Case Study, PA 750
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Case Study: The Relationship between a Nonprofit Organization and its Government Funder

Introduction

The relationship between nonprofit organizations and the government agencies that fund them is a complicated and sensitive one. Politics within the relationship often cloud the contractual agreements between nonprofit organizations and its funders. The two are partners in serving the community, but they also have a dependent relationship (Lipski and Smith, 1989-1990). Government agencies look to nonprofit organizations for support in service provision (Lipski and Smith). Lipski and Smith report that "[d]espite the differences in organizational norms between government and the nonprofit sector, government officials are utilizing nonprofit agencies to deliver public services at an unprecedented rate (p.636). On the other hand, it is clear that nonprofit organizations depend on government funding and other government resources in order to operate and achieve their goals (Saidel, 1991; Lipski and Smith). "[O]ne nonprofit agency executive observed, 'We're extremely dependent upon the state agency for resources, mostly financial, secondly technical assistance and political pressure'" (Saidel, p. 548).

This "resource interdependence," the term Saidel uses to describe the connection between nonprofits and government agencies, creates situations for ambiguity and confusion when it comes to sharing procedures, regulations, accountability, and responsibility (Saidel). The contract between the nonprofit organization and the government grantor should be clear and direct; but the reality is that oftentimes the two organizations develop an informal relationship that influences how they operate due to the desire to satisfy their own needs and comply with one another's requests. Lipski and Smith identify that this granting relationship often influence how nonprofits utilize and address their staffing, their clientele and programming, and their physical facility. Nonprofits frequently need to comply with government grantors' requests to do things the way government agencies want things done (Lipski and Smith). Lipski and Smith explain:

> "Critics of government contracting often express concern that nonprofits may compromise their original service mission in the process of responding to government priorities. However, it should be noted that government contracting requirements may alter nonprofit agencies' approaches to services and clients, even if their goals are entirely compatible with those of government. In essence, they may be forced to conform to standards imposed by contracting policy at the expense of their homegrown notions of what constitutes effective service delivery (pp. 637-638).

Nonprofit organizations also have influence over government agencies because they are entrusted with public funds. In some cases, government grantors want to continue working with effective nonprofits so they foster a positive relationship. Finkler (2005) supports this concept by stating that "[c]ontracts generally involve a quid pro quo. Unlike a donation, which is a gift with nothing expected in exchange, contracts usually provide something to each party" (p. 28).

The interdependent connection between private and public agencies necessitates proper measures for accountability and control. Government contracts often require accountability measures and procedures from the contracted organization; specifically relating to effective service delivery and efficient use of public funds. Tools are used by nonprofit organizations to establish accountability. Kearns (1994) identifies "formal record keeping and reporting requirements as a means of demonstrating compliance with standards" (p. 186). Procedures and policies are established to assist individuals and organizations in maintaining proper business practices. Kearns describes four areas of accountability for nonprofit organizations: "compliance accountability," "negotiated accountability," professional/discretionary accountability," and "anticipatory/positioning accountability" (pp.188-189). The main idea is that nonprofit organizations must establish a plan for managing and maintaining accountability so that the organization can function with integrity, receive continued funding, and proceed with their mission.

Similarly, for government agencies specific procedures are in place to protect the integrity of the organization and to safeguard the public finances (Finkler). For example, there are accounting and financial systems established to keep governments accountable. The budget serves as a plan for the agency and "[p]lanning is an essential element of financial management" (Finkler, p. 270; Rubin, as cited in Stillman, 2000). Finkler states that "[m]anagers develop control systems to help keep their organizations to their plans, protect resources, motivate employees, evaluate performance, alert management to variations, and take corrective action" (p. 270). Budget development, audits, authorization procedures, record keeping, and reporting: all are parts of the process for "safeguarding resources" (Finkler, pp. 294-298,). The Office of Management and Budget (1993) reinforces the significance of accountability measures by stating that "[t]he federal government derives its just powers from the consent of the governed. It therefore has a special responsibility to report on its actions and the results of those actions" (p. 27).

