4 million  |
| Total                       | 258                 | 203                | \$54.8 million |

\* Includes Medicaid reimbursements.

# Figures are for a multi-county area of which Sedgwick County makes up a significant majority.



## METHODOLOGY

This study employed several methods to collect information on nonprofit governance, administration and financial management. First, meetings were held with County officials, COMCARE staff and United Way executives to solicit input and suggestions for further interviews.

Two focus groups were held to collect in-depth insights from executives and board members of human service nonprofit agencies that contract with Sedgwick County. Individuals from nine different agencies participated. The focus groups were facilitated by two staff members from Wichita State University's Self-help Network who have experience with this type research. Questions posed to the focus group participants centered on identifying best practice in nonprofit management and governance and on the relationship between the agencies and Sedgwick County. A staff member of the Center for Urban Studies also interviewed ten state and local organizations to determine the availability of training for board members and key officers of nonprofits.

A meeting was held with a large group of executives of nonprofit agencies funded by United Way. This meeting collected ideas on contracting practices that can foster healthy partnerships and quality service delivery. Individual interviews were conducted with over two dozen agency executives, board members, and management level staff of the Sedgwick County Division of Human Service to help identify best practice in governance, administration, and financial management. Interviews were conducted by faculty from WSU's Hugo Wall School of Urban and Public Affairs and Self-Help Network. It is important to note that focus groups and interviews were *very* well received by participants, particularly by board members who are rarely included in policy discussions. Many commented that they appreciated that Sedgwick County provided a forum for their ideas. Many participants suggested that area nonprofits and Sedgwick County continue an open dialogue in order to strengthen their partnership, address challenges, and gain a shared vision for the future. A detailed summary of focus group and interview finding from the Self-Help Network is included in Appendix A.

There is a growing academic literature on the nonprofit sector. The literature search for this study was narrowed to the subset of nonprofits that contract with state and local governments for the delivery of human services and to general principles of high quality administration, financial management and governance. A partial bibliography is included with this report. The National Center for Nonprofit Boards and the Association for Research on Nonprofits and Voluntary Associations were consulted to help identify recent publications on nonprofit governance, administration and financial management.

Accrediting standards for some professional service organizations were reviewed. These include Communities in Schools, CARF (The Rehabilitation Commission) standards for employment and community services and for behavioral health, and the Maryland Association of Nonprofit Organizations. A large group of nonprofit organizations including Salvation Army, Catholic Charities and National Mental Health Association has developed a *Statement of Principles on the*

*Privatization of Social Services* that has useful ideas for government contracting with nonprofit organizations.

Finally, sample human service contracts were requested from several urban counties across the country. Contracts were received from Orange County, Florida (Orlando); Polk County, Iowa (Des Moines); Jefferson County, Kentucky (Louisville); Montgomery County, Maryland (Rockville); Ramsey County, Minnesota (St. Paul); Dane County, Wisconsin (Milwaukee); and the state of Nebraska for Douglas County (Omaha).

## BEST PRACTICE

A great deal has been written about nonprofits in recent years. Although there is no clear agreement about what practices define a “good” nonprofit, some common principles of best practice in governance, administration and financial management have appeared.

### **Governance**

The governance of nonprofit agencies and issues related to public accountability of the governance of such agencies has been a subject of controversy throughout the history of the nation (Hall, 1997). Private, voluntary associations of various kinds have served public purposes from the beginning of nationhood. The underlying issue for public officials, however, has been how such organizations should be held publicly accountable. The uniquely American solution to this dilemma has been the creation of governing boards independent of government, yet infused with *public* purpose.

Increased public financing of nonprofit agencies has heightened the tension between public accountability and independent governance of the nonprofit sector. One problem is that too many boards fail to perceive the public purpose of the organization and individual board members are unprepared for the responsibility of being accountable for agency operations and finances.

### *Local Findings*

The focus groups and interviews held with executives and board members of nonprofit agencies in Sedgwick County addressed governance questions. There was consensus that a strong, well-developed board that provided direction for the agency was a primary characteristic of a “good nonprofit.” More specifically, several comments included:

“A good nonprofit starts with having a good board, one that has a strong involvement with the mission and direction of the organization.”

“Boards need to be involved in the strategic planning process of the organization.”

“A board can help make strategic decisions and problem-solving”

Interviews were also held with several individuals who hold management positions with Sedgwick County. Their views on governance were consistent with many of the focus group participants. They suggested that board members need to be flexible and “keep up with the times” and continually reexamine their mission, values, and why they are doing what they are doing. County human service managers have little contact with boards until a problem occurs and then they are very aware of how the board operates.

Taken together, responses from representatives of both public and private sectors clearly recognize that boards are an important element to a successful nonprofit. There were also several suggestions regarding how to develop boards so that they can be more useful.

“Have a strong nominating committee that tracks attendance and involvement and follows up.”

“Outside consultants are often useful in conducting board assessments about duties and to help set goals for themselves.”

“Conduct regular team building activities and utilize self-assessment tools for strengths and weaknesses.”

“While it’s important to have commitment from board members about what each will do for the organization, it’s just as important to take time to celebrate the organization’s successes.”

### *National Findings*

There are several models for effective nonprofit governance. Two are of particular note. First is the traditional model promoted by the National Center for Nonprofit Boards, a professional organization which publishes a number of guides for member organization and the general public. A recent publication on the basic responsibilities of nonprofit boards (Ingram, 1996) stated that boards should:

1. Determine the organization’s mission and purposes.
2. Select the chief executive.
3. Support the chief executive and assess his or her performance against predetermined criteria.
4. With assistance from staff, ensure effective organizational planning including a statement of mission and purpose, assumptions about the future, current and anticipated program and services, staffing, board structure and composition, financial projections, fund-raising strategies and public relations.
5. Ensure adequate resources by setting fund-raising targets and evaluating the performance of the board, chief executive and development director on the basis of those goals.

6. Manage resources effectively by approving an annual budget and monitoring its implementation with “clear, intelligible, accurate, and timely financial reports” (Ingram, 1996: 11); reviewing an annual audit from an independent accounting firm; maintaining cash management controls, appropriate insurance coverage and investments.
7. Determine, monitor and strengthen the organization’s programs and services, ensuring that they are consistent with mission and effectively evaluated.
8. Enhance the organization’s public standing by serving as advocates and community representatives and endorsing “an ambitious and effective public relations program” (Ingram, 1996:13). Board members communicate with funders on a regular basis.
9. Ensure legal and ethical integrity and maintain accountability through the existence of conflict of interest policies, bylaws, and monitoring the filing of timely and accurate reports, including IRS Form 990.
10. Recruit and orient new board members and assess board performance.

Many human service agencies are accredited by professional bodies that maintain specific standards for board governance that reflect Ingram’s guidelines. In addition, some offer specific recommendations for board size (the Maryland Association of Nonprofit Organizations recommends no fewer than five unrelated individuals and prefers seven or more), composition (inclusion of some clients, membership that reflects community diversity), frequency of meetings (at least quarterly), compensation, and required training.

