RESEARCH REPORT

Nonprofit-Government Contracts and Grants

The State Agency Perspective

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Executive Summary

Nonprofit and government organizations have a long history of working together to address social issues and deliver publicly funded programs and services. They often share the same mission and goals and offer each other valuable resources. For instance, government agencies frequently allocate financial resources to nonprofits through contracts and grants that help address local community needs, while nonprofits tend to be more narrowly focused and allow government agencies greater flexibility and reach to address specific issues or target populations. Roughly one-third of nonprofit budgets contain funding through government contracts and grants to deliver public programs and services (Pettijohn et al. 2013).

Efficient and effective government contract and grant processes can be mutually beneficial and strengthen nonprofit-government relationships, but such processes can be quite complex and difficult to implement. Institutional and legislative policies often dictate how government contract and grant processes operate, especially at the state level. Moreover, the current economic realities faced by many governments hinder the investment of constrained public resources into the development of better processes.

With support from the Bill & Melinda Gates Foundation, the Urban Institute’s Center on Nonprofits and Philanthropy launched a research agenda in 2010 that looks broadly at nonprofit-government contract and grant processes and relationships. The research portfolio includes two national studies of nonprofit organizations that document the scope and variety of government funding; assess nonprofit-government relationships; and identify problems, trends, and promising practices (Boris et al. 2010; Pettijohn et al. 2013). Both national surveys uncovered widespread problems experienced by nonprofit organizations that have contracts or grants with governments. Nonprofits overwhelmingly report that their government funders, especially state-level agencies, are

- not paying nonprofits the full cost of services provided (especially indirect or administrative [overhead] costs),
- using complex contracts and grants application processes,
- changing contracts midstream,
- routinely failing to pay on a timely basis, and
- imposing complex and time-consuming reporting requirements.
Because nonprofits reported considerable problems with their government partners, this study examines nonprofit-government contract and grant relationships from the government perspective. Although the issues examined in this report may be relevant to all levels of government, this study focuses on the state level. The data collected from interviews with respondents from state government agencies enhance our understanding of government processes and experiences and offer insight into what issues and challenges are being faced and what promising strategies are occurring. First, we discuss the environmental factors and conditions that influence a state agency’s contracts or grants processes. Second, to vividly depict how nonprofit-government contract and grant processes are carried out at the state level, we give an overview of the underlying forces, organizational capacities, and activities that can affect the contract and grant process. We also include state agency strategies to improve or streamline contract and grant processes. Finally, stemming from key discussion points made by respondents, we discuss state agency views on and strategies to improve their relationships with nonprofit organizations.

Environmental Context

State agencies are affected by the environment in which they operate. An agency’s environment includes any condition or situation that can instigate a change in agency demands and influence its performance. These conditions can take the form of changes in technology, demographics, economy, or political context (Astley and Van de Ven 1983; Burke 1994; Scott and Davis 2007). The interview data revealed that external effects are a primary theme. State agency respondents made several key points:

- State agencies continue to face fiscal challenges. About half the states included in this study are facing difficult budget situations that may pose immediate or long-term challenges for state agencies. Budget cuts have required some state agencies to reduce staff. Consequently, state agency respondents raised concerns about their agencies’ ability to meet federal and state requirements and effectively serve the nonprofits with which they work.

- State agencies contend with complex institutional and legislative policies and dynamics. The agency respondents spoke frankly about the problems that institutional, legislative, and organizational policies impose on their ability to effectively administer contracts and grants. Bureaucratic and procedural hurdles lead to slow and cumbersome dealings, and the rigidity of these requirements often stymie an agency’s ability to make timely and meaningful changes to the process. Moreover, the inconsistency across federal and state funding streams creates confusion and paperwork burdens for both state agencies and nonprofit organizations.
State Government Contracts and Grant Awards Processes

Institutional and legislative requirements profoundly affect how state agencies operate. In most instances, federal and state requirements frame state-level contract and grant processes, requiring state agencies to adhere to strict federal and state mandates with little discretion. Moreover, state agencies may have internal dynamics, practices, and processes (e.g., goal-setting, decisionmaking, levels of approval, forms, and channels of communication) that influence how they implement the contracts and grants process. State agency respondents described the systems and processes that they employ and the underlying forces, organizational capacities, and activities that can affect the processes. Furthermore, the participants in this study described individual state agency efforts to improve and streamline their systems. The findings suggest the following:

- State agencies tend to have little to no discretion in how they will pay nonprofits for providing programs and services. Roughly 55 percent of respondents employ a cost-reimbursement payment method; only a few employ a fee-for-service payment method. Though cost-reimbursement grants seem to be the most common form of payment, several respondents raised concerns about the additional oversight and added administrative burdens to state agencies and nonprofit organizations.

