



University of Kentucky  
UKnowledge

---

MPA/MPP/MPFM Capstone Projects

James W. Martin School of Public Policy and  
Administration

---

2004

## Contracting with Nonprofit Organizations: A Model for Local Governments

Renee Jackson  
*University of Kentucky*

Follow this and additional works at: [https://uknowledge.uky.edu/mpampp\\_etds](https://uknowledge.uky.edu/mpampp_etds)



Part of the [Nonprofit Administration and Management Commons](#), and the [Policy Design, Analysis, and Evaluation Commons](#)

[Right click to open a feedback form in a new tab to let us know how this document benefits you.](#)

---

### Recommended Citation

Jackson, Renee, "Contracting with Nonprofit Organizations: A Model for Local Governments" (2004).  
*MPA/MPP/MPFM Capstone Projects*. 213.  
[https://uknowledge.uky.edu/mpampp\\_etds/213](https://uknowledge.uky.edu/mpampp_etds/213)

This Graduate Capstone Project is brought to you for free and open access by the James W. Martin School of Public Policy and Administration at UKnowledge. It has been accepted for inclusion in MPA/MPP/MPFM Capstone Projects by an authorized administrator of UKnowledge. For more information, please contact [UKnowledge@lsv.uky.edu](mailto:UKnowledge@lsv.uky.edu).

# Contracting with Nonprofit Organizations: A Model for Local Governments

## I. Executive Summary:

A number of factors have contributed to the rise in nonprofit organizations during the last three decades. No matter the reasons one significant consequence has been an intensification of competition for available funding. With the increasing competition for funding there is growing concern that there may not be an equitable and efficient method in place for many funders to base their allocation decisions on. These concerns arise from the issues that occur during funding processes such as: how open and competitive is the request for proposal process; is there duplication of the same service; can the organization adequately provide the service to the public; and how are the programs evaluating their service delivery?

Government allocations face harsher scrutiny more so than private foundations or corporations because when government funds are at stake there is a sense of public ownership and often the public wants to be involved. Ensuring that funding decisions have public support and are made in an equitable manner is important in order to justify spending taxpayer dollars. Assessing community needs is a good beginning to prioritizing allocations. The issue of local government contracting is especially sensitive because the people making the funding decisions are often familiar on a personal level with the nonprofits requesting funding. This level of familiarity increases the chances of favoritism and of having funds used in a fiscally irresponsible manner.

This research paper seeks to address the following three questions concerning government/ nonprofit organizations contracts:

- How can local government contract funding decisions be determined in a manner that is equitable to nonprofit organizations and the community?
- How can political influence be minimized in contract funding decisions?
- How can government ensure that quality contracted services are provided to the citizens while keeping its own costs down?

In order to answer these questions I utilize a literature review, interviews with stakeholders, and analysis of two local governments' funding processes (Lexington, KY and Evansville, IN). I outline seven recommendations for improving the contracting process between local governments and nonprofit organizations based on equity, efficiency, and effectiveness: 1. Determine funding focus areas; 2. Determine collaboration opportunities; 3. Utilize written procedures to determine funding decisions; 4. Consider multi-year funding; 5. Evaluate service delivery; 6. Determine a central monitoring source; and 7. Self-evaluate.

Determining what services the government wants to provide to the public and who the best partner in the community is to provide these services is crucial to maximize government resources. Competition among nonprofit organizations leads to service delivery cost savings and raises the level of service being provided to the community. Although there are many factors involved with government contracting, when implemented correctly the local community will benefit.

# Contracting with Nonprofit Organizations: A Model for Local Governments

## II. Research Questions:

- How can local government contract funding decisions be determined in a manner that is equitable to nonprofit organizations and the community?
- How can political influence be minimized in contract funding decisions?
- How can government ensure that contracted services are provided with quality to the citizens while keeping its own costs down?

## III. Research Methodology:

In this research paper, the methodology used to make recommendations for government contracting modifications consists of a literature review, a current program condition analysis for Lexington, KY and Evansville, IN, and stakeholder interviews. The stakeholders were chosen to provide insight from both local governments and the Evansville nonprofit community.<sup>1</sup> All interviews were conducted using open-ended questions that allowed the stakeholders to speak freely about their views of the contracting process. There were a total of five stakeholder interviews conducted, four were in person and one was conducted by telephone (See Attachment I for specific stakeholder details). The interviews ranged in length from thirty minutes to over two hours. Written notes were taken of the comments made by the stakeholders.