The traditional model of board governance is commonly used in practice and works reasonably well for many organizations. But as the nonprofit environment has changed over the past few decades, traditional governance has received criticism for failing to provide accountability and reform. An alternative model of board governance was developed in the early 1990s by John Carver (Carver, 1990; Carver and Carver, 1996; Carver and Carver, 1997). Known as policy governance, it narrows the scope of board responsibility to policy making. It discourages board involvement in management details. According to Carver, the governing board of a nonprofit agency should be proactive in its role, explicit about values and strategic direction, and long range in its primary focus. The roles performed by the board and its chief executive officer should be separate and distinctive. This separation of roles should help the governing board focus on governance and avoid becoming either a meddler in internal agency administration or a rubber stamp of the administration. In performing governance the board should tend to four primary assignments:

1. Values and Strategic Direction, which are reflected in the questions: What are we doing? Where are we going? Does the organization have a strategic plan? Does the strategic plan answer the following questions:
  - a. What business are we in? What is the product, service, or value we produce? Which needs will we meet? Which consumers will we target? What benefits will we provide for consumers? At what cost?
  - b. Why are we good at producing it? What is our relative advantage or distinctive competence compared with others? Why do others value it?

- c. What does the future hold for our business? What opportunities are available? What threats exist? What changes in direction are required?
  - d. Does the governing board have written policies and procedures for outlining the board's responsibilities in preparing, adopting, and revising the strategic plan?
2. Executive Limitations: What are the boundaries on the chief executive officer? Does the governing board have written policies and procedures that clarify and set boundaries on the range of executive authority in fiscal administration, budgeting, personnel, risk, and compensation?
  3. Board Processes: Does the governing board have bylaws that provide for the conduct of board business, such as the selection of board officers and delineation of the authority of board officers, the establishment of board committees, and the appointment of board members to committees? Does the agency have an orientation for new governing board members? Does the governing body have written policies and procedures that provide for orientation of new governing board members? Does the governing board have a written code of ethics to guide members in situations involving a conflict of interest?
  4. Board-CEO Relations: By what actions does the governing board assure agency performance? Does the governing board have written policies and procedures for monitoring and periodically reviewing agency performance in terms of values and strategic direction, for identifying areas in need of improvement, and for documenting the results of actions taken toward improvement? Does the governing board have written policies and procedures for periodic evaluation of the chief executive officer? Does the board carry out these policies and procedures? Does the governing board have written policies and procedures for the recruitment, selection, and appointment of a chief executive officer and for determining terms of compensation and benefits for a chief executive?

Policy governance and the more traditional model of governance are not mutually exclusive and both can be adapted to suit a particular organization. But as the nonprofit sector receives more public scrutiny for expenditure of public funds, the traditional model becomes less effective. The demand for more effective policy governance is growing.

The Jacksonville (Florida) Community Council recently (1998) produced a report on the role of nonprofit organizations and how they could be improved for the benefit of the entire community. The report identified characteristics of an ideal nonprofit and concluded that very few nonprofit boards concentrate sufficiently on governance. Board members are too often selected for their fund-raising or public relations potential with little sensitivity to the importance of governance and the interdependence between the organization's mission and the community's assets and needs.

Volunteer boards need to provide vision, leadership, policymaking and oversight in service to *both the organization and the community.*

The reform movement in the nonprofit sector has also raised some issues about governance that can apply to either model. In a recent review of practices that improve nonprofit performance, Letts, Ryan and Grossman (1999) argue that boards of directors need to place much more emphasis on questions of organizational capacity and performance than they have in the past. Most boards have a mission and strategic plan. What they lack is a clear way

to move the organization from articulating a social *mission* to creating social *impact*, which is ultimately what the board should be accountable for. . . Donors are reluctant to pay for it, staff may be less interested in building it, and both may view it as a drain on program resources. Behind these attitudes is often a service culture that tends to view compassion and performance as wholly unrelated, if not mutually exclusive, assets. As a result, the nonprofit board carries a big burden. It is one of the only forces positioned to help a nonprofit develop the capacity it needs to deliver on its mission. But to play that role, it has to become a change agent willing to challenge nonprofit conventions about the value of organizational capacity (Letts, Ryan and Grossman, 1999: 132 - 134).

For-profit organizations employ a number of forces outside the board of directors to support strong organizational performance. These include bottom-line profits, the education background of business managers, and market forces that provide feedback from customers, investors, and creditors. When government directly provides services, the political process holds elected officials accountable for performance.

Nonprofit boards must substitute for many of these market and political feedback systems because clients do not have as many choices and because nonprofit funders are often less interested in the agency's "bottom line" than are stockholders or taxpayers.

Board members usually accept board appointments as an outlet for altruistic desires to make a contribution to the community. The conflict required for improving organization performance often frustrates the desire to feel good by serving on a board.

"Business leaders often . . . seem to lose their businesslike performance focus when entering the nonprofit board room" (Letts, Ryan and Grossman, 1999: 137).

There is some evidence that boards who actively participate in fundraising look at performance differently from boards who do not. Fundraising goals are clear and measurable, while organizational capacity building is much more difficult to assess. Increasing revenues or donation does not necessarily improve the quality of service, but "it is tempting to substitute growth in revenues for mission fulfillment" (Letts, Ryan and Grossman, 1999: 141). The reality is that most human service nonprofit organizations need board members to fund raise. The challenge then becomes one of balancing time spent on fund raising with time spent improving organizational capacity.

No single model of governance will work for all organizations. Individual boards should examine the various models and determine what will work best for them, keeping in mind that “good board performance involves an active, engaged, collegial tension between the board and operating management” (E.B. Wilson of Executive Service Corps, cited in Letts, Ryan and Grossman, 1999: 138). In the end there is no substitute for individual good will, intelligence, knowledge, common sense and experience. This makes the identification and recruitment of good board members extremely important.

## **Administration and Financial Management**

The literature makes no clear distinction between best practice in general management and financial management so the two are combined in this section.

### *Local Findings*

A variety of suggestions and ideas about nonprofit administration and financial management were provided by directors and board members of local nonprofits.

Focus group participants suggested that a strong chief executive was a second critical element to a successful nonprofit organization, the first being a strong board of directors. They suggested that a CEO can help facilitate the development of a nonprofit by:

- Focusing on board development
- Providing or acquiring training and consultation to/for the board and staff to assist with decision-making.
- Setting an open-environment for feedback
- Looking for ways to sustain the organization by reevaluating the mission

Other suggestions were centered on strategic plans, mission identification and goal setting.

Participants stated that agency staff and consumers are critical to service planning and need to have the opportunity for input into the process. Because of their close daily contact, nonprofit organizations are particularly suited to identify and assess client and community needs.

County staff indicated that successful nonprofits often have a good business sense and strong leadership. Both nonprofits and County management suggested that successful nonprofits are often ones in which there has been an opportunity for the County and the nonprofit to:

- Jointly identify shared values
- Work on problems together (before they become serious)
- Have a clear mutual understanding of expected outcomes
- Maintain trust and ongoing, open communication

## *National Findings*

There are number of standards that nonprofits can adopt to guide management. Many of those standards emphasize professional practice and client protection. There are some common threads among the documents that were reviewed. One example that is of particular note is the Standards for Excellence program of the Maryland Association of Nonprofit Organizations. The standards were established in 1998 by nonprofit representatives for nonprofit organizations. They build on stated values of honesty, integrity, fairness, respect, trust, responsibility, and accountability. The Maryland Association has begun to certify nonprofit agencies that meet their eight guiding principles and 55 standards. The principles are listed below. Those that deal with management include more detail.