- Despite significant advances in state government use of technology, state agency systems fundamentally require upgrades and automation. Only a few respondents reported having fully automated grant-management systems or talked about their agency’s efforts to fully automate or digitize the contract and grant award process. Although state governments have implemented efforts to use less paper and more electronic systems, several respondents claimed that their agencies are slow to embrace fully automated processes to award and process contracts and grants.

- Respondents described several strategies that their agencies have implemented or are considering to improve or streamline their contract and grant processes. Such strategies include simplifying application procedures, enhancing reporting, and encouraging and increasing the use of technology.
State Agency Views on the Nonprofit-Government Relationship

Nonprofits and governments have a reciprocal relationship in that both entities have valuable resources they can offer each other to enhance service delivery. Building and sustaining effective partnerships often requires an investment of time and resources from all parties. State agencies described their experiences working with nonprofit organizations, the benefits and challenges they faced, and the factors they deem important to strengthen these relationships and increase their effectiveness. The findings highlight the factors that influence nonprofit-government relationships and describe state agency strategies to improve their relationships with nonprofit organizations. The state agency respondents described several experiences, concerns, and strategies:

- State agency respondents overwhelmingly recognized that nonprofit organizations provide an important service delivery resource because of their unique insight into and expertise with specific populations and their ability to act faster and with greater reach than state agencies.

- The participants in this study also shared that working with nonprofits has its challenges. Nonprofit capacity is a leading concern for state agencies. In addition, state agency respondents frequently mentioned concern with high staff turnover and the timeliness and completeness of the required paperwork submitted by nonprofit organizations.

- Despite fiscal and resource constraints, some state agencies are trying to improve processes and communications with nonprofit organizations and help build the capacity of the nonprofits they fund. Common strategies that emerged from the interview data include the following:
  
  » State agencies are not only looking at ways to simplify the application process for nonprofits, but also bolstering efforts to guide nonprofits through the application and grant proposal process (such as reviewing the application or proposal and providing feedback to the nonprofit before submittal).
  
  » States are changing the way they view their relationships with nonprofit organizations by intentionally approaching nonprofits with a less rigid, authoritative posture, instead using a more collaborative style (such as by referring to nonprofits as their partners rather than as their vendors or grantees).
  
  » More state agencies are partnering with nonprofit umbrella and membership associations, coalitions, larger nonprofits, and other government agencies that have tools and resources to help state agencies provide much-needed training and technical assistance.
Conclusion

Given the many institutional, legislative, and organizational factors involved in administering government contract and grant processes, fixing the problems is not straightforward and no single solution is likely to resolve the inefficiencies and complexities that complicate the process. The data from both national surveys of nonprofit organizations revealed there are systemic problems with all levels of government that need to be addressed, though these occur particularly at the state level. For the most part, the information this study collected from state government agencies is consistent with and reinforces the nonprofit perspectives. This report provides state agency respondents’ candid remarks that convey challenges administering government contracts and grants, as well as their recommendations for change.

State agencies’ levels of capacity and infrastructure vary. Therefore, some state agencies find it especially difficult to meet certain mandates or face certain challenges, which over time can affect their relationships with the nonprofits they fund. This study’s many findings might be used to tailor current and future reform efforts. The study participants’ experiences strengthen the need for state government policymakers to strategize with their nonprofit and government partners about how to better align their efforts to address specific problems and improve nonprofit-government relations.
Introduction

*The first thing is that I think your [contracts and grants] process has to be customer friendly. And that’s customer friendly to your internal and your external customers. I think that it should not be a process that in any way would put the [nonprofit] provider at a disadvantage of not being able to receive funding in a timely manner in order to administer the contract.*

—State human services agency employee

Nonprofit and government organizations have a long history of working together to address social issues and deliver publicly funded programs and services. They often share the same mission and goals and offer each other valuable resources. For instance, government agencies frequently allocate financial resources to nonprofits via contracts and grants that help address local community needs; nonprofits tend to be more narrowly focused and allow government agencies greater flexibility and reach to address specific issues or target populations. Roughly one-third of nonprofit budgets contain funding via government contracts and grants to deliver public programs and services (Pettijohn et al. 2013).