In selecting market conditions to analyze, I wanted to explore different approaches to contracting in cities with demographic similarities. Lexington, KY and Evansville, IN have two markedly different approaches to contracting with local nonprofits, although their demographics are similar in many aspects. Their population size, government configuration, and economic development are comparable. Lexington has had a merged city-county

---

<sup>1</sup> Because of personal knowledge of the Lexington nonprofit community and contracting process I did not interview additional nonprofit stakeholders.

## **Contracting with Nonprofit Organizations: A Model for Local Governments**

government for approximately three decades. Evansville is actively seeking to merge their city-county governments after decades of contemplation. Another unique similarity between the two cities is that both have Toyota Motor Manufacturing as one of their largest employers. TMM Kentucky was built fifteen years ago in a satellite community outside of Lexington while TMM Indiana was built less than ten years ago in a satellite community of Evansville. Both plants employ thousands of employees and play a key role in the local economies of the cities. The reasonable proximity of Evansville to Lexington also allowed in person stake holder interviews to be conducted.

### **IV. Social Conditions:**

Currently there are nearly one million nonprofit organizations classified as 501(c)(3) in the United States, three times the number of nonprofits that existed only three decades ago (Weisbrod 1997). The rise in number coincides with the growth in concern over different social issues from child abuse and elder care to animal rights and saving endangered plant species. Often nonprofit organizations are formed to address a social condition that a group of concerned citizens feel warrants a formal response.

There are many reasons that nonprofit organizations exist in society. Some argue that the recent trend to eliminate big government has placed an increasing burden on nonprofit organizations to provide the services that government once provided. There is also research that suggests that due to the increase in the diversity of our population and the demand for a diversity of services, nonprofit organizations are necessary to cover all aspects and provide collective services (Weisbrod 1997). Nonprofit organizations are often viewed as providing socially valuable services and having broad coverage of communities, sometimes in “hard-to-reach neighborhoods” (Ryan 1999).

## **Contracting with Nonprofit Organizations: A Model for Local Governments**

A logical consequence of the growing number of nonprofit organizations is the subsequent increase in demand on funders to distribute their monetary resources. As competition for available funds grows, many stakeholders including donors, funders, nonprofits and even the people being served by the nonprofits are reconsidering the funding process. Locally there is some concern that there may not be an equitable and efficient method in place for many funders to make decisions. These concerns are not unique to Lexington and stem from a number of issues that occur during funding processes such as: how open and competitive is the request for proposal (RFP) process; is there duplication of the same service; can the organization adequately provide the service to the public; and how are the programs evaluating their service delivery?

According to Jennifer Lewandowski, Governance Specialist with BoardSource, a nonprofit governance website, in 1997 approximately 31% of the nonprofit sector's total revenue came from government payments. The introduction of tax-payer dollars can create even more scrutiny of funding decisions. As interest groups grow, so do the number of watchdog groups; therefore, governments are not exempt from the funding quandary. With interest groups advocating on both sides of a given issue it would likely be impossible for everyone to be content with funding allocation decisions. One recent study suggests that the number one negative impact on contract implementation and oversight is the "political strength" of advocate groups (Romzek and Johnston 2002). The local level of government is arguably the most susceptible to biased funding decisions due to the likelihood that those charged with making the decisions have personal involvement or knowledge of the organizations seeking to be funded. The advantage to having local governments contracting with nonprofit organizations is that presumably the local officials would be better suited to

## Contracting with Nonprofit Organizations: A Model for Local Governments

understand the needs of the community and make funding allocations to enhance the community.

### V. Types of Government Funding:

There are two distinct ways in which governments can provide revenue to nonprofit organizations: *grants and contracts*. A *grant* is a gift or an enhancement to provide services and a *contract* is an agreement between parties to provide a service. Sometimes governments use grants as ways to encourage organizations to provide services they might not supply otherwise (Rehfuss 1989). Examples of such services include city symphony orchestras or expansion to existing programs' curriculum. Although the process to obtain either funding type would likely be similar, the ramifications of each method are very different. An organization that applies for grant funding is doing so to provide a service on its own accord. Conversely, the organization that applies for contract funding is doing so to provide a service that the government would otherwise provide to the public or that the government considers to be one of its focus areas for funding.<sup>2</sup> For the purposes of this research paper we will examine contracts and how local governments can effectively make funding decisions.