"Because of the separation of payer and decider, the budget document itself becomes an important means of public accountability" (Rubin, as cited in Stillman, 2000, p. 384). Thus, when government agencies contract with nonprofit organizations both parties share an expectation for proper accountability measures. When the proper procedures and policies are not followed, the situation creates opportunity for ethical issues to arise.

Denhardt and Denhardt (2006) describes that "[e]thics is concerned with the process by which we clarify what is right and wrong and by which we act on what we take to be right; ethics involves the use of reason in determining a proper course of action. Ethics is the search for moral standards" (p. 128). The issue of "ethics failure" is an important topic for discussion as it relates to public service organizations, for both nonprofit and government (Zajac, 1996). When proper procedures are not followed and public servants act on behalf of their on interests, problems arise that may be constituted as ethics failure. Mismanagement of public funds, improper use of resources, discrimination, and other ethical weaknesses impose a cost on society (Zajac). Zajac describes the costs of ethics failure:

> "Ethics failure can entail financial costs, both in terms of monies lost to fraud and expenses incurred in investigating fraud remedying ethics failure. Administrative costs are the reduction in efficiency and effectiveness of government that can accompany ethics failure. Political costs include rancor surrounding ethics failure…. Finally, human costs are the damage to the social fabric of community and dignity that results from abuses of human rights and liberties" (p. 155).

As Zajac describes, there are great ramifications for a breakdown in organizational integrity and ethics. Governments receive their funds from citizens' taxes, and citizens rely on nonprofit and government organizations to provide effective and efficient services (Nordin, 2007).

This introduction describing the interdependent relationship between government and nonprofit, as well as the importance of accountability measures when dealing with government grants, offers a backdrop for the case study in this paper. Although attempts may be made by nonprofit and public organizations to implement proper procedures for accountability, ethical issues often arise because of the complicated and sensitive nature of the relationship between nonprofit organizations and their funding government agency. The following fictional case, based on real organizational issues, will describe the relationship between a nonprofit program director and the government administrator who funds the program. The case will explore what happens when a breakdown in financial management procedures and accountability measures exists due to the sensitive and political relationship between the two public servants; and investigate ethical implications stemming from the procedural breakdown. The case study will also illustrate the remedies that have been attempted by the organizations to resolve the procedural and accountability issues.

It is important to note that the names of individuals and organizations have been changed, and that specific details have been modified, to protect the individuals in the case study.

Case Study

May 5th, 2007: "I am a bit offended," declared Sue Johnson, the public administrator overseeing the Drug Prevention Program for San Raul County Department of Families (SRDF). "No one has ever asked me to confirm that I actually paid for the items I am asking reimbursement for," she continued, "I gave you an invoice from the vendor and you know I paid for it; what else do you need?"

Bill Henson, the program director of a local nonprofit called Youth First that receives grant funding from SRDF to provide drug prevention services for San Raul County, listens as Sue complains about Youth First's "strict" financial management procedures. Bill explained that in order to authorize reimbursement for approved expenses, everyone must have proof of payment. Sue responded, "It's my program and I fund your agency; its SRDF's money that you are using anyway."

SRDF's Drug Prevention Program

The relationship between SRDF and Youth First was rooted with problematic financial management policies and procedures from the beginning. SRDF is the funding agency that contracts with Youth First to provide drug prevention services for youth in San Raul County. Youth First was awarded the SRDF drug prevention services contract in 2001 through a competitive Request For Proposal (RFP) process. Throughout the years, the business relationship between the two organizations has gone trough many political and strategic challenges.

Prior to 2001, Sue Johnson led three SRDF county employees who provided the drug prevention program services. Sue managed a budget of $250,000 to provide services for three hundred San Raul "at risk" youth. The team provided drug prevention workshops, case management, and referred addicted youth to treatment programs. Sue was working efficiently with the resources that she had and the program was showing effective outcomes. Teen drug uses were reduced and educational achievements increased.