Efficient and effective government contract and grant processes can be mutually beneficial and strengthen nonprofit-government relationships, but such processes can be quite complex and difficult to achieve. Institutional and legislative policies often dictate how government contract and grant processes operate, especially at the state level. Moreover, the current economic realities faced by many governments hinder the investment of constrained public resources into the development of better processes.
Only a small body of research looks broadly at nonprofit-government contract and grant processes and relationships at the federal and state levels. The National Council of Nonprofits publishes a series that identifies solutions to help reform nonprofit-government contracting systems. Also, the Urban Institute’s Center on Nonprofits and Philanthropy’s has established a research agenda studying nonprofit-government contracts and grants that includes two national studies of nonprofit organizations (Boris et al. 2010; Pettijohn et al. 2013) that document the scope and variety of government funding; assess nonprofit-government relationships; and identify problems, trends, and promising practices.

Both national surveys uncovered widespread problems experienced by nonprofit organizations that have contracts or grants with governments throughout the country. Nonprofits overwhelmingly report that their government funders, especially state level agencies, are

- not paying nonprofits the full cost of services provided (especially indirect or administrative [overhead] costs),
- using complex contract and grant application processes,
- changing contracts midstream,
- routinely failing to pay on a timely basis, and
- imposing complex and time-consuming reporting requirements.

The survey results highlight the need to explore nonprofit-government contract and grant processes through the lens of government agencies to better understand how the processes work, as well as to gain insight into what trends and challenges are being faced and what promising practices may be occurring. This study is part of the Center on Nonprofits and Philanthropy’s research agenda that builds on existing literature and the aforementioned national studies of government contracts and grants. This report, however, presents findings from the government agencies’ perspective rather than that of nonprofit organizations.

The primary purpose of this study is to provide information about nonprofit-government relationships from the government perspective, focusing on the state level. State governments in particular play a key role in the distribution of public funds to nonprofit organizations: state agencies either directly provide state funds or indirectly provide federal funds via contracts and grants. But state-level agencies receive considerably less scrutiny and interest than those at the federal and local
levels. Although a few states have begun documenting their efforts to improve and streamline their contract and grant processes, little empirical research exists to inform improvements.

With support from the Bill & Melinda Gates Foundation, the Urban Institute conducted an initial exploration of state government agency perspectives on nonprofit-government contracts and grants relationships to advance the discourse on critical issues, challenges, and promising strategies. This report presents the findings from telephone interviews with state agency representatives across the United States (see appendix A for detailed study methods). State agencies that fund a range of nonprofit organizations were invited to participate in this study. That range includes human services organizations; arts, culture and humanities organizations; and environment and animal-related programs and services. The findings, however, may be relevant to broader public agencies.

**Research Approach**

To gain a deeper understanding of the dynamics that can influence state agency processes and to provide a more complete picture of the nonprofit-government relationship, this study uses a qualitative research strategy. This study collected data from state agencies located in all four US census regions (Northeast, South, Midwest, and West) via telephone interviews. State agencies were purposively selected to ensure a mix of states and to capture a range of social, political, and economic contexts that might influence the contract and grant awards process. The interview data collected from state agency informants addresses the following research questions:

- How do state government agencies view contract and grant relationships with nonprofit organizations?
- How and why do state government agencies contract with or award grants to nonprofit organizations?
- What trends and issues, as identified from interviews with government agency informants, relate to contracting and granting with nonprofits?
  - What are major challenges?
  - What are promising practices?
Report Organization

The themes and findings that emerged from the study are as follows:

- **Environmental Context** highlights the factors that influence state agency operations and exhibits points made by the state agency study respondents.

- **State Government Contract and Grant Award Processes** provides an overview of the underlying forces, organizational capacities, and activities that can affect the state-level contracts and grants process at various stages. This section also describes state agency strategies to improve or streamline contract and grant processes.

- **State Agency Views on the Nonprofit Relationship** discusses the factors that influence nonprofit-government relationships and exhibits discussion points made by the state agency study respondents. This section also describes state agency strategies to improve their relationships with nonprofit organizations.

- **Conclusion** summarizes the critical issues, challenges, and strategies presented in this report.