### VI. Considerations and Processes for Funding Decisions:

Devising a funding decision process that can be viewed as equitable is important whether the funds come from public or private sources. People perceive circumstances to be equitable or not equitable often based on a comparison of what they see others receiving.

---

<sup>2</sup> Note: Criteria for what types of services will be considered for funding should be predetermined. Contracting services should minimize the cost to government while increasing government efficiency and should be based on economic not ideological basis (Prager 1994).

## Contracting with Nonprofit Organizations: A Model for Local Governments

There is also research that suggests that even when an outcome is not favorable for an individual that as long as the individual has perceived the decision process to be fair they will be willing to accept the decision (Kwon 2002). Private funding sources such as foundations and corporations have more flexibility in how they allocate their funds than do government entities. Private funding sources have the leniency to select what causes they will fund because their resources are theirs to be used in whatever manner they have chosen. Many private funding sources have missions and will establish funding priorities based on that mission.

Governments also have the flexibility to decide what organizations they will fund; however, when government funds are at stake there is a sense of public ownership and often the public wants to be involved. Therefore it is important for government funding decisions to be perceived as equitable by citizen stakeholders. Governments not only must account for funds that are distributed to nonprofit organizations but they must also account for the level of service that is provided with these funds (Blasi 2002). Some form of program evaluation and monitoring is required to ensure the funds are being spent in a way that is beneficial to the public.

Governments often establish guidelines for what types of services will be contracted out to nonprofit organizations for service delivery. These guidelines consider government cost savings and effective policy implementation (Snaveley and Desai 2001). Collaboration between nonprofits and local governments broadens service delivery capacity (Snaveley and Desai 2001) and is often viewed as a win-win situation by all interested parties. Once a government decides to contract out there are numerous tools that can lead to cost savings and effective policy implementation and legitimize funding allocations: *creation of a competitive*

## Contracting with Nonprofit Organizations: A Model for Local Governments

*market, consideration of organization capacity to deliver services, elimination of service duplication and contract award criteria* (Romzek and Johnston 2002).

Regardless of what the final funding decision is, a succinct, documented methodology is necessary to allow for maximum fairness. A written criterion for how the decision will be based is becoming common place among public funders. Often this criterion will be unique to the given funder and will include a list of support documents required by the funder. By publishing the methodology to be used funders add legitimacy to their decisions and ensure that each nonprofit organization has the same information for which to submit their funding requests.

*Creation of a competitive market:* Competition during the RFP process is a critical component to making the playing field of nonprofit organizations more equitable. By allowing any nonprofit organization to participate in the RFP process, bias perceptions that could exist are often eliminated. Contractors realize that in a competitive market they risk replacement if they fail to fully deliver the services they proposed. Competitive markets also increase the possibility that the government will receive the lowest price for the services it wishes to provide. Delivering efficient, effective and responsive services is crucial in a competitive market (Romzek and Johnston 2002). Some researchers argue that in the absence of competition the whole idea behind contracting is lost (Prager 1994).

*Consideration of organization capacity to deliver services:* As was mentioned earlier one reason governments contract out to nonprofit organizations is to recognize cost savings for service delivery. Consideration of the organization capacity of the nonprofit organization is paramount. If the nonprofit organizations are not going to be able to effectively and efficiently provide services, the government would likely be better off funding a different provider or continuing to provide the service internally.

## Contracting with Nonprofit Organizations: A Model for Local Governments

Areas to examine when determining organizational capacity are the staff size and training levels – government contracts require special reporting and processing. Therefore the contracting organization needs to have the internal capability to fulfill these aspects of the contract agreement in addition to having the staff capabilities to fulfill the service delivery aspect of the contract. If the skills necessary to oversee contract management do not exist within the nonprofit organization, an additional, unforeseen financial hardship could be placed on the organization when it is forced to pay for additional staff training in order to maintain good standing with the government entity providing financial support (Romzek and Johnston 2002).