Unofficially, Sue manipulated her budget to fit what she felt the program needed. She provided large amounts of gift cards as incentives for youths' achievements; she gave gifts to her staff for the hard work they do. Sue was known for doing whatever it took to keep kids off drugs. "We serve the kids first, we worry about the rules later," Sue had been heard preaching to her staff. Somehow, she managed to justify every expense and continued to maintain support form the county's fiscal office. With the great results of the program, Sue even had the support of the community and her superiors, particularly the support of John Tusk, the Executive Director of SRDF.

The drug prevention program received more funding from the county's general funds to offer more services. Sue was in charge of $350,000 to be used for increased services to more youth. Due to her hard work and great reputation, Sue was able to run the program independently without much supervision or accountability. She continued to set her own definitions and guidelines for "approved" expenses and "proper" use of government funds. With the backing of John Tusk, Sue had great autonomy.

In January of 2001, John Tusk decided to retire. After hearing about the great success of the drug prevention program, the new Executive Director of SRDF, Mary Mumm, took great interest in Sue's program. Sue's staff reported that "Mary was around all the time, inquiring about our progress and how the funds were being used." "She believed that our work was a platform for much greater things and she was very interested in program improvements and redesign," staff added.

For five months, Mary examined how Sue operated the drug prevention program. Although she admired Sue's creativity and commitment in serving the youth, she realized that Sue did not have the administrative skills to properly manage a government budget. Sue would often overspend on certain budget line items and classify expenditures in another line item that was under-spent. One recurring problem was that Sue would stock up on gift cards from Target, Safeway, of Best Buy to be used as incentives for the kids. On some occasions, these gift cards were used to purchase office supplies, program supplies, or food for staff lunch meetings. "This negligence," in Mary's view, "was very alarming." "I know Sue is doing what she thinks is best for the program, but we could get into a lot of trouble," worried Mary. Mary supported Sue's drive to help the youth because Sue often put the youth's needs and the program's wellbeing over her own needs and the county's rules.

After witnessing Sue's financial management style, Mary decided to develop a better way of managing the funds and increasing program efficiency. Politically, Sue had strong support from the community; and overall, she is a strong advocate for the clients. Mary wanted to develop a way of keeping Sue as the administrator of the program while attempting to fix the policies and procedures around financial management and service delivery. During the same time, a county contract with a local nonprofit agency to provide recreational services was dissolving. Mary wanted to enhance the successful drug prevention program by increasing the funding and resources available. In May of 2001, Mary announced that she wanted to contract out the service delivery of the drug prevention program to a nonprofit agency through an RFP process. Her justification was that she wanted to expand the program to offer more services and use the funds from the recreation program to develop the drug prevention program. Mary wanted Sue to remain as the program's administrator managing the contract and overseeing the service delivery. The rest of Sue's employees were reassigned to other units within the agency. With additional monies from the recreation program, Mary decided to leave $15,000 in discretionary funds for Sue to manage. The rest of the $335,000 plus an additional $150,000 from the recreation program, were contracted out and Youth First won the contract.

Youth First

Youth first has been in existence for over 40 years. In the 1960's, Youth First was established by a group of young people as a leadership council. The youth council was very active in community politics and youths' issues. After a few years, the council established itself as a nonprofit and named the organization Youth First. Youth First has many youth programs throughout San Raul County: employment services, educational counseling, childcare center, health services, and violence prevention. Their funding sources are diverse, from fundraising events to endowments, foundation grants to government grants. Due to its large budget and wide range of programs, Youth First needed to develop a strong financial management team as well as an effective program management team. The administrative staff understood the diverse needs of the community but also understood the importance of proper financial management and accountability. Hired legal council as well as several regular internal and external audits have approved all the organization's policies and procedures, financial or otherwise.