1. **Mission and program.** The presence of a well-defined mission and programs that work effectively and efficiently toward achievement of the mission.
2. **Governing body.** (Standards consistent with the traditional model of governance.)
3. **Conflict of interest.** Board and staff should act in the best interests of the organization and agree to comply with written conflict of interest policies that are reviewed periodically.
4. **Human resources.** Agencies should maintain written personnel policies and procedures that cover both paid employees and volunteers. The policies should include basic conditions of employment, e.g. vacation, sick leave, employee orientation, etc. and spell out provision for employee evaluation, professional development, grievance procedures, confidentiality, and client protection
5. **Financial and legal.** The agency should operate according to an annual budget, maintain timely and accurate financial reports (at least quarterly), be audited annually, and have written policies governing investments, internal controls, purchasing, cash management and insurance coverage. The organization should provide a confidential means for employees to report suspected financial impropriety. They should also comply with all applicable federal, state and local laws.
6. **Openness.** Nonprofit organizations operate for public purpose and receive tax-exempt status. They should therefore be accessible and responsive to members of the public. They should produce an annual report that summarizes their activities and have a designated individual who responds to inquiries from the public.
7. **Fundraising.** An organization's fundraising should be consistent with mission, respectful of the interests of donors, and based on truthfulness and responsible stewardship. Fundraising should account for no more than one-quarter of the agency's total costs. Donor privacy should be respected. Organizations should have formal policies that govern the acceptance or rejection of gifts. These policies should include procedures to determine gift limits, the purposes for which donations will be accepted, and the types of property that will be accepted.
8. **Public affairs and public policy.** Nonprofits should represent the interests of the people they serve through public education and policy advocacy within the limits of federal law and IRS rules.



Standards from other organizations differ in detail, but include many of the same general provisions.

The best nonprofit organizations practice principles of strategic management. They have clearly articulated missions that are reviewed periodically. They have annual operating plans that include specific goals. Programs are evaluated regularly for both service levels and client outcomes. Employees are provided opportunities for professional development. Personnel problems are handled promptly, fairly and consistently. Accurate records are maintained and available for audit. Agency budgets and mission guide annual operations. Financial reports are produced and reviewed on a regular schedule. Managers are cognizant of production costs.

Letts, Ryan and Grossman (1999) recently identified business practices that had been effectively applied to improve performance in nonprofit organizations. Although businesses desire to maximize profits through better products or services, while nonprofits seek to produce services that have social impact, organizations in both sectors perform best when they nurture the capacity to adapt to changing circumstances. The authors discovered that the use of *quality processes, creative product development, benchmarking and strategic human resource management* can improve nonprofit performance. They maintain that “[f]or-profit managers are not inherently better managers; they are *better-supported* managers. . . . Nonprofit managers are forced to managed upstream. . . against the conventions, attitudes and behaviors of their sector” (Letts, Ryan and Grossman, 1999: 31). Building organizational capacity in nonprofits is hindered by a mindset that sees resources for training, planning, information systems, and research and evaluation as resources denied to client services. Even funding agencies and watchdogs often fail to recognize that agency overhead can be too low.

*Quality processes* include use of quantitative data and research to analyze agency operations. Use of these techniques is often resisted in nonprofit organizations.

“With a commitment to serving those in need, and with few resources to do it, many nonprofit employees develop a ‘just do it’ attitude that places more value on service than on the analysis and measurement needed to improve organizational performance” (Letts, Ryan and Grossman, 1999: 34).

Many human service workers see analysis as inherently competitive and punitive, designed to uncover poor performance and undermine the cooperative nature of the social services. Effective managers are able to reverse this mindset and get workers to see that thorough, detailed analysis enables organizations to convert compassion into improved client outcomes. “By keeping quality and responsiveness front-and-center, a nonprofit can ensure that it remains a community resource, not just a service provider interested in its own growth and sustainability (Letts, Ryan and Grossman, 1999: 54).

*Product development* works best in the FOR-profit sector because idea generation and implementation are linked. In the nonprofit social service world, funders “often impose the program design that emerged in the upstream research and policy-making process. The idea

generators and implementers end up separated by several layers. . .” (Letts, Ryan and Grossman, 1999: 77).

Well run nonprofits nurture greater involvement, creativity, and responsiveness from line staff, who know the customers need and preferences well.

Outside ideas are healthy for any organizations, but they should not crowd out internal innovation.

*Benchmarking* is another technique that can improve nonprofit organizational performance. While quality processes analyze internal operations, benchmarking identifies other organizations that have achieved excellent results and systematically studies the other organization’s achievements, practices and processes. “Benchmarking is more than just discovering best practices; it includes comparative measurement, active goal-setting, and implementation” (Letts, Ryan and Grossman, 1999: 86).

Benchmarking helps agencies find best practice and put it into action.

The use of *strategic human resource policy* has proved effective for some nonprofits. Businesses have found that “[e]ffective human resources management is not just about finding and keeping people. It’s about finding, keeping, and managing people in ways that will help the organization meet its goals” (Letts, Ryan and Grossman, 1999: 120). It is possible for nonprofits to restructure jobs, motivate employees, and measure and reward performance to help the organization achieve its desired ends. Creative human resource policy promotes teamwork to help people draw on each others strengths. It is open to non-traditional work schedules, e.g. part-time, job sharing, irregular hours, that allow flexibility not often found in the for-profit sector. Effective nonprofits have identified other non-monetary ways to reward and recognize good performance. These include the use of the media, nominations for professional awards, and client feedback on workers. Providing clear work plans and goals helps employees focus on performance. Although there is often resistance to performance measurement, good managers have used a positive approach to reward good performance and to use measurement to let employees see how *well* they are doing.

Still, it is naive to believe that salaries are unimportant in recruiting and retaining good workers. There are always choices about how to spend money. Budgets can be adjusted to provide additional resources for salaries. Turnover and training costs can eat into savings from low salaries.

Nonprofits should not be so frugal that they fail to invest in their human resources.

The work of Letts, Ryan and Grossman is very new and preliminary in identifying best practice in nonprofit management. Analyst Paul Light concludes his recent study of proposals for reform of nonprofits by stating: “The first step is simply to recognize that not much is known about what makes organizations more effective, especially if they happen to exist in the nonprofit sector” (Light, 2000: 100). He suggests that:

Luckily, the nonprofit sector still has the opportunity to sort through the reform philosophies before committing itself to any particular path. Although the sector has its own paragons of bureaucratic inertia, most of its organizations have yet to accrete the needless rules and endless layers that have made the federal government a prime target for downsizing and delayering. The sector need only note that many of the rules and layers that make the federal government so difficult to manage emerged in past efforts to make government work (Light, 2000: 4).

## ACCOUNTABILITY

Identification of best practice in nonprofit governance, administration and financial management is a first step in improving accountability for public funds. It is also important to consider the nature of government contracts with nonprofits and how they attempt to enforce greater accountability.

There are three broad models of accountability: standards/compliance, outcomes/performance and capacity building (Light, 2000).

The standards/compliance approach is the most commonly used method of ensuring accountability. This approach compares agency operations to a set of established standards, often in a checklist format. It asks questions such as: How many clients were served? Were clients accurately screened to determine eligibility for services? What services did they receive? Are client records complete and current? Are procedures in place to protect client confidentiality? Do employees possess the appropriate professional licenses? Does the agency have a governing board of at least seven members that meets at least four times per year? Is a copy of last year's audit on file?