The financial capacity of organizations must be examined when making a funding decision. Additional staff training is only one possible monetary requirement associated with government contracts. Research has shown that when nonprofit organizations are awarded government contracts there can be significant cash management challenges. Organizations with larger financial reserves are better equipped to handle these challenges, which range from service reimbursements to properly providing service to all clients. In the case of some contracts, there is no way to predetermine how many clients will actually receive service and therefore no way to accurately determine the cost ratio of the contracted service (Romzek and Johnston 2002). Nonprofit organizations with limited monetary resources can find themselves in financial crisis if a higher number of clients require service than was previously anticipated.

*Elimination of service duplication:* In order to maximize funds and support for funding allocations, service duplication must be minimized and if possible eliminated. This not to say that two organizations should not provide the same service if the need for the service is warranted. When the public perceives numerous organizations as providing the same service

## Contracting with Nonprofit Organizations: A Model for Local Governments

to the same population, there can be increased resentment and lack of support for this type of service provision by the government. In order to alleviate negative public perceptions, government contracts should clearly and concisely state what aspects of service delivery they are contracting with the nonprofit organization to provide. Inclusion in the RFP about who each nonprofit organization's competitors are could help the funding decision makers understand the scope and availability of similar service providers (Romzek and Johnston 2002).

Knowing exactly which organizations are providing similar services may also lead to collaborations between agencies to provide services. Collaborative efforts allow multiple agencies to perform specific components of a program which generally leads to cost savings because agencies are only producing services they already have in place and not struggling to fill service gaps. For example assume a government funding priority is to assist mentally ill people with counseling in order to make them employable citizens in the community. A mental health agency may be able to provide counseling to a client, while a second agency assists the same client with an employment search. Without the collaborative effort one agency might try to provide both services even if that means hiring an employment specialist in order to fill the service gap and fulfill the government funding priority.

*Contract award criteria:* This is the criteria that will be used to determine whether or not the program should receive funding or not. The Grantsmanship Center, a recognized leader in grant writing training, has developed a comprehensive checklist for grant seekers to use to self-evaluate their proposals. A similar checklist criteria approach is used by many foundations and other grant giving organizations to determine funding decisions. The Grantsmanship Center checklist is very comprehensive and evaluates eight components of a proposal; first by a simple yes/no answer as to whether the item is included and then by

## Contracting with Nonprofit Organizations: A Model for Local Governments

asking the evaluator to rate the component on a scale of 1-5 (See Attachment II for complete checklist).

Another contract award criteria methodology for basing funding decisions might be utilizing performance-based outcome measurement. This method is only truly applicable when considering existing programs that have been tracking and evaluating the program's effectiveness on its clients. The United Way of America began gradually requiring all of its affiliates to use performance-based outcome measurements approximately ten years ago in an effort to show donors where and how their contributions were being utilized (United Way of America, 1996). While performance-based outcome measurement can be used as a funding decision tool, it is more often used as a program monitoring tool as is discussed later.

Table 1 compares the RFP processes of Lexington and Evansville with the best practices guidelines from the literature review:

**TABLE 1: FUNDING DECISION MODELS**

<u>RFP PROCESS</u>	<u>LEXINGTON, KY</u>	<u>EVANSVILLE, IN</u>	<u>BEST PRACTICES</u>
1. Creation of a competitive market	Closed	Open	Open
2. Consideration of organization capacity	No	No	Yes
3. Elimination of service duplication	No	Partial	Yes
4. Contract award criteria	No	Yes	Yes

### **VII. Contract Oversight:**

Once government funding decisions are made and contracts are awarded to nonprofit organizations, the two parties must enter into a legally binding agreement.

## **Contracting with Nonprofit Organizations: A Model for Local Governments**

Confirming the parameters of the relationship with a written agreement helps ensure compliance with the terms of such an agreement, and also ensures that the terms of the agreement are appropriate given the requirements of the contract. This agreement should clearly outline the responsibilities of the nonprofit organization in regard to a number of aspects including but not limited to: what types of services will be provided, how the services will be provided, what documentation will show the use of the government funding, and how self-monitoring and reporting of the effectiveness of the service-delivery will occur. Additionally, the contract agreement should indicate if the government is providing funding pre-service delivery or post-service delivery. It should also concisely outline how the government plans to monitor service delivery and determine program success or failure (Prager 1997, Romzek and Johnston 2002, Weisbrod 1997).