Jamie Omura, Executive Director of Youth First, noted, “We have learned over the years to run a tight ship so that we can continue to efficiently and effectively serve our community.”

Youth First viewed itself as a strong organization in the community. It has been around for many years providing services for youth and families. When the opportunity arose to expand services to include a drug prevention program, Youth First decided to apply for the county grant. “We offer a range of services for the community, and this grant allowed us to provide a stronger continuum of care for our young people,” stated Jamie.

Out of eight applicants for the RFP, Youth First was awarded a grant for $485,000 to provide the drug prevention services based on a strong program design and pragmatic budget proposal. Youth First hired Bill Henson to direct the program and nine other personnel were employed to provide direct services to youth. In July of 2001, the relationship between SRDF and Youth First began.

SRDF and Youth First: A Unique Relationship

SRDF, particularly Sue Johnson, wanted the popular drug prevention program to remain identified as an SRDF program. The County Agency offered to house the program, including all Youth First program staff. SRDF created space for the whole program in one of its county buildings and the collaboration began. “This contract is different from other Youth First contracts,” clarified Bill, “our program directors typically manage our other programs independently and they are all housed under Youth First. This program is housed under SRDF with the oversight of Sue.”

Bill was responsible for all contractual obligations, including staffing issues, program decisions, and budget management; Sue was in charge of overseeing the contract and making sure that Youth First was doing what they were supposed to. Because everyone was housed together, they all had to develop a close working relationship. Bill knew what his charge was: to maintain and promote the program's mission and objectives. Bill also understood that Youth First's policies and procedures were established to maintain the integrity of the organization. "Our priority is to serve the clients, but we would also like to maintain all our contracts and grants," said Bill. He tried to make sure that his employees followed proper procedures and used critical thought before making any decisions relating to clients and the overall program.

From Sue's perspective, it was difficult for her to distance herself from the daily operations of the program. "It's still my program; I am responsible for what goes on here," Sue explained. She involved herself in personnel issues such as dress codes, office appearance, and staff responsibilities. Moreover, Sue was very involved in program decisions and how the budget was used. She continued to function in the same way she did before the contract with Youth First was established. She scheduled activities and workshops for youth; she offered incentives and prizes for participants' achievements. Sue did what she thought was best for the young people she served.

Sue completely spent down her $15,000 allocation in various ways a few months after the start of the program year. She often looked to Bill for help in paying for specific program expenses such as supplies and food for workshops. Because they were serving the same program and the same clients, they justified these expenses as legitimate and appropriate. Bill and Sue tried to work together even though they had different perspectives on how they valued policies and procedures. Sue would have creative ideas on how to provide services and use financial resources while Bill provided the voice of reason for examining things pragmatically. "We need to think things through before jumping into decisions," Bill would say. Sue would respond, "This is how I have been doing things for years, it has always been beneficial for the program."

Sue presented herself as having political and contractual control over Bill's funding source. Bill believed that the partnership with Sue had to be maintained in order to receive continued funding. Bill did not want Youth First to be labeled as "difficult to work with" or "uncooperative." He managed to maintain the integrity of his organization and also explore creative ways in collaborating with Sue. The two organizations found ways to work together and continue the relationship. Youth First has gone through a contract renewal and continues to provide drug prevention services for San Raul youth.

Over the years, this unique relationship between contractor and funder operating as one entity created many challenges. Specifically, the sensitive nature of the relationship created procedural breakdown, opening the doors for ethical and financial accountability issues.

Financial Management Issues

"Do you have money to pay for…?" One of the issues that Bill complained about was Sue's constant request to pay for program expenses outside of the contract budget. Sue would often spend her $15,000 allocation and ask Bill to pay for operating costs. Sue viewed Youth's First' grant as SRDF's money and that she had a say in how to spend it. For example, conferences would come up and Sue would want to send all the staff. She did not have funding to pay for the travel, lodging, and registration fees so she would ask Bill to pay for it out of staff training line item in the program's budget. Another example was when Sue wanted to conduct an outing for the youth and she asked Bill to pay for it out of program supplies money. One day, Sue decided to offer food daily to the clients who come in for services. The program was not set up to be a drop-in center but she influenced Bill to spend money reserved for dinners after the workshops to buy food for clients on an ongoing basis. The dinners for the classes had to be limited so that the program would have enough money for all its needs.