The standards/compliance model is the cheapest and most realistic and manageable accountability tool in the short term. Standards are easy to write into contracts. Auditors can easily monitor and document compliance. Standards/compliance approach is a reasonable first step toward improving accountability for public resources. Several comments from focus groups were consistent with the notion that a standards/compliance approach can be a useful first step to collaboration between nonprofits and the County. Many nonprofit organizations receive accreditation from other entities based on a standard/compliance approach to issues such as financial management, human resources, and board of director involvement. To the extent that national accrediting bodies base their standards on best practice in a particular profession, Sedgwick County might consider accepting accreditation as evidence of meeting standards. Doing so would reduce the cost of identifying separate standards for individual contracts. It would also reduce costs to the contracting agencies by reducing the number of separate standards that must be monitored.

But there are limitations to the standards/compliance model of accountability, e.g. an agency may file an IRS Form 990, but without appropriate information systems and the ability to use them, the data are unlikely to reflect true financial condition.

Compliance with specified standards cannot guarantee effective service delivery, but it can draw the attention of agency officials in the direction the funder wants it to go.

In recent years funders of human services have placed much greater emphasis on identifying program outcomes and measuring performance toward achievement of those outcomes (e.g. United Way of America, 1996). This is a welcome addition to standards/compliance techniques. It keeps agencies focused on desired outcomes, rather than on mere service levels. It asks the questions: Is the client improving? Has the client gained knowledge or changed his or her behavior? Is the client satisfied with the services received?

COMCARE has made significant strides in incorporating outcomes and performance measurement into its contracts.

There have been problems with implementing the outcomes/performance model of accountability, however. Much of the work in human services is inherently unmeasurable, at least with current technology.

. . . [M]ost [human] services cannot be judged on the basis of decisive client outcomes. They cannot be standardized in their treatment approaches, nor can auditors effectively intrude into the interaction between workers and clients to determine whether decisions were made appropriately and were consistent with existing policy. Thus in many cases it is impossible for government to know whether it is getting effective selection, diagnosis and intervention. . . . Contractors typically file reams of reports which, except for basic fiscal information, are ignored. There is little independent auditing of the accuracy of program numbers submitted, and hardly any capacity to assess the effectiveness of contractors' programs. Thus the public sector may not know what it is purchasing even when it can define what it wants (Smith and Lipsky, 1993: 200).

Recent experience indicates that many of the original problems with human service outcomes are being resolved. Considerable progress has been made identifying meaningful client progress. But the outcomes/performance model is also hampered by the fact that consistently effective treatments do not exist for some conditions. So even when measurable outcomes are known, dependable interventions may not be available to achieve desired outcomes. It is problematic to try to hold contracting agencies accountable for outcomes that are not consistently achievable.

There is one other problem with outcomes/performance. Because goals are hard to define, results hard to measure, and treatments uncertain, it becomes very difficult to write meaningful quality specifications into requests for proposals and contracts. Nonprofit organizations are able to provide services cheaper than government because they pay lower wages and/or (even more likely) provide lower benefits. If continuity of care is important to client success then low compensation may contribute to high turnover and service disruption. In cases like this, there is a

tendency to substitute client satisfaction for quality. Some would argue that this can be problematic. What happens if the client is satisfied, but does not appear to be improving?

Because outcome/performance models have trouble specifying quality, professional standards are often substituted. They have their own sets of problems, the greatest of which is cost. Although most national accrediting bodies would argue that they enforce minimal standards, they tend to have biased views of what is minimal or acceptable. Substituting professional standards for quality measures, e.g. client/staff ratios, can have the effect of forcing government to purchase a higher level of service than the public generally demands. Decision makers need to be able to distinguish a “Cadillac” from a “Chevy” in terms of service quality and allocate resources with knowledge of those distinctions.

Light (2000) argues that the emphasis on outcomes has created problems for nonprofits and ultimately for society. As funders (United Ways and foundations, as well as governments) have become more outcomes conscious, they have moved more and more to program funding (as opposed to general grant funding). The result is that it is increasingly difficult for nonprofits to use “profitable” programs to subsidize unprofitable ones or to fund administrative overhead (Smith and Lipsky, 1993). Accountability has real opportunity costs. Use of the outcomes/performance model places more emphasis on cost effectiveness and efficiency and service quality, all of which require nonprofits to collect and use data differently than they have in the past. Effective programs that achieve intended results need strong agencies to run them. An emphasis on programs over agencies is shortsighted.

The fact that outcomes/performance accountability models impose some costs and problems, does not diminish their importance. The science of identifying meaningful human service outcomes is in its infancy. It has and will continue to improve. Outcome/performance models hold considerably more promise for improving agency operations and client conditions than standards/compliance models used in isolation. But outcomes are more expensive for agencies to document and for funders to monitor. Major funders need to be sensitive to the costs imposed by their reporting requirements and cover those costs accordingly.

Outcomes/performance measures should continue to be part of Sedgwick County’s efforts to improve accountability and nonprofit effectiveness.

Social service agencies are generally resource poor relative to other nonprofits. In 1996 human service organizations made up 40 percent of active charities (those that file form 990), but expended only 13 percent of the resources (Boris, 1999). Many lack up-to-date computer technology, appropriate accounting systems, and generally accepted management practices. That is why, in the long run, broad-based capacity building is a more promising approach to improved accountability.

Recently experts on nonprofit reform (Letts, Ryan and Grossman, 1999; Light, 2000) have begun to argue that far too little attention has been given to the potential of capacity building, which would “build the nonprofit sector’s ability to implement the new systems and reforms, whether

by enhancing its information technology, . . . building new sources of leadership, . . . and building a working inventory of research-based lessons learned” (Light, 2000: 98). They claim that effective nonprofit organizations are more important than effective programs in providing lasting social impacts. Programs do not stand alone and are a weak base for large scale social reform because client needs and the operating environment are always changing. Human service nonprofits need to be able to adapt to the ever changing environment. Adaptive capacity involves a different set of organizational goals than just program outcomes. Among these are *learning, responsiveness, innovativeness, and motivation*. “These organizational processes enable a nonprofit to adapt its programs and practices so it can deliver on its mission” (Letts, Ryan and Grossman, 1999: 23).

Capacity building is a more expensive and long-term accountability method than either standards/compliance or outcomes/performance, requiring efforts and resources that may be beyond those of a single government like Sedgwick County. Sedgwick County is a major funder of a number of nonprofit organizations, but it is not the only funder. Its ability to influence overall nonprofit practice is limited by the diverse funding streams that comprise most human service organizations. Nevertheless, there are some steps that the County could implement to foster capacity building. These are presented in the section entitled “Implications for Sedgwick County” on page 26.

Because of the complexities associated with capacity building, the recommendations presented in the next section emphasize the use of standards/compliance and outcomes/performance accountability. They draw on the standards of the Maryland Association of Nonprofit Organizations, United Way of America, and various human service accrediting bodies.

## RECOMMENDATIONS

The recommendations presented here are intended for community discussion and deliberation by the Board of Sedgwick County Commissioners. The reform movement in the nonprofit sector is still accelerating. It is therefore important that Sedgwick County proceed with deliberate speed and caution. While it is appropriate to develop contract monitoring procedures that meet public demands for accountability, it is also important to protect nonprofit agencies from costly and unproductive reporting and operating requirements that may do little to improve performance and that may change with the next round of reform.