Environmental Context

State agencies are affected by the environmental context in which they operate. An agency’s environment includes any condition or situation that can instigate a change in agency demands and influence its performance. These conditions can take the form of changes in technology, demographics, economy, or political context (Astley and Van de Ven 1983; Burke 1994; Scott and Davis 2007). The impact of external exigencies emerged from the interview data as a primary theme. This section highlights the factors that influence state agency operations and presents discussion points made by the state agency study respondents.

States Agencies Continue to Face Fiscal Challenges

Money is a prime variable affecting a state agency’s ability to administer and manage contracts and grant award processes. About half the states in this study are facing difficult budget situations that may pose immediate or long-term challenges for state agencies. At least two state agency respondents reported that despite their states experiencing a surplus, state spending remains tight and their
governors are concentrating on paying off debt and increasing the state’s reserve funds. Moreover, several respondents stated that over the past few years, their agencies have experienced budget cuts because of the Great Recession or the federal government shutdown in October 2013. Some state governments are still recovering from these events. However, subsequent threats of a government shutdown and other federal- and state-level factors that can affect state finances challenge state administrators’ management with uncertain funding environments. Next, we provide respondents’ accounts of environmental factors that contribute to fiscal uncertainty.

Regarding federal funding, one environment and animal–related agency shared that their program’s federal funding was intended to last for two years, but the agency has unexpectedly continued to receive funding for an additional two years. Though this could be viewed positively, the uncertainty attached to the funding makes it difficult for the agency to plan. The respondent explained that it was unclear whether the funding will continue because the agency had not received any information from its federal funding source, saying, “And at this point in time we don’t know whether it’s going to be here for a fifth year or not so we might be going from a $5 million annual budget down to zero.”

Regarding state funding, two respondents mentioned that in their respective states a new governor either had recently taken office or was about to do so. Consequent to the change in administration, both interviewees were unsure whether or not their budgets would be affected. One arts, culture and humanities agency official shared concerns:

Well, we have a new governor that will be coming into play starting in January so we’re about to go into negotiations for the fiscal year 2016 budget and our state is in some financial trouble right now so nothing is guaranteed. We hope that we can maintain the same budget, but I don’t anticipate that we will...I would be surprised if we receive any significant increase. We would be pleased if [we] maintained a flat budget.

Nearly all of the state agencies whose representatives participated in this study have a primary federal funding stream on which they rely heavily to support their programs. Only a few respondents said they manage programs that rely solely on state funds. When asked about changes to program funding amounts over the past year, 44 percent of respondents replied that their program funding stayed flat; other respondents reported an increase or decrease in funding (28 percent each).

Of the respondents who reported an increase in funding, three are in human services agencies that have a fee-for-service agreement, meaning their agency invoices their federal or state funding source for services rendered throughout the state. Because of increased demand for the agencies’ programs and services, the agencies’ federal funding increased over the past year. A couple of respondents
explained that their agencies’ federal funding sources experienced major cuts during the Great Recession, but their program budgets have since experienced annual increases.

Of the respondents who reported that their state agency program budgets remained flat, several maintained that government funding often does not keep up with inflation or the rising cost of living. These respondents felt that when adjusted for inflation, their program budgets had actually decreased.

**CHANGES IN A STATE’S BUDGET HAVE MAJOR IMPLICATIONS FOR AGENCY PRIORITIES AND ACTIVITIES**

State agencies focus on many issues and interests that affect the entire state. In contrast, nonprofit organizations generally are focused on specific issues and target populations. Accordingly, a state agency’s budget priorities and capacity may not line up with those of the nonprofits operating across the state. Moreover, nonprofits may not be fully aware of the fiscal conditions under which many state agencies are operating. One human services agency respondent explained that the state has experienced some budgetary deficits, and the governor has therefore clearly defined the fiscal priorities for state agencies. But the nonprofits that receive funding from that agency may not fully understand the larger funding picture, the respondent explained:

“The governor has made it clear that our programs in [name of state] are going to provide critical services and are not expanding to provide new services. So those are the kind of things that the administration is focused on. And when we’re doing that sometimes [nonprofits] don’t see things from the same broad focus, they see the local problem and ask ‘why can’t we get funding for this.’ So that’s sometimes an issue that comes up.”