These types of requests came often for several reasons. First, Sue knew that Bill managed most of the operating money for the program and she was not pleased with that. Sue was accustomed to great autonomy over the program and the program budget; she did not want to answer to anyone. With this perspective, Sue felt open to make requests from Bill and assumed that it would be approved.

"We had to get along; we were under the same roof," said Bill. Youth First's accounting and budget office, as well as the management team, understood the difficult situation that Bill faced. Political pressure forced the nonprofit organization to find ways of accommodating Sue. "We needed to make sure that we followed proper procedures when it came to handling public money," Bill emphasized, "we would often have to under-spend our budget because we knew we would get another request from Sue." The major issue came when Sue would request for money to pay for things outside of Youth First's budget. "Some of these requests will be flagged by the county; we had to tell her 'no,'" exclaimed Bill. When Sue got a "no" response, she would often become very upset and tell Bill that this was never an issue before they came to her program. "I did whatever it took to serve the kids, I was not stifled by the bureaucratic process," Sue would proudly exclaim.

Clearly, Sue and Bill had very different management styles. And although they had similar goals, they were very different in how they assessed risk. The difference in perspectives created conflict for the two managers. It was frustrating for Bill to know that the relationship with Sue and SRDF was clearly not a typical contractual relationship. He not only carried the responsibility of providing great services for youth, he was also responsible for maintaining the political relationship with their funder.

From Sue's perspective, she was in charge of the program and Bill was working for her. Although she knew that she was no longer in charge of the budget, she often wielded authority over Bill by making these requests to pay for things without taking into consideration whether they would be approved or not.

The major problem with this "on a whim" approach to financial management was that the budget was not followed; which means a plan was not followed. It was often difficult to plan for program needs and even more difficult to justify unapproved expenditures. Mary's hope for "cleaning up" the program's financial process through contracting was made more complicated by adding another entity in the mix. What was a performance issue before now becomes a political issue between two organizations. As the relationship between SRDF and Youth First continued, other issues arose.

"We've always had gift cards." The issue of gift card purchases and its use has been problematic even before Youth First was contracted to provide services. Sue bought gift cards from Old Navy, Target, Safeway, Best Buy, and other retail stores in mass quantities and stocked them as incentives for youth. Whenever youth would complete specific workshops or participate in assessments, they would get gift cards. Youth would also get gift cards when they volunteered to help in events or outreach activities. Gift cards would even be raffled off at events and functions. “These kids do not have much so we try to give them something they can use for themselves,” reported an old program staff, “Sue was famous for these gift cards.”

The major issue was that there was no tracking system for the cards. They were given out haphazardly without knowing who received them and how much was awarded. When there were unused cards left over, Sue would use the gift cards to purchase program supplies when her budget amounts ran out. When asked why SRDF’s finance and budget office never questioned Sue about the purchase and accountability for gift cards, their response was that “it was such a small part of our huge agency budget. We had other things to worry about.” For many years, Sue became accustomed to operating in this way without anyone questioning her. Even when Mary noticed the issue, she tried to fix the problem by bringing in an outside contractor to handle the budget instead of addressing the personnel issue directly.

When Youth First entered the picture, their finance department noticed the budget line item for “gift card incentives” right away. This alarmed Jean Wald, the financial manager of Youth First. “We treat gift cards like cash and we need to account for it like cash,” she commented. Bill knew how things were done in the past from speaking with Sue. He knew that Jean would never approve of the way Sue was ordering, stocking up, and using gift cards. Sue never had a way of tracking how much was provided and who received them. This was awkward because there were no accountability measures and the whole situation opened the opportunity for ethical problems. The gift cards could be stolen, purchased for personal use, or just misplaced. Also, when organizations order incentives, the incentives should be given to the youth and not be used for programming costs.