After the contracts are agreed upon and signed, it is necessary to ensure that the government funding is being used properly. By utilizing contracts, governments are essentially providing services to the public without actually producing the service. Therefore, the government is maintaining a level of control of the services and ensuring that the public is receiving quality service. Contracts introduce bureaucratic oversight that can create a circumstance known as the principal-agent relationship. Principal-agent relationship deals with the dilemma associated with how to get the agent (the nonprofit organization) to act in the best interest of the principal (the government). Although most literature does not include contracting between governments and nonprofit organizations as a principal-agent problem, Milward and Provan argue that “delegation of authority... can lead to a potential loss of legitimacy” (2000). Notwithstanding, contract oversight is necessary to maintain legitimacy across the stakeholders.

## Contracting with Nonprofit Organizations: A Model for Local Governments

Establishing *who* and *how* the oversight process will function is very important. I suggest that the *who* can be accomplished in at least two ways. One is by utilizing a central monitoring source that would allow local governments to minimize political influences from interfering with the oversight process. By removing contract oversight from government administration the impact of nonprofit organizations' complaints to elected officials about the level of enforcement may be mitigated. Thus allowing monitors to effectively perform their program oversight responsibilities (Romzek and Johnston 2002). The central monitoring source ideally would have no affiliation with any local nonprofit organizations or government officials and would act as an auditor on behalf of the local government. A second option would be to assign the task of monitoring to an individual or team within the government. This is the method that the City of Evansville utilizes; however, Susan Kirk, Community Development Coordinator admits that there is a lot of political pressure placed on her office by council members looking out for organizations of personal interest to them. Bob Wiseman, former Executive Assistant to the Mayor under Mayors Baesler and Miller (Lexington, KY), agrees that when millions of government dollars are being obligated to provide services to the community that monitoring is necessary. He suggests that if some entity was monitoring the nonprofit organizations performance-based outcomes and fiscal diligence that the public would perhaps be more supportive.

There are varying opinions of *how* the oversight process would work best. Historically, simply measuring the inputs and outputs of a given program is used to determine if progress is being made. The theory is that if a program increases the number of people it serves then it is a successful program. Conversely, now there is a growing belief that inputs and outputs do not effectively measure whether or not a program is really positively impacting the lives of the citizens being served (Prager 1997). Simply increasing

## **Contracting with Nonprofit Organizations: A Model for Local Governments**

the number of people being served does not indicate that the program is providing quality, life altering services. The use of performance-based outcome measurements is another methodology for monitoring programs (United Way of America, 1996). This monitoring method looks for indicators that the people being served are receiving a benefit from the services they are receiving (Kluger, Rivera, and Mormile-Mehler 2001).

Programs develop a plan for utilizing performance-based outcome measurement that outlines the program's intended outcomes, what indicators would be used to determine effectiveness, who will do the evaluation, how data will be collected and analyzed, and how the program will report these findings. The United Way, among other funding sources, refers to this culmination of information as an Outcome Logic Model (OLM) (See Attachment III for a blank OLM). According to the United Way of America analyzing the progress made in the components of the OLM is a tangible way to monitor program effectiveness (1996).

Monitoring may seem to be a costly expense; however, effective monitoring can actually reduce expenses over time. Through monitoring citizens are assured a certain level of service and legitimacy is added to the funding decisions that were made by the government. Program monitoring can determine which programs are successful at providing quality service deliver to the public and which programs are not successful. This determination can be used in future funding decisions and eliminate waste of government funding (Domberger 1997, Prager 1994).

## Contracting with Nonprofit Organizations: A Model for Local Governments

### VIII. Current Contracting Conditions:

#### Lexington-Fayette Urban County Government (LFUCG) – Lexington, Kentucky:

Currently there are over 30 outside agencies<sup>3</sup> receiving funding from the General Services Fund. Combined, these agencies account for approximately 11% (or just over 23 million dollars) of this fund's expenditures. Three of the agencies (Board of Health, Library Board, and Transit Authority) combine to receive 73% of the total outside agency allotment. Alone the Lexington Public Library is mandated to receive 5 cents per \$100 assessed property value and therefore makes up over one third of total outside agency funding. In FY03, two new quasi-government outside agencies (the Downtown Development Authority and Downtown Arts Center) were added; however, both were created by the government as separate nonprofit organizations to be eligible for state and/ or federal matching grants ([www.lfucg.com](http://www.lfucg.com), Bob Wiseman and Connie Underwood). There are twenty 501(c)(3) agencies that are receiving \$3.7 million dollars, approximately 17% of the outside agency budget this fiscal year.