Budget cuts limit what a state is able to do. State agency respondents raised concerns about their agencies’ capacities to meet the federal and state requirements for their respective programs and effectively serve the nonprofits with which they work. Several respondents reported that their agency or program receives little or no federal funds to cover administrative expenses. Thus, when experiencing uncertainty or declining revenues, states may resort to staff reductions or furloughs, in turn requiring the remaining staff to take on more responsibilities with fewer resources. When asked what resources and supports could help state agencies better implement the contracts and grants process, respondents identified money and staff as the top two needs; these were followed by staff training and increased access to and availability of state level data, tools, and information. An overview of the respondents’ comments is provided in table 1.
## TABLE 1

### State Agency Resource Needs

<table>
<thead>
<tr>
<th>Resource needs</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial resources</td>
<td>“If you can say one thing you can say that state funding needs to be bolstered to help us do our jobs better. Well the biggest thing would be money, our budgets are so tight. Especially the administrative side of things.”</td>
</tr>
<tr>
<td></td>
<td>“We have a very small percentage of our budget devoted to administrative overhead the rest goes into grants. So that’s the biggest thing, money.”</td>
</tr>
<tr>
<td>Human capital</td>
<td>“More help, more staff. Although I think I do a good job relating to my agencies, I am only one person. Sometimes I feel like there could be an agency or a program that may be lacking. From the state’s perspective if there was more staff then we could probably do more things and it could be done a lot easier than the ways things are done now. I’m not saying it’s hard but when you have one person trying to manage it all and focus on everyone that wants your attention and sometimes everybody wants your attention at one time or you have six different reports that are due at the same time… So having more staff would help ease the stress and tension.”</td>
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<td></td>
<td>“If we had some of our staff back. We did have to let go staff. Our grant staff shrunk. We had an outreach manager and [their] sole job was to help people figure out the process. That’s one thing, staffing.”</td>
</tr>
<tr>
<td>Staff training that goes beyond compliance, to help build state capacity</td>
<td>“Probably training for our staff to understand financial information a little better. A lot of our staff, me included, we’re not trained as accountants… and on the job training about grant writing and how to look at financials and how to explain data to our panelists[reviewers] who are constituents.”</td>
</tr>
<tr>
<td></td>
<td>“I think that for me the only format that I would probably take advantage of would be either a local conference or workshop or webinar. We don’t have any travel money or anything like that.”</td>
</tr>
<tr>
<td>Increased access to and availability of state data, tools or other types of information to help agency staff do their jobs better</td>
<td>“I would think things like access to data projects or information…I guess more data that can show us the landscape of our state whether it be arts specific or demographic information, just easy access to that information in one place would be a great thing instead of us having to look around at various access points to figure it out...statistical, demographic, economic information things like that would be helpful.”</td>
</tr>
<tr>
<td></td>
<td>“To be able to do a better job of performance management using data, doing some comparisons to regions, larger agencies, and smaller agencies - doing dashboards to see how it really looks what’s really happening: what the data is telling us so that we can, in turn, strengthen service delivery.”</td>
</tr>
</tbody>
</table>

Source: Data collected in telephone interviews.

A state agency’s fiscal and human capital environment can affect both how it operates and its access to necessary tools and resources. In turn, these can shape the agency’s relations with the nonprofits with which it works. State government fiscal and resource barriers place significant constraints on nonprofit operations nationwide and can in turn weaken nonprofits’ financial stability.
State Agencies Contend with Complex Institutional and Legislative Dynamics

Other variables that affect contract and grant processes include the institutional and legislative context in which they operate. Depending on the number of different funding streams, a state agency can be subjected to layers of federal and state rules, regulations, and reporting requirements, which can be complex and difficult to manage. State agencies are required to comply with federal and state regulations and therefore must traverse multiple bureaucratic and procedural hurdles that may not always align. In many cases, complying with federal and state institutional and legislative procedures requires careful coordination by state agency staff. The interview data shed light on some of the ways state agencies are constrained by the institutional and legislative systems that govern their contracts and grants programs.

THE EFFECT OF FEDERAL AND STATE REQUIREMENTS ON STATE AGENCIES
State agencies are unique in that they receive federal and state funds to deliver public programs and services, and they distribute funds to nonprofits and other entities to do the same. Many state agencies now face a dilemma of how they can be responsive both to local nonprofits and to the institutional and legal requirements imposed by their federal and state funding streams. One respondent remarked,

I think that it’s really important, especially when federal funding is involved, to have the collaboration from local, state to federal and vice versa. I think the levels of accountability are good. I think that there are probably areas where the three different levels could do a better job of communicating, but I think the state plays an important role in bridging the gap in what is expected on the federal level and what actually happens at the local level.