Yet, Bill understood the purpose of having gift card incentives. The incentives really worked in motivating teenagers; and the young people were able to use the gift cards more than other forms of incentives. They used the gift cards to buy clothes for job interviews, food for their apartments, school supplies, and other useful things. Bill complied with the purchases and spent down the incentives line item every year. He explained to Jean that he will make sure they do not overspend on gift cards and that he would only purchase them as needed. He also assured her that he would take the names of the clients that the cards go to. Bill explained to Sue that Youth First would try to figure out a way to continue providing incentives for the clients. This made the partnership with Sue a lot easier.

"The program needs a van." In 2006, Sue was able to convince Mary that the drug prevention program needed to transport youth to activities and events. "The youth are saying that they would participate more often if they had support in getting to the program activities," argued Sue. "How would we pay for it," asked Mary. Sue suggested adjusting Youth First's contract and asking the contractor to purchase the van. "They wouldn't mind," she said, "they would own capital and we would pay for it."

After a few weeks of convincing, Mary decided to give the van idea a try. Sue presented the idea to Bill. "The program needs this, Bill; after all we are paying for it." She explained that all Youth First had to do was reduce some funding from certain line items and come up with the money to buy the van. "The county is approving this and we have to act on it pretty fast," she contended.

Bill did not feel comfortable with the whole arrangement. Youth First would have to take money out of an existing source to purchase a van. Moreover, there were additional costs and liabilities associated with owning a vehicle. Insurance and maintenance costs were involved; parking and gas was needed. The added responsibility and liability of transporting youth was also problematic. "Owning a van would not only be costly due to auto insurance, our organization's liability insurance would also increase just by owning the vehicle," Bill thought.

Bill carefully explained Youth First's concerns with owning a vehicle to be used for transporting clients. He knew that Sue would not be happy, and he was right. "I understand your concerns but the program needs transportation for the clients," Sue asserted. "You guys under-spend your budget all the time," added Sue, "you can find the available money for a van." Bill carefully withheld the fact that Youth First would under-spend the budget due to Sue's unplanned requests to cover costs. This current request for a vehicle was too large for Youth First to comply. The liability issues and associated costs of owning a vehicle made it an impractical plan for Youth First. Somehow, there had to be a compromise between Sue and Bill.

"No one has ever asked me to confirm that I actually paid for the items I am asking reimbursement for." Sue had issues with Youth First's policies and procedures when it came to financial management. She felt that it was okay to use the program's financial resources as she saw fit, and that Youth First's policies around spending was stringent and stifling. "The best way to serve the youth is to listen and then act," Sue explained, “I need my contractor to understand that and respond accordingly.” So Sue often made purchases out of her own personal money and asked for reimbursement from Youth First. She would pay for meals, supplies, recreation activities, and other items. She felt that she did not have the time to always be asking the contractor to handle the expenditures. From Sue’s perspective, it was a lot more efficient when she would just handle things and get reimbursed, like she used to do before Youth First was contracted.

Youth First’s policies around purchases included the following: request for approval prior to purchases, set dollar limits on certain purchases, original proof of payment must be attached, and it must be confirmed that there are available funds in the budget before making the purchase. Bill explained the policies to Sue and she found them to be strict and rigid. Sue continued to pay for things with her personal money and asked for reimbursement. Although Bill knew that the expenses were all program related, Sue’s purchases still created a problem with Youth First’s fiscal department. First, the relationship created a situation where an individual who was not employed by Youth First was making requests for expense reimbursements. This was not typically allowed; but after years of Sue asserting that the funds come from SRDF money, Youth First eventually made allowances. The nonprofit made exceptions because they were working together with Sue under one roof and they had to get along.