The challenge is to find the right balance: to hold nonprofit organizations accountable without micromanaging them while the reform movement continues to seek broader based improvements. As Light points out: “the search for improvement can be friendly or adversarial” (2000:3). Sedgwick County’s philosophy of building partnerships to improve service delivery should prove to be much more effective than heavy-handed imposition of burdensome rules in forging a more productive, more effective, and more efficient human service delivery system.

Many of the recommendations presented below apply to contracting with nonprofit providers of services other than human services. Some also apply to contracting with for-profit organizations.

## **Governance**

The focus groups and interviews that were conducted for this report agreed with the national consensus that a strong board is important to an effective nonprofit organization. Although there is no single model of board size, structure and composition that works for all agencies, there are “certain structures, policies, and practices that consistently work better than others” (NCNB, 1996: 2).

### *Prevention*

1. Sedgwick County in consultation with United Way, Kansas Health Foundation, Wichita Community Foundation, the Kansas Non Profit Association and cooperating nonprofit agencies should initiate an annual workshop on the governance of nonprofit agencies for governing board members of nonprofit agencies that deliver community services in the region. All governing board members of human service nonprofits should have the opportunity to participate in the workshop, which will focus primary attention on the obligations of governing boards and the duties of governing board members, specifically in setting strategic direction, determining executive limitations, establishing board processes, and conducting board-executive relations. Sedgwick County should consider the possibility of limiting its contracting to those agencies for which a minimum of five board members have completed a board training program. A proposal for an Institute for Nonprofit Leadership is included in Appendix B.
2. Sedgwick County in cooperation with United Way, Kansas Health Foundation, Wichita Community Foundation, Wichita Area Chamber of Commerce, Wichita Independent Business Association, and other cooperating community organizations should initiate a roster of community volunteers willing and competent to serve as governing board members of nonprofit agencies that deliver community services in the region. The roster could serve to identify new leadership and involve younger people in nonprofit governance. The Leadership Wichita program of the Chamber is a particularly promising source of potential board members.
3. Sedgwick County should encourage Wichita State University to expand research and service related to the governance, administration, and financial management of nonprofit agencies and to offer periodic topical workshops of relevance to governing board members of nonprofit agencies that deliver community services in the region.
4. Sedgwick County should, as part of its obligations for the delivery of public services and through its contracting authority with nonprofit agencies, assure funding for educational offerings that orient and prepare governing board members for their duties in the governance of nonprofit agencies and provide periodic updates for governing body members on topics relevant to the performance of their duties.

5. Sedgwick County should require as a part of its contracts with nonprofit agencies that each agency's bylaws specify that the agency will comply with the Kansas Open Meetings Act and the Kansas Open Records Act.
6. All requests for proposals from Sedgwick County should specify that nonprofits organizations which wish to bid must provide a checklist that documents the following (or substitutes an approved accreditation report):
  - that they have a board of directors composed of at least seven unrelated members from diverse professional backgrounds. The proposal should include a list of current board member and their addresses.
  - that the board meets at least 4 times per year and maintains accurate minutes of each meeting.
  - that the board engages in ongoing planning activities to establish the mission of the organization, defines goals and objectives related to the mission, and evaluates progress toward achievement of those goals.
  - that the board maintains by-laws that govern the conduct of board business, such as the selection of board members and officers, and establishment of committees.
  - that the board approves an annual budget and periodically assesses the organization's financial status relative to the budget.
  - that the board has an orientation procedure for new members.
  - that the board has written policies and procedures for periodic evaluation of the chief executive and maintains written policies for recruitment and selection of a chief executive.

These recommendations help to address concerns expressed by focus group participants that unstable nonprofits not be allowed to assume responsibility for expending public resources.

*Warning Signs*

1. Sedgwick County should require as a part of its contracts with nonprofit agencies that the chair of the governing board certify that the board is performing its essential obligations in governance, specifically setting strategic direction, determining executive limitations, establishing board processes, and conducting board-executive relations.
2. Sedgwick County should in collaboration with nonprofit organizations monitor for the following signs, many of which were identified during focus groups and interviews:
  - High board member turnover
  - Executive director appointment of board members
  - Failure to meet regularly
  - Failure to maintain meeting minutes



A checklist of warning signs for poor performance in governance, administration and financial management is included in Appendix C.

### *Early Intervention*

1. Upon identification of early warning signs, the contract monitor, department head or other appropriate staff member should attend a meeting of the board of directors, present problems to members, and offer potential solutions.
2. County staff should assist the board in identifying appropriate training opportunities for effective governance.
3. Sedgwick County should, in response to compelling evidence of deterioration in public services delivered by nonprofit agencies under contract with the County, be prepared to audit the governance of such agencies and recommend steps and a timetable for assuring that the governing board meets its obligations in governance. Lack of response by the agency to the recommendations should be grounds for cancellation of the County's contract with the nonprofit agency.

### **Administration**

There is no well developed science of managing nonprofit organizations. There are aspects of this sector that differ materially from both business and government. Nevertheless there are some basic principles that can benefit agencies.

Although it is likely that implementation of the following recommendations will impose additional costs on some agencies, they should ultimately prove beneficial to the agencies, as well as to Sedgwick County citizens and taxpayers.

Documentation produced for the required reports should improve the ability of nonprofit service providers to demonstrate accountability to *all* funders.

### *Prevention*

1. Sedgwick County in consultation with United Way, Kansas Health Foundation, Wichita Community Foundation, the Kansas Non Profit Association and cooperating nonprofit agencies should initiate an annual workshop on the administration of nonprofit agencies for executive directors and other administrative staff of nonprofit agencies that deliver community services in the region. All administrative staff of human service nonprofits should have the opportunity to participate in the workshop, which will cover topics of effective strategic management including human resource policies, quality management processes, benchmarking, outcome assessment, program evaluation, and board-staff relationships.

2. All requests for proposals from Sedgwick County should specify that nonprofits who wish to bid must provide a checklist that documents the following (or substitute an approved accreditation report):
  - that the organization's purpose, as defined and approved by the board of directors, is formally and specifically stated and that its activities are consistent with its stated purpose.
  - that the organization maintains an office facility and is accessible by phone during regular business hours.
  - that the organization has a current operations plan with specific program goals.
  - that the agency regularly evaluates the effectiveness of its programs.
  - that position descriptions are available for all personnel.
  - that client records are accurately maintained and procedures for confidentiality are well established.
  - that the agency abides by written human resource policies that cover basic elements of the employment relationship (e.g. benefits, vacation and sick leave, comp time), employee evaluation, grievance procedures, and confidentiality of both employee and client record.
  - that the organization have a system in place for regular written evaluation of employees by their supervisors.
3. Sedgwick County should encourage Wichita State University to expand research and service related to the governance, administration, and financial management of nonprofit agencies and to offer periodic topical workshops of relevance to administrative staff of nonprofit agencies that deliver community services in the region.
4. Sedgwick County should, as part of its obligations for the delivery of public services and through its contracting authority with nonprofit agencies, assure funding for educational offerings that orient and prepare executive directors and other administrative staff of nonprofit agencies for public accountability and provide periodic updates on topics relevant to the performance of their duties.
5. All Sedgwick County requests for proposals for human services should include a requirement for client grievance and appeals mechanisms.
6. Sedgwick County should consider creation of a staff position with responsibility for investigating consumer complaints and helping consumers resolve conflicts with contracting agencies.
7. Sedgwick County should encourage the Kansas Non Profit Association to develop a certification process similar to that of the Maryland Association of Nonprofit Organizations. The program would develop standards for nonprofit operations and certify individual organizations based on those standards.