State agency respondents cited several layers of rules, regulations, and reporting, and they overwhelmingly expressed concerns about pressure to be in compliance with federal and state mandates. As one respondent remarked, “We’re in the middle and we’re having to comply with both state laws and a lot of federal laws and rules. And the state of [name of state] in particular had a lot of changes in state fiscal rules over the last five years.” The findings below highlight some of the common challenges state agencies face.

Government funding can impose strict requirements that may draw out contract and grant award processes. Government spending is heavily regulated to ensure accountability and maintain the integrity of the process, often requiring time-consuming and detailed measures. Though respondents cited many challenges, such as multiple layers of approval or the rigidity of the procedures, they were primarily concerned with timing and how having to adhere to federal and state requirements lengthens the contract and grant award process. Respondents described processes that can last from six months
to longer than a year. The following two comments illustrate some of the complexities cited in the interviews:

Oh my gosh, we have too many checks and balances. I’m a believer, I’m an agency monitor so I’m a believer in checks and balances, but the state of [name of state] has gone overboard. We could cut out a few people. We’ve made a couple of really good changes in the last couple of years that have made things clearer to those of us doing the grant work and given us more guidelines, but we have so many people that have to check off on things now that it can sometimes be a very long process.

The different channels that they have to go through. First it has to come through me for review, then it has to go to a contract administrator to be put in the contracts system, then once it’s put in the contracts system it has to go through several other people at the state. Once the contract is put into the contract system it takes anywhere from 90 to 120 days to get approval or get a contract back. And then once we get it back we have to send it to the agency for signature and for them to send it back...If all of those processes could be streamlined then the contracting process would be a little easier and it wouldn’t be so long...Basically, from start to finish, by the time you finish one contract and get contract approval it’s time to start working on the other contract because it just takes that long. ...From leaving our office this process has taken anywhere from 90 to I would say 120 days in addition to the 30 that it spent in our office for review. So you’re almost looking at a 6 to 8 month process of preparing a contract for execution.

Approximately one-third of respondents reported that their agencies must adhere to centralized state-level processes and procedures. Although these respondents generally agree with having standardized practices, they did speak candidly about how it can draw out the contract and grant process for their programs. One state agency respondent said,

All of our contracts have to go to the agency that handles procurement and contracting... And they’re a big bureaucracy so there are times that there are delays there, but I think we’ve learned to work with them on that.

One respondent described challenges the agency encountered when it sought to make changes to its grant program to streamline the process for nonprofits. Because this particular state’s government desires more consistent and centralized processes, all changes to contracts and grants programs must be approved by one agency. The respondent explained that to modify the grant program, “it may take two years to go in and change the rules because the rules go through this [state] organization and also could go up under some of the other legislative organizations higher up in the state.”

In many cases state and federal rules and mandates are not closely aligned. Respondents expressed frustration that federal and state requirements often do not align, which can lead to paperwork burdens and delays in distributing funds to nonprofits. One respondent had the following perspective:
If you’re working with federal funds there’s a lot of confusion in reference to the paperwork for federal funds and in the paperwork for state contracts. If that paperwork could be consolidated and the processes could be consolidated that would be a great help to everybody. Sometimes it gets confusing because the state wants one thing and the federal government wants something entirely different. As an overseer or coordinator of these funds when you get all of this paperwork in then you have two sets of paperwork to review and to go over. That is a challenge.

Although federal and state grant programs adhere to annual funding cycles, significant differences between the federal and state funding calendars can delay the distribution of funds. Urban Institute survey results show that nonprofits with government contracts or grants reported problems with governments making late payments, and delays were most likely to occur at the state level (Pettijohn et al. 2013). Consistent with the survey results, several respondents in this study explained how bureaucratic hurdles at the federal and state levels can cause delayed payments to nonprofits. Some respondents cited ongoing federal funding issues that filter down to a state agency’s ability to fund nonprofits. From one respondent’s perspective,

Another thing would be federal partners being able to get the dollars to us in a more timely fashion, which isn’t always their fault. But that’s another issue that can really back things up here and make the process slow down.

