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INSIDE THIS ISSUE

- Many human service nonprofits in Washington, D.C., find contracting with the city government challenging.
- City government, in turn, is faced with federal requirements and has the responsibility to make sure that funds are used properly.
- Nonprofits and city government must work together to improve contracting and payment, and to maximize scarce resources.

Nonprofit-Government Contracting in the Nation's Capital: Challenges and Opportunities

Erwin de Leon

Human service nonprofits in the District of Columbia are struggling due in part to the challenges posed by contracting with the city government. At a recent forum, leaders of nonprofit organizations and District government agencies offered their perspectives on the problems and potential solutions (box 1).

Findings from the Center on Nonprofits and Philanthropy's National Survey of Nonprofit-Government Contracting and Grants (Urban Institute, 2010) show that a majority of human service organizations in Washington, D.C., are burdened by government payments not covering the full costs of contracted services, the complexity of government application and reporting processes, changes to contracts, and late payments (figure 1). Discussion at the forum confirmed the study findings and articulated other contracting issues unique to the District.

These contracting issues, exacerbated by the recession, which saw a decrease in funding from all sources and an increase in demand for services, have forced human service organizations to cut staff and benefits, draw on reserves, and for a few, reduce the number of programs they offer (figure 2).

Nonprofit leaders listed the following challenges they face in contracting with the D.C. government:

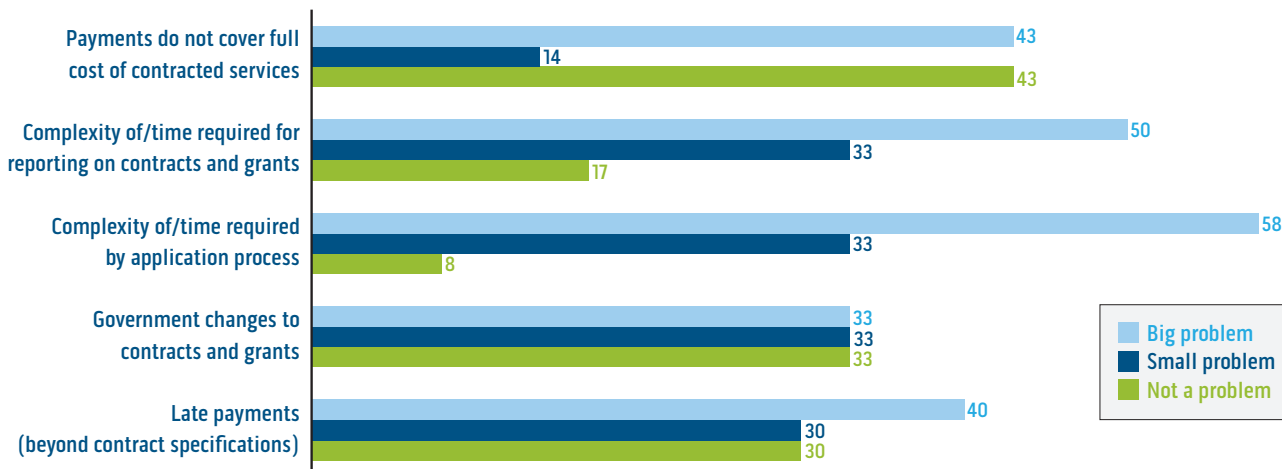
- *Requests for proposals (RFPs) take a long time to come out and are sometimes altered after being released.* The head of a community-based nonprofit said that an RFP she had been waiting for came out with 20 amendments. One amendment, which changed the entire RFP, was released after the due date for submission.
- *Purchase order numbers from government agencies take a long time to be released.* Since purchase order numbers are required for billing the government, organizations are unable to collect payments in a timely manner. Some organizations provide services for some time before they are actually able to bill the District.

BOX 1.

Forum participants included representatives from the following nonprofits and government agencies.