8. Sedgwick County should consider working with other funding organizations to explore the feasibility of establishing an incubator for new nonprofit organizations. The incubator would be modeled after business incubators used for economic development. The incubator could provide shared office space and equipment, receptionist services and other clerical staff, as well as technical assistance in management and finance.

In addition, Sedgwick County could take on a new role as a convener or clearinghouse, bringing together nonprofits and other resources to improve County-nonprofit partnerships. For example County human service managers and nonprofit executives and board members suggested:

- The County could work with nonprofits in using national and state associations for nonprofit training, making such training available to both nonprofit and County staff in order to increase mutual understanding.
- The County could work with nonprofits to develop forums to address new needs in the community and develop innovative ways to address them. This is a major strength of many nonprofits.
- The County and nonprofits could work together to find new ways to leverage existing services and resources such as transportation to benefit clients.

### *Warning Signs*

Contract monitors should be alert to the following indicators and document them as they occur:

- Customer complaints
- Late reports
- Unattended phones/closed office
- Unusually high staff turnover
- Failure to file IRS Form 990
- Sanction by a licensing or other regulatory body
- Refusal to accommodate site visits
- Staff stops attending meetings
- Pending lawsuits

### *Early Intervention*

1. If prevention measures are effective, interventions should be minimal. Any agency will on occasion demonstrate one or more of the early warning signs. This should **not** necessarily trigger intervention. For example, the County should not be in the habit of accepting late reports, but it can be tolerant of rare extenuating circumstances. On the other hand, some warning signals should produce immediate response. In either case, the presence of early warning signs should initiate communication between contract monitors and agency administrators to clarify the situation to jointly plan corrective action.
2. Criteria should also be established that identification of four or more early warning signs will trigger further intervention. Contract monitors must, however, retain the discretion

to intervene with fewer warning signs if circumstances warrant. Informed judgement will always be necessary. Program monitors at the County should be trained and expected to use professional judgement in assessing the severity of individual warning signs and to intervene as deemed necessary. The County or a neutral third party should be in a position to offer technical assistance to agencies who exhibit persistent and serious problem behaviors. Helpful interventions are more likely to be successful than punitive ones. The nature of an effective partnership means that nonprofit managers should feel free to reveal problems without fear of reprisal. This will require the development of open communications between agencies and contract monitors.

Agencies that participated in the focus groups recommended that intervention activities be conducted at the first sign of concern and take the form of open communications based on trust. They suggested that simply "asking questions" based on information provided can be a first step to problem solving. In addition, they suggested that when problems do occur one option would be to seek the services of an outside consultant or mediator.

3. When necessary, however, the ultimate action by the County will be to cancel the contract. Before such an action is taken the County should consider the following interventions:
  - Meet with the executive director to discuss concerns and identify corrective action.
  - Monitor corrective action plan for compliance.
  - Offer technical assistance to correct problems.
  - Assist agency staff in identifying appropriate management training opportunities.

### **Financial Management**

Financial management is often cited as the weakest element in the management of many human service nonprofits. It is not a subject in which most program managers are trained.

It is essential that contracts be very explicit in the type of financial reporting that is expected, and that nonprofit directors and board members be provided an opportunity and resources to develop appropriate financial management skills.

Findings from the interviews with managers at the County suggest that lack of financial management skills in contracting agencies is an ongoing concern. Managers stated that the costing of services is often a challenge. Many nonprofits do not have a unit cost approach to services. Some do not set rates based on actual production costs. The questions for financial monitors include: Are we subsidizing an unspecified program or population? Have we paid for space some other funder already paid for? Did we pay for this service or space twice?

## *Prevention*

1. Sedgwick County in consultation with United Way, Kansas Health Foundation, Wichita Community Foundation, and cooperating nonprofit agencies should initiate an annual workshop on the financial management of nonprofit agencies for staff and governing board members of nonprofit agencies that deliver community services in the region. The annual workshop should focus primary attention on budget preparation and implementation, cost accounting, financial monitoring, data management, revenue collection, and preparation of Form 990 and other financial reports.

In addition to the opportunity nonprofits would have to learn about these issues, the workshop would be a forum for the County and nonprofits to clarify issues. For example, both nonprofits and County human service managers stated that there is confusion and lack of understanding about:

- How the costs of services are computed.
  - What determines funding decisions.
  - The costs of administration.
2. The full annual operating budget of the organization should be submitted with all proposals for funding. In addition, the agency should submit its IRS Form 990s for the past three years with simple summary ratios of privately raised revenue as a percent of total revenue; management and fundraising expenses as a share of total expenses; total income to total expenses, assets versus liabilities. All or part of the cost of producing these ratios could be covered in the contracts, or the County might consider contracting out or developing in-house capability of producing the ratios from the 990s, rather than having the agencies make the calculations. Data on IRS Form 990 are notoriously inaccurate, but requesting and using the data provide an excellent incentive to agencies to improve accuracy.
  3. Sedgwick County should be willing to accept United Way budget forms for those agencies funded by both organizations. Further, the County might consider using modifications of the United Way forms for all their contractors (e.g. the County does not need information on private fund raising that is required by United Way).
  4. Financial reports on each funded program should be submitted to the County on a quarterly basis.
  5. All requests for proposals from Sedgwick County should specify that nonprofits who wish to bid must provide a checklist that documents the following (or substitutes an approved accreditation report):

- that the agency utilize an acceptable accounting system that can verify program costs.
- that the agency has an annual operating budget approved by the board of directors.
- that the agency produce regular financial reports and that those reports are reviewed in a meaningful way by the board of directors or its designated committee.
- that the agency has obtained and can make available an independent audit for the most recent fiscal year.
- that the agency is capable of billing the County on a regular and accurate basis.
- that the agency is capable of appropriate record keeping and reporting.

### *Warning Signs*

- Late reports
- Calls requesting payment, indicating cash flow problems
- Identifiable negative trends in financial ratios
- Alerts from other funding agencies
- Late or inaccurate billing

### *Early Interventions*

1. If prevention measures are effective, interventions should be minimal. Any agency will on occasion demonstrate one or more of the early warning signs. This should **not** necessarily trigger intervention. For example, the County should not be in the habit of accepting late reports, but it can be tolerant of rare extenuating circumstances. On the other hand, some warning signals should produce immediate response. In either case, the presence of early warning signs should initiate communication between contract monitors and agency administrators to clarify the situation to jointly plan corrective action.
2. Criteria should also be established that identification of four or more early warning signs will trigger further intervention. Contract monitors must, however, retain the discretion to intervene with fewer warning signs if circumstances warrant. Informed judgement will always be necessary. Many program monitors currently lack the skills to effectively review financial documents. Financial monitors should be trained and expected to use professional judgement in assessing the severity of individual warning signs and to intervene as deemed necessary. The County or a neutral third party should be in a position to offer technical assistance to agencies who exhibit persistent and serious problem behaviors. Helpful interventions are more likely to be successful than punitive ones. The nature of an effective partnership means that nonprofit managers should feel free to reveal problems without fear of reprisal. This will require the development of open communications between agencies and contract monitors.