According to Connie Underwood, Acting Director of Budgeting for LFUCG, agencies that are currently receiving funding as outside agencies are issued "budget request packets." If the agencies want to be considered for funding in the following fiscal year's budget they must complete the packet with support documentation by the appropriate deadline. Ms. Underwood stated that this is not considered a open RFP process which would entail inviting all interested nonprofit organizations to apply and publishing an announcement of the RFP in local newspapers. LFUCG does not currently publish an announcement of the new fiscal year budget process. However, any nonprofit organizations in Fayette County which are not currently funded as outside agencies can request the

---

<sup>3</sup> Outside agencies are all entities which provide a public service but are not administered by LFUCG. Some are quasi-government, some are organizations with economic emphasis and others are 501(c)(3) nonprofits.

## **Contracting with Nonprofit Organizations: A Model for Local Governments**

funding packets for consideration in the upcoming fiscal year. It has been over five years since a new, non-government created organizations was brought in as an outside agency; the two newest organizations are Operation Read and CityLife.

Once a proposal is submitted for funding each organization is required to meet with the mayor at City Hall to discuss the merits of their proposal. The mayor will make a funding recommendation to the city council which may or may not be upheld. Council has the final authority as to which organizations are funded and to what extent.

Agencies are required to submit an invoice for funds for the previous month's service. They are not necessarily required to report any type of outcome measurements or program evaluation, although some departments within the government which have contract oversight for the various outside agencies require more in depth reporting. The Department of Social Services, for example, requires that outside agencies document the number of clients served in each program. Social Services also requires that background checks must be submitted for all new staff and volunteers; additionally monthly financial statements and some form of program evaluation must be submitted.

All outside agency contracts are awarded for one year only, which means the application process must occur every year. The application process starts half way through the fiscal year and often is not finalized until five or six months later. The application itself can take as much as forty to fifty man hours to complete; this annual process can put a strain on organizations that often have minimum staff and other resources. The reason for the one year funding contracts is that the city council cannot obligate future funds. Therefore, one year contracts are necessary to be in compliance with this regulation. Nancy Rawlings, former Commissioner of Social Services under Mayor Miller, suggested that one way to decrease the work load on both the government and the nonprofit organizations would be

## **Contracting with Nonprofit Organizations: A Model for Local Governments**

to issue Letters of Intent for multi-year funding. Such a commitment for funding would free up time for program monitoring by both parties. Program monitoring could legitimize future funding by the government based on the effectiveness and efficiency of the nonprofit organizations (Bob Wiseman and Nancy Rawlings).

### **City of Evansville – Evansville, Indiana:**

The City of Evansville follows the United Way's allocation model by funding specific programs not overall agencies, unlike Lexington which funds agencies. According to Susan Kirk, Community Development Coordinator for Evansville this decision was made several years ago to strengthen oversight of where exactly money was being spent and what impact the program was having on the community. In the current fiscal year, there are approximately 90 programs throughout 69 agencies receiving funding. Over \$3.5 million is currently being distributed; all of this funding comes from federal grant dollars. In contrast to LFUCG, the City of Evansville does utilize an open RFP approach. Evansville also holds "Public Needs meetings" to glean public input as to what areas may take priority in the upcoming fiscal year.