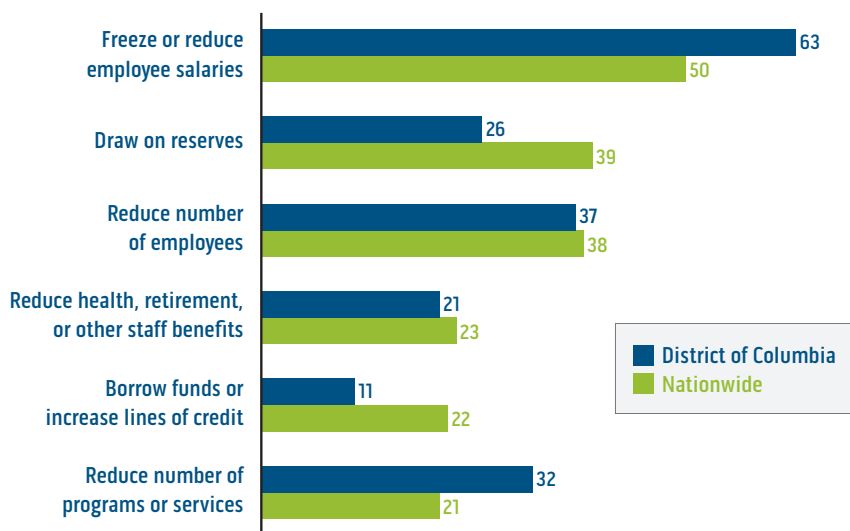
- Alexandria City Public Schools
- Boys & Girls Clubs of Greater Washington
- Byte Back
- Children's Law Center
- Covenant House Washington
- D.C. Child and Family Services Agency
- D.C. City Council
- D.C. Department of Employment Services
- D.C. Department of Health
- D.C. Jobs Council
- D.C. Office of the City Administrator
- D.C. Office of Contracting and Procurement
- Fair Chance
- Family Matters of Greater Washington
- The Jovid Foundation
- The Latin American Youth Center
- Lutheran Social Services of the National Capital Area
- Martha's Table
- Metro TeenAIDS
- N Street Village
- Perry School Community Services
- Sasha Bruce Youthwork
- The Whitman-Walker Clinic

Figure 1. Key Problems Reported by D.C. Human Service Nonprofits with City Government Contracts (percent)



Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Figure 2. Actions Taken by D.C. Human Service Nonprofits in 2009 (percent)



Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

- *Processing of invoices is extremely slow.* An executive director shared how his organization was not paid for invoices submitted four months earlier. As a result, the nonprofit had to secure a line of credit to cover expenses. This was costly to the organization because it had to pay interest on the borrowed funds. Another nonprofit leader pointed out that though it is deemed acceptable for the city government to pay bills within 45 days, this poses a hardship for many human service organizations.
- *The contracting process suffers from a culture of informality.* Discussions about some contracts happen outside formal channels, and agreements are done verbally or by handshake. This has led to misunderstandings about contract awards and terms. Relationships between city government representatives and nonprofit providers need to be more professional, and contract agreements done through formal channels.

- *Awards are sometimes rescinded.* The leader of a youth-serving organization related that on the same day she received the required paperwork for a funding award, she was asked to return the documents because the government agency had decided to cut its budget and cancel the award. Another nonprofit representative also received an award which was later rescinded. This happened after her organization spent considerable time planning and investing resources to win and use this award.
- *Deliverables are unrealistic.* Nonprofits are required to meet certain goals, but some do not have the capacity to meet specified benchmarks. They nonetheless sign the contracts because of the urgent need for funds required by the high demand for their programs and services.
- *District government staff turnover is high.* This negatively affects agency relationships with nonprofits, especially if staff have not been oriented to their new positions.
- *Various government employees use different criteria to evaluate organizations and implement different policies and procedures.* This makes the contracting process confusing and cumbersome. There is no consistency within and across government agencies and nonprofits often receive incorrect information. This results in organizations having to submit paperwork and repeat processes multiple times.
- *Many government employees do not understand the contracting process.* A nonprofit leader said that she spoke to an agency director who admitted that he did not understand the process.
- *Some agencies still use outdated processes and underutilize available technology.*
- *The city's budget is not transparent and easy to understand.* Nonprofits need to gain more knowledge about the budget process and receive the same information as the agencies.