The second policy problem was that Sue’s purchases were bypassing the approval process. It was not that Sue forgot to ask for approval; it was that Sue felt she did not need to ask. She knew that Youth First had most of the program funds under their contract and when her $15,000 budget was spent, she just kept on spending. Throughout the years, Bill would process the reimbursement requests and advocate for Sue against the Youth First's fiscal department. "The expenses were program-related and necessary," Bill would reason, "We have sufficient funds to cover them." Bill functioned as the buffer between Sue and Youth First's fiscal office.

Just recently, Sue submitted invoices printed from an online store to Bill. They were purchases for supplies for their upcoming program year-end graduation; the supplies were necessary and budgeted. As usual, Sue did not ask for approval prior to purchasing the items. She told bill that she paid for the items with her personal credit card and that the invoice was the only thing she could print from the online store. Bill examined the invoice and realized that he needed additional documentation before turning in the reimbursement request to his fiscal office. He asked Sue if she could provide a copy of her credit card statement when she gets it, erasing all other information except for the specific purchases from the reimbursement.

The interaction at the beginning of this case study is what transpired when Bill asked Sue for the additional documentation. "I am a bit offended," declared Sue. "No one has ever asked me to confirm that I actually paid for the items I am asking reimbursement for," she continued, "I gave you an invoice from the vendor and you know I paid for it; what else do you need?" "It is not personal, Sue, I know you paid for the items but we require proper documentation from everyone, including our Executive Director," reasoned Bill. "All we are asking for is proof of payment. This invoice does not reflect your payment anywhere and I just want to get you reimbursed right away." (The copy of the invoice is attached as Appendix A). Sue responded, "It's my program and I fund your agency; it is SRDF's money that you are using anyway."

This most recent financial accountability debate between Sue and Bill prompted the need for solutions to the major challenges in the program's financial management process. In June of 2007, Youth First will go through another contract renewal negotiation process. The nonprofit organization wants to preserve the long and productive relationship with SRDF; they want continued funding for the program. "We need to resolve these issues with Sue before June so we can present recommendations to our fiscal office and to SRDF," reported Bill. The two organizations wanted to continue their work together but they needed to find solutions that addressed each other's concerns. The two managers both knew that they needed to make compromises in the way they do business. Sue and Bill, with the help of Jean, worked together to address some of the concerns mentioned in this case study.

Proposed Compromises and Solutions

The issue of "surprise spending" was at the top of the list when it came to procedural improvements. Sue explained her perspective: "I'm used to running my own program. I had control of the budget and I operated with autonomy. Now, your organization controls most of the program funds and you are asking me to ask for permission to operate my own program." Clearly, the $15,000 was not sufficient for Sue to do the things she needed to do for the program. Bill knew that the expenses were valid; the problem was the constant requests to purchase things out of certain line items.

Jean suggested trying to allocate a portion of Youth First's contract funding for Sue's use. "This would provide Sue with a bit more to work with, as long as she agrees to manage her portion and follow procedures," Jean stated, "We would create a sub-category in our budget for Sue's spending. When it's gone, it's gone." Although this solution is not normal operating procedure for Youth First, it was a lot better than the surprise spending that was going on. The new process would force both Sue and Bill to properly manage their separate budgets. The compromise would show Sue that Youth First was willing to negotiate. With this compromise, Sue would have to agree not to make additional requests for surprise spending.

The proposed budget sub-category policy assumed that Sue would be reimbursed for the expenses incurred out of her sub-categorized budget. The reimbursement procedures needed to be clarified for Sue so that she can follow the procedures and not be offended by them. Youth First would reimburse Sue for expenses even though they do not employ her as long as Sue followed proper procedures and provided sufficient documentation. Bill carefully explained to Sue that Youth First did not mean to offend her and that they were merely following proper procedures in order to protect the program's financial resources. When she calmed down, Sue accepted the rationale for the policy and agreed to follow them.