After proposals are submitted, site visits are conducted by government staff and a report is filed along with the proposal. These documents are turned over to the FFRAC (Federal Funding Review Advisory Committee) which is a group of volunteers that reviews the proposals and interviews a designee from each program requesting funding. The FFRAC volunteers are selected from many different stakeholder groups in the community and are given written guidelines concerning how to make their recommendations for funding. FFRAC will make funding recommendations to the mayor and, in turn the mayor, makes funding recommendations to the city council. Program designees are given an

## **Contracting with Nonprofit Organizations: A Model for Local Governments**

opportunity to speak directly to council members prior to a vote to approve or amend the mayor's recommendations. Since the introduction of FFRAC to the funding decision equation, council has been more likely to accept the funding recommendations of the mayor without altering funding levels (Kirk). Carol Braden-Clarke, Executive Director of the local United Way affiliate, is familiar with the funding process used by the City of Evansville and believes there has been a marked improvement in reviewing proposals objectively and "taking politics out" since the introduction of the FFRAC. She stated that several agencies that the United Way funds also receive funding from local government and that those agencies directors have commented positively on the improvements that have taken place over the last few years.

Susan Kirk stated that the Evansville's reporting requirements are quite stringent. Monthly monitoring reports must be submitted along with monthly financial statements, paycheck stubs and timesheets, and any receipts pertaining to the contract. Each program that receives funding is given a concise list of allowable expenses and exactly what support documentation will be acceptable as proof of the expense. Kirk believes this keeps agencies honest and ensures that the public funds are being used to fund the intended program and not the overall operating expenses of the agency. By comparison, LFUCG does not require any of this documentation. The only paperwork required is a monthly invoice work sheet that shows the current funding period, the monthly allocation, and the year-to-date funds received.

## Contracting with Nonprofit Organizations: A Model for Local Governments

### IX. Recommendations:

Here I will restate the three questions concerning government/ nonprofit organizations contracts:

1. How can local government contract funding decisions be determined in a manner that is equitable to nonprofit organizations and the community?
2. How can political influence be minimized in contract funding decisions?
3. How can government ensure that quality contracted services are provided to the citizens while keeping its own costs down?

Following are seven recommendations for addressing these research questions:

**1a. Determine funding focus areas.** Conducting community needs assessment meetings with a forum of stakeholders is necessary to set priorities for how government dollars will best be utilized. By decentralizing the decision making process local governments have a chance to bolster citizen involvement and allow citizens to “control their lives and improve their communities” (Snaveley and Desai 2001). Determining community needs also dictates which types of nonprofit organizations will be considered for funding in a given funding cycle.

**1b. Determine collaboration opportunities.** When agencies collaborate to provide services there is often a reduction in service duplication and a reduction of organizational resource obligation. Agencies may already be equipped to provide specific pieces of a program and by collaborating with one another more effective and efficient service delivery will likely result.

**2a. Utilize written procedures to determine funding decisions.** Creation and implementation of procedures to determine funding would alleviate some of the politics associated with local government contracting. Once a procedure is in writing a certain level of legitimacy is obtained.

**2b. Consider multi-year funding.** Multi-year funding contracts allow both the nonprofit organizations and government an opportunity to reduce administrative time preparing and reviewing funding applications. Obligation of future funds (if allowable) and Letters of Intent are two of the options.

## Contracting with Nonprofit Organizations: A Model for Local Governments

**3a. Evaluate service delivery.** Utilize written procedures to evaluate the effectiveness of the services being provided to the public. Performance-based outcome measurement is the current industry standard. This monitoring method looks for indicators that the people being served are receiving a benefit from the services they are receiving.

**3b. Determine a central monitoring source.** A central monitoring source would allow local governments to eliminate political influences from interfering with the oversight process and ensure services are being provided. The central monitoring source could either be an employee of government or an entity not administered by government in either instance they would act as an auditor on behalf of the local government. Research also shows that monitoring in the long run saves money.

**3c. Self-evaluate.** Utilize written procedures to evaluate the internal effectiveness of the government contracting procedure. By periodically examining the contracting process, procedural improvements may be identified and thus lead to cost savings or time reductions.

### X. Conclusion:

Contracts between governments and nonprofit organizations can enhance services in a variety of ways, including determining what community priorities exist, introducing specific performance monitoring requirements, and setting expectations for future funding decisions (Domberger 1997). In order to maximize government resources, it is crucial to determine what services the government wants to provide to the public and who the best partner in the community is to provide these services. Increasing competition among nonprofit organizations to provide service enhances the level of service provided while keeping costs down. It is a challenging task for governments to contract with nonprofit organizations; however, when caution and careful planning are used funding decisions can be made that are in the best interest of all concerned parties (Romzek and Johnston 2002).