Other respondents discussed state-level procedural hurdles that affect their agencies’ ability to fund nonprofits in a timely manner. Though states vary in their funding distribution practices, respondents commonly shared that delays often occur because of lengthy state budgeting processes that make it difficult for their programs to obtain the required legislative approval in time to distribute funds at the start of a state’s fiscal year, when many contracts or grants begin. Consequently, state agencies are habitually delayed in their ability to execute contracts or grants and distribute funds to nonprofits. Though these respondents expressed frustration at a lack of control over the process, a handful of state agency respondents mentioned that their states use certain funding mechanisms that allow them to manage the legislative and institutional red tape and minimize payment delays to nonprofits. As related by this respondent,

Well we provide funding in advance anyway because the contracts aren’t necessarily done in time at the start of the fiscal year, so we provide advance funding to the [nonprofits].

Another respondent reported that the their governor annually approves the release of state funding in late spring, which does not allow the state agency enough time to fully execute contracts with nonprofits at the start of the fiscal year, sharing that “at the end of the fiscal year we sometimes have problems entering into a contract with nonprofits; we don’t always know that we will end up with a full contract executed in a month or so.” To address this challenge, that respondent’s state uses an encumbrance² approval system. This tactic enables state agencies to distribute funds to nonprofit
organizations to help cover operating costs while waiting for the state budget to be approved or for authorization to fully expend funds to nonprofits. As this respondent explained,

So instead of fully executing the contracts we do something called a blanket encumbrance, which temporarily encumbers the funds for a year allowing us to execute the contract. And we then convert that blanket encumbrance into a contract encumbrance. And in order to do the blanket encumbrance we have to have basically an award letter from the department and signed by the grantee or awardee, and then our fiscal office and the accounting and general services department reviews everything. Our fiscal office does use the blanket encumbrance.

Rigid reporting requirements are burdensome and often do not accurately reflect the effectiveness of state agency contract and grant programs. Reporting is often framed in statutes and generally consists of boilerplate formats containing standard output and outcome measures that are reported at designated intervals (e.g., monthly, quarterly, or semiannually) and at the conclusion of the contract or grant. This often leaves little discretion in how state agencies and nonprofits report their accomplishments. One respondent said,

Currently, state and local reporting is driven by the format that is passed down from the feds. These formats have been developed to comply with federal reporting requirements, however, many important components are missing and it does not reflect the varied interests and goals of state agencies.

In many cases state agencies are expected to meet targets and goals, but contextual variances throughout the state sometimes make it difficult. A few respondents expressed that federal and state reporting often does not account for the circumstances that may prevent state agencies and local nonprofits from achieving certain results. One human services agency explained,

[Nonprofit] agencies are all required to provide reports on the number of [people] that they serve. However, when you’re looking at agencies so often you’re comparing apples to oranges. You’re not comparing agency to agency because even those that seem to be providing the same services the circumstances around those services are very different...my agencies in [name of city] always have [clients] beating down their doorstep. My agencies in [name of city] actually have a rough time getting [clients] to come in. I think a lot of that is due to the different populations that they’re serving. So, it’s hard to compare.

The respondents unanimously indicated that federal and state reporting requirements commonly request output data that indicate the quantity of goods or services produced, but only 20 percent of the respondents specifically mentioned that their reports also collect outcomes data to demonstrate the agency’s effect or progress toward a goal. Although state agency respondents indicated that their reporting requirements generally prescribe standardized measures on which nonprofits are expected to report, about one-third of the respondents stated that reporting metrics are determined in combination with nonprofits. In such collaborative instances, the state agency requires that nonprofits
report on standard measures, but the agency allows nonprofits to add additional measures that better capture their accomplishments.

State agencies are also concerned with the burden of data collection and analysis because of a lack of state staff and resources and the short time given to collect reports from nonprofits, compile the information, and submit required documents to federal and state entities. Several respondents commented that federal and state funding agencies often underestimate the amount of time necessary to prepare and submit required reports. One state agency respondent divulged that because of the lack of staff and strict federal reporting deadlines, the agency is overwhelmed and sometimes isn’t able to thoroughly review all of the reports it receives from the nonprofits it funds. Human services agencies and environment and animal-related agency respondents described that additional reporting burdens are created by managing multiple federal funding streams, which in turn create differing reporting requirements. One respondent shared that “sometimes what they are asking for can be contradictory of each other.” These respondents acknowledged that these