3. When necessary, however, the ultimate action by the County will be to cancel the contract. Before such an action is taken the County should consider the following interventions:

- Meet with executive director to discuss concerns and identify corrective action.
- Monitor corrective action plan for compliance.
- Offer technical assistance to correct problems.
- Assist agency staff in identifying appropriate management training opportunities.

### IMPLICATIONS FOR SEDGWICK COUNTY

The recommendations presented in the previous section deal with monitoring nonprofit operations. Implementation of enhanced contract monitoring also has implications for Sedgwick County's operations.

#### **Contract Monitoring**

Sedgwick County should improve its ability to monitor contracts. There is no current system for keeping track of all contracts, their number and cost. Responsibility for program and financial monitoring of contracts is dispersed among different program areas within the Division of Human Services. A complete picture of the County's contracting relationships including number and types of contracted services, number of agencies which contract with the County, costs of contracted services, and numbers served should be available to identify tradeoffs and to inform policy decisions.

The recommendations presented in this report call for achieving accountability in human service contracting through a combination of standards/compliance and outcomes/performance models. Utilizing either requires that Sedgwick County make adjustments in the kinds of work that it does. It is typical for human services managers in both government and private agencies to be professional practitioners who have been promoted into administrative roles. In general these individuals lack management training and experience. Even experienced managers often lack contract negotiating and monitoring skills.

Sedgwick County has improved its contract monitoring over the past two years, but it needs to invest further in the capacity to evaluate and audit contract compliance/performance, i.e. to improve its capacity to act as a "smart buyer" (Kettl, 1993). In addition to hiring individuals with the requisite skills, sufficient resources are needed to effectively manage the existing caseload, to independently audit reports, and document contact with contractors.

Governments that contract for services need workers who can write detailed and specific RFP and contract specifications, who know how to advertize and solicit bids, how to review proposals, resolve technical disputes, analyze costs, negotiate final agreements, and monitor for service quality and costs (Kettl, 1993). They need a strong mix of program expertise and contract management skills, as well as communication skills and sound judgement.

There are limits to how many contracts any individual monitor can reasonably manage. There is evidence that “the quality of the relationship between the contract monitors and their contractors has the greatest impact on the maintenance of accountability” (Walters, 1999:20). In many cases County contract monitors do not currently have time to develop those relationships. If the County is unable or unwilling to increase the resources and personnel necessary to effectively monitor enhanced reporting, then it needs to determine existing capacity for reviewing reports and reduce reporting requirements on nonprofit providers to those that can be reasonably reviewed for useful information.

It is costly and inefficient to require reports that are not used. It also breaks down trust with the contracting partners who feel that their time is not valued.

The human service sector cannot rely on competition to enforce quality and cost control because there are too few providers. Good will and trusting partnerships increase the potential of both standards/compliance and outcomes/performance models to improve accountability and service delivery.

Effective contracting requires internal procedures that give contracting departments clout with the purchasing and legal departments to insure flexibility and responsiveness. There is some indication that additional resources are needed in the County Legal Department. Informants to this research process, both inside and outside Sedgwick County, expressed frustration with what they see as an overly legalistic approach to contracting. They desire to replace some boilerplate with more individually designed contracts. A content analysis of sample human service contracts from Montgomery County, Maryland; Ramsey County, Minnesota; Orange County, Florida; Dane County, Wisconsin; Polk County, Iowa; Jefferson County, Kentucky; and the State of Nebraska for Douglas County, showed that Sedgwick County had the longest contract (35 pages compared to a range of 6-27 pages for the other counties), as well as the most detailed. The Sedgwick County contract includes provisions that appear to address a laundry list of specific problems encountered in the past and is written in language that is difficult for human service practitioners or client advocates to comprehend.

Focus group participants and interviewees also believe that:

The County Legal Department’s current emphasis on avoiding liability, while not inappropriate, undermines credibility and trust by failing to place equivalent emphasis on client protection, service quality and financial accountability.



Overemphasizing the legal side of contracting confuses control for accountability (Dicke and Ott, 2000) and prevents governments from exercising the flexibility and creativity needed to achieve responsible service delivery from nonprofit organizations.

Finally, the County must identify effective enforcement techniques.

Even with an emphasis on partnership, prevention and early warning, Sedgwick County **must** be able to sanction agencies for poor performance.

Applying sanctions can be extremely difficult when quality of care depends on continuity of care or when there are no alternative service providers. One possible alternative to contract cancellation might be to negotiate financial rewards and penalties linked to performance, e.g. the contract could include a provision that the County will withhold 10 percent of the payment if a contractor fails to meet specified outcomes or standards through mismanagement or misconduct or provide a 5 percent bonus for meeting performance goals. Rewards might also include reduced reporting requirements and increased flexibility. Identification of appropriate rewards and penalties should be the topic of further exploration and discussion.

### **Building Partnerships**

In recent years Sedgwick County has aggressively pursued accountability to the public through performance measurement in all of its operations including the delivery of human services. As noted earlier, COMCARE has been quite successful at identifying outcomes for service delivery. Federal and state regulations have reinforced the importance of these steps. But emphasis on accountability and performance appears to have inadvertently de-emphasized Sedgwick County's clearly stated intention to build partnerships to improve public services. Enhancement of public services delivered by nonprofit agencies requires that Sedgwick County renew its commitment to build partnerships with nonprofit service providers.

Forming mutually beneficial partnerships is complicated by the fact that COMCARE plays multiple roles in the human service delivery system. Natural tension emerges when a single agency serves as a grantor of contracted services and as a direct provider of services.

Some experts (Milward, 2000) argue that government purchasers of services should also be producers of services in order to be knowledgeable of service costs. Nevertheless, tension between the two roles can create a perception of mistrust and raise reservations about sharing information.

Because the County controls the funding, some service providers sense a conflict of interest in which COMCARE maintains a major advantage as the financial and program monitor of contracts with nonprofit agencies, thus gaining access to internal cost and performance data, at the same time that it competes with some of the same agencies for other resources, employees and clients. The nonprofits believe that they are at a significant disadvantage negotiating

reimbursement rates with COMCARE because they possess unequal information and power. There is a widespread (though not unanimous) perception in the service community that COMCARE treats itself better than it treats other agencies, in terms of both financing and client selection. On the other hand, COMCARE staff perceive that some of the nonprofit agencies lack governance and management capacity. The mistrust generated by these perceptions hinders effective service delivery.

Many of the comments from nonprofit directors, Sedgwick County Human Service managers and board members from agencies reflect concern about communication. Effective communication is an on-going process, not a one time activity. Some of the agencies do not believe that they have sufficient input into the policy decisions that directly affect them. Providing regular opportunities for open communication among nonprofit personnel, County Commissioners, and County staff would allow shared learning, reduce misunderstandings, and prevent conflicts.

Building partnerships is a two-way communication process. Nonprofit organizations need a better understanding of accountability for public resources. In order to fulfill its mission to "establish, maintain and nurture partnerships to ensure effective and efficient delivery of services," Sedgwick County needs more structured avenues for nonprofit input into human service planning, specification of performance measures, and policy design.