## Contracting with Nonprofit Organizations: A Model for Local Governments

### XI. Works cited:

- Birch, Melissa H. and Jerry Haar, Eds. *The Impact of Privatization in the Americas*. Coral Gables, FL.: North-South Center Press, 2000.
- Blasi, Gerald J. "Nonprofit Organizations, Government Contracting, Performance Measurement, and Accountability." *International Journal of Public Administration* 24.4 (2002): 419-422.
- Carol Braden-Clarke. Personal Interview. 11 March 2003.
- Clemen, Robert T., and Terence Reilly. *Making Hard Decisions*. Pacific Grove, CA: Duxbury, 2001.
- Domberger, Simon and Paul Jensen. "Contracting out by the public sector: theory, evidence, prospects." *Oxford Review of Economic Policy* 13.4 (Winter 1997): 67-78.
- Globerman, Steven and Aidan R. Vining. "A Framework for Evaluating the Government Contracting-Out Decision with an Application to Information Technology." *Public Administration Review* 56.6 (Nov. /Dec. 1996): 577-586.
- Kettl, Donald F. *Sharing Power: Public Governance and Private Markets*. Washington, D.C.: Brookings Institute, 1993.
- Susan Kirk. Personal Interview. 11 March 2003.
- Kluger, Miriam P., Nelson Rivera, and Marie Mormile-Mehler. "Defining and Measuring Program Effectiveness at a Mental Health/ Social Services Agency." *Families in Society* 82.6 (2001): 549-553.
- Kwon, Seok-Woo. "Does Procedural Fairness Matter in Standardization? An Examination of a Drug Standardization Process in Hospitals and its Impact on Hospital Effectiveness." Diss. U. of Southern California, 2002.
- Lens, Vicki and Margaret Gibelman. "Advocacy Be Not Forsaken! Retrospective Lessons from Welfare Reform." *Families in Society* 81.6 (2000): 611-620.
- Lewandowski, Jennifer M., Governance Specialist, BoardSource, Washington, D.C. Email transactions. 11 November 2003.
- Luginbill, Mike. "A Team Approach to Public Social Services Delivery." *Policy and Practice* September 2000: 32-38.
- Milward, Brinton H. and Keith G. Provan. "Governing the Hollow State." *Journal of Public Administration Research and Theory* 10.2 (2000): 359-379.
- Prager, Jonas. "Contracting out as a vehicle for privatization: half speed ahead." *Journal of International Affairs* 50.2 (Winter 1997): 613-632.
- Prager, Jonas. "Contracting out government services: lessons form the private sector." *Public Administration Review* 54.2 (March-April 1994): 176-184.
- Nancy Rawlings, Former Commissioner of Social Services, LFUCG, Lexington, KY. Personal Interview. 22 May 2003.
- Reh fuss, John A. *Contracting Out in Government*. San Francisco: Jossey-Bass Inc., Publishers, 1989.
- Romzek, Barbara S. and Jocelyn M. Johnston. "Effective Contract Implementation and Management: A Preliminary Model" *Journal of Public Administration Research and Theory* 12.3 (2002): 423-453.
- Ryan, William P. "The New Landscape for Nonprofits." *Harvard Business Review* 77.1 (Jan-Feb 1999): 127(1).
- Salamon, Lester M. Ed. *Beyond Privatization: The Tools of Government Action*. Washington, D.C.: Urban Institute Press, 1989.
- Snavelly, Keith and Uday Desai. "Mapping Local Government-Nongovernmental Organization Interactions: A Conceptual Framework." *Journal of Public Administration Research and Theory* 11.2 (2001): 245-263.
- Connie Underwood. Phone interview. 26 March 2003.
- United Way of America. Measuring Program Outcomes: A Practical Approach. 1996, 2<sup>nd</sup> printing.
- Weisbrod, Burton A. "The Future of the Nonprofit Sector: Its Entwining with Private Enterprise and Government." *Journal of Policy Analysis and Management* 16.4 (1997): 541-555.
- Bob Wiseman. Personal Interview. 7 August 2003.
- Websites:  
[www.boardsource.org](http://www.boardsource.org) –  
<http://www.independentsector.org/PDFs/inbrief.pdf>  
[www.lfucg.com](http://www.lfucg.com)