D.C. government representatives responded with their experiences and perceptions of collaborating with human service nonprofits.

- *Directives from the federal government can account for some of the confusion and complexity in the contracting process.* The director of an agency that provides grants to nonprofits pointed out that at times, her office receives federal directives that complicate the grant process. Some federal grants do not allow the city government to provide up-front money to service providers.
- *The federal government's demand for greater accountability puts a burden on the city.* This mandate for greater accountability and transparency is not going away any time soon.
- *There is a constant struggle between the city government and providers regarding accountability.* Government agencies have the responsibility to make sure that funds are used appropriately. Nonprofits that contract with the government need to show results and manage funds effectively.
- *The new administration is taking actions to improve the system.* For example, new agency heads are being appointed and changes are being implemented. An office that manages both nonprofit and for-profit contracts hired a new procurement officer and updated procurement policies and processes. An agency that awards grants is currently putting together templates and other documents that will help streamline the process. A government representative shared that changes are being put in place that would improve communication with nonprofits (e.g., roundtables and regular alerts on deadlines and other important changes).
- *There are fiscal realities aside from possible government inefficiencies.* In particular, the District needs to fill a \$322 million budget gap,¹ which will have an impact on nonprofits that partner with the government. The city government itself is working with fewer resources and staff.

As budgets of both human service organizations and the District tighten and demand for services increases, an opportunity presents itself—the contracting process has to be improved to avoid inefficiencies and maximize scarce resources.

Together, participants of the roundtable came up with initial recommendations to address some of the contracting challenges faced by both nonprofits and government agencies.

- Develop a ranking system in tandem with nonprofits, which identifies “high-trust” or high-performing organizations. These organizations would get priority funding.
- Consolidate and centralize the District’s procurement structure.
- Better assess and manage duplication of programs and services.
- Implement a common format for RFPs, contracts, grants, and other forms across city agencies. Available technology could be harnessed to streamline the contracting process. For example, contract applications and reports could be done digitally and contract awards could be tracked online.
- Provide a hybrid contract that includes both accountability measures and advance payments to nonprofits to help ease cash flow issues.
- Include nonprofit leaders in the budget-making process.

- Conduct further research to get a deeper understanding of nonprofit-government contracting. In particular, a follow-up study could help to provide a government perspective on nonprofit contracting. The difference between government contracts and grants could also be investigated and better defined.
- Institute regular meetings between nonprofit providers and government agencies.

Nonprofits in Washington, D.C., face many challenges as they partner with the city government in providing services. These issues need to be addressed and the conversation between nonprofit leaders and government representatives continued. As budgets of both human service organizations and the District tighten and demand for services increases, an opportunity presents itself—the contracting process has to be improved to avoid inefficiencies and maximize scarce resources. As a participant summed it up, government contracting with nonprofits needs to be “faster, better, and cheaper.”

Notes

The forum was hosted by the Urban Institute’s Center on Nonprofits and Philanthropy, the Center for Nonprofit Advancement, the Community Foundation for the National Capital Region, and the Nonprofit Roundtable of Greater Washington. The event was made possible through the support of the Bill & Melinda Gates Foundation.

1. Tim Craig and Bill Turque, “Outlook Brightens for D.C. Budget,” *Washington Post*, March 1, 2011.

About the Author

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Center on Nonprofits and Philanthropy

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The Center on Nonprofits and Philanthropy conducts and disseminates research on the role and impact of nonprofit organizations and philanthropy. The Center’s mission is to promote understanding of civil society and improve nonprofit sector performance through rigorous research, clear analysis, and informed policy. The National Center for Charitable Statistics (NCCS) is a program of the Center.

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