The gift card accountability issue was another area of negotiation for the two organizations. Clearly, the program needed to use the incentives because they worked in motivating youth and encouraged positive outcomes. The question was, how do we account for them? Jean refused to accommodate the stocking up of gift cards and their use for program spending. "If we are calling them incentives, they should be incentives for the youth and no one else," said Jean. Bill also reasoned that grant funding should be used before the year's end and that stocking up on gift cards and using them for program expenses in later years simply means we are holding funding under the form of gift cards.

Sue tried to protest in favor of the use of gift cards for program use to Mary but Mary agreed with Youth First. After the last attempt at protest, Sue agreed to only use the incentives to give to the clients. Youth First agreed to purchase them and account for them as long as they were given to the youth. All gift cards were to be purchased $500 at a time; only when the $500 in incentives was dispersed can more be purchased. In addition, clients must sign a form stating that they received the proper gift card amount. (The Youth First Gift Card Documentation Form is attached as Appendix B). These forms must be turned in before new gift cards can be purchased. The total dollar amount stated on the forms must match the amount of gift card purchases. Bill agreed to manage the gift card accounting for the program. Sue knew that this procedure had to be done in order to use program incentives so she complied.

The last major issue left for negotiation was the need for transportation for the program. This was easily resolved through investigation and research. Jean calculated what it would cost to purchase a van and the annual cost of operating it. She determined the total cost over the 3-year contract. Bill investigated the frequency of events and activities where youth would need transportation. He also looked into alternative ways of providing transportation for San Raul youth. Being that San Raul County was geographically small compared to other counties, the costs for taxis were fairly reasonable. Bill also explored the cost in participating in a car-share program. This program allowed users to rent out vehicles, fully insured for liability and damage, on a pay per use basis. Youth First could participate in the car-share program and the staff would drive the vehicles. Because the program would not need the vehicle on a daily basis, the car-share option was a viable alternative to owning a van.

When Jean and Bill compared the costs or owning and operating a vehicle versus providing taxi vouchers and participating in a car-share program, they found that the latter was more efficient. They presented the idea to Sue and she accepted. "I don't care how the kids get to the activities as long as they come," Sue added.

Bill and Sue documented their agreements to be presented at the next contract renewal negotiations meeting. They both agreed that the new recommendations offered resolve on past issues and promoted a positive working relationship for the future. "In the six years we have been working together, we have always provided great services for the youth, we just needed to clean up our finances," admitted Sue.

Conclusion

Nonprofit organizations and government agencies depend on each other in their efforts to provide community services and resources (Saidel). Lipsky and Smith write:

> Rather than depending mostly on private charity and volunteers, most nonprofit service organizations depend on government for over half of their revenue; for many small agencies, government support comprises their entire budget. In contrast to the traditional relationship of two independent sectors, the new relationship between government and nonprofits amounts to one of mutual dependence that is financial as well as technical; increasingly, the lines between public and private are blurred" (pp. 625-626).

In the case study about SRDF's drug prevention program, a unique interdependent relationship between a nonprofit organization and its funding government agency is described. Because the two are housed together and choose to conduct business jointly, the relationship is different from other contracting relationships.

Sue and Bill, SRDF and Youth First, worked together in developing a strong program for San Raul youth. Because of their distinctive relationship, new challenges were created. The interdependence between the two managers lead to differences in perspectives when it came to financial accountability and ethical decisions. Sue did whatever it took to serve the youth; Bill tried to manage the risks involved with some of Sue's decisions and actions. Together, they tried to find compromises that worked for both organizations. The people involved in the case study developed the solutions proposed. SRDF and Youth First found ways to agree so that their interdependent relationship can continue. Time will tell if the proposed solutions and compromises will be effective. Having read the case study, how would you approach the sensitive relationship between nonprofit contractor and government funder? Would you recommend a different solution?

Appendices attached.

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