At the same time both parties would benefit from improved informal relations. Accountability in contracting depends on the quality of the personal relationships between contract monitors and program managers. Sedgwick County should set up semiannual meetings between County Commissioners and nonprofit managers to discuss policy and contracting issues. Sedgwick County should also explore the use of the Internet to improve communication with a wide range of agencies, e.g. electronic newsletters, bulletin boards and discussions. Such methods hold promise for information sharing while avoiding unnecessary and unproductive meetings.

COMCARE maintains some formal planning processes that require community input, but nonprofit service providers desire more frequent and regular input from a wider range of individuals and organizations. Nonprofit staff and board members believe that they have much to add to the planning process and that the service delivery system should be planned and designed to make use of the strengths of both nonprofits and the County.

Improved communication and inclusion would help overcome the perceptions of mistrust and reservation, while enhancing the desired outcome of both parties to ensure efficient and effective delivery of services to clients in the community.

### **Capacity Building**

This report recommends that Sedgwick County adopt an approach to improving accountability for services delivered by nonprofit providers that combines standards/compliance models with outcome/performance models. Such an approach is the most feasible for a single funder. It is

unlikely, however, to result in major changes that are needed to improve long-term performance in the nonprofit sector.

There is a clear need for a broader capacity-building effort to improve the performance of local nonprofit agencies, not just those that contract with the County. Funders of human services, be they governments, foundations or United Ways, have in recent years put more and more emphasis on program funding and outcomes. The trend is a move in the right direction. It is the result of legitimate concerns that many nonprofits have not been adequately accountable for funds and have been insufficiently attentive to client outcomes. But carried too far, this approach to funding can draw resources away from agency (as opposed to program) accountability and effectiveness.

“Performance is all about translating caring, believing, and compassion into results. And most nonprofits will find that they pay a price, in both mission and values, by neglecting the organizational capacity needed to get those results. Ultimately nonprofits make commitments to advance a cause *on society's behalf, with society's money* (in the form of charity, government grants, contracts, and tax subsidies to philanthropy)” (Lett, Ryan and Grossman, 1999: 194).

Strong, effective programs need strong effective organizations to run them. In today's environment there are few funders who are interested in supporting general agency operations and capacity building. The first principle of good nonprofit practice is organizational capacity to govern and manage. This begs the question: who is responsible for building capacity?

Sedgwick County, in partnership with other major funders, is in a strong position to begin the discussion about how to fund and implement longer term and more effective reforms in nonprofit governance, administration and financial management.

Sedgwick County can bring the various players together and facilitate discussion around the question: “How do we build capacity in human services to improve both client outcomes and public accountability?” The County can also become a partner with other major funders (including United Way of the Plains, SRS and the Kansas Health Foundation) and the nonprofit agencies to implement a larger community-wide capacity building effort.

The bottom line is that unless Sedgwick County is willing to assume direct delivery of all of the human services for which it currently contracts, the effectiveness of County government depends on the performance of the nonprofit agencies. Capacity building is more than an academic exercise.

### **Policy Choices**

The community would also benefit from a general discussion of the financing and delivery of human services, including the appropriate roles of government and nonprofits. Governments contract with nonprofits for a number of reasons: from history and habit, to reduce costs, to

reduce the size of government by controlling the number of employees, to minimize bureaucratic red tape that restricts or slows innovative policy, and to offer consumer's greater choice in service providers. But contracting out raises serious questions about public accountability.

The use of nonprofits by governments to deliver services may separate governments from direct credit or blame for services funded, thus undermining popular support for public financing of programs or promoting cynicism toward nonprofits if programs do not work (Boris, 1999: 24)

For most governments "the decision to contract-out . . . occurs despite incomplete understanding of the effectiveness of the contract and of the monitor/contractor relationship in ensuring accountability"(Walters,1999:16).

The current system of human services in Sedgwick County evolved over time and, in fact, has changed fairly dramatically during the past decade. It is made up of numerous providers, with multiple funding streams, program restrictions, eligibility criteria, and target populations. There is acknowledged need for strong leadership in service planning, coordination and resource allocation.

Sedgwick County is relatively unique in Kansas in that it has administrative responsibility as a regional mental health center, a community developmental disability organization, and an area agency on aging. Also, Sedgwick County is a single judicial district, which gives it administrative responsibility for juvenile justice programs. While these service delivery systems are related, they all operate under different state and federal law and regulation. In the rest of the state, many of these services are operated by multi-county private non-profits.

Because it is responsible for so many human service areas, Sedgwick County is in an ideal position to provide leadership in system planning, coordination and allocation. Its ability to do so is seriously hindered, however, by the fact that it is also a service provider which competes directly for funds. There is some question that any organization can simultaneously serve both overseer and provider roles. Research revealed that the County is most trusted in the areas of developmental disabilities and aging. Those are program areas in which the County has traditionally served as planner, information broker, client advocate and quality assurer. The County is least trusted in mental health where it is a direct service provider. There is perception in the community that COMCARE chooses to provide direct services for clients that qualify for specific funding streams and to contract services for client populations that have lower priority in the state mental health system and receive lower reimbursement rates. There is also a belief that COMCARE looks after its own financial needs before resources are freed for allocation to other providers. Some of the distrust may be the result of communication breakdowns, but there is also a systemic conflict that hinders partnership-building.

On the other hand, some researchers (Milward, 2000) argue that mental health organizations improve their contract negotiating power if they also maintain a role as service provider. It is critical that government buyers have some knowledge of the cost of production to know whether

or not they are getting a fair price. Some production is necessary if governments want to be smart buyers. If Sedgwick County wants to retain leadership in human service planning, coordination and resource allocation, it should consider placing that function in a division separate from direct service delivery.

The organization of human services within the County is related to a more fundamental policy question:

The public human service system is the result of numerous piecemeal changes that have taken place over several years. Now is an ideal time to rethink what services local government should produce directly and what services should be contracted. Who should the County contract with and for which client populations?

What is gained when services are contracted? Is the public better served if a government service delivery monopoly is replaced by a nonprofit monopoly? Are efforts to improve accountability forcing uniformity that undermines the diversity and flexibility of nonprofit service delivery? With what justification does the County treat nonprofit contractors different from for-profit contractors?

There are also questions about target populations and intergovernmental relations. Must the County accept the state's priorities? What is the appropriate mix of federal, state, and local government revenue and private funding for human services? When resources are inadequate to serve all those eligible, what allocation decisions should be made, e.g. restricted eligibility or waiting lists, and who should make those decisions? How thin can resources be spread before they become ineffective for nearly all clients? Is the public willing to accept the reality that there are some clients who are unlikely to improve no matter how many services are provided, or that in the best of human delivery systems, there will be occasional failures? Who is ultimately responsible for caring for the hardest to serve, most vulnerable and needy populations?

These are difficult questions and ones for which there is no clear political consensus, despite many years of public discussion.

In 1914, Alexander Fleisher declared: "Of all the problems in social policy none is more harassing, more complex and perennial than that of determining the proper relation of the state to privately managed charities within its borders. This is the sore thumb of administrative policy" (Cited in Smith, 1999: 186).

Nearly a century later the questions, if anything, are even more complex and perennial and of a much larger scale. They remain a sore thumb and probably always will. Elected officials are ultimately responsible for protecting the **public** interest and balancing the demands for effective human services with all the other demands placed on the public purse. The system of human services will never be perfect, but it is much better today than it was when Fleisher spoke. With thoughtful public debate, it will be even better in the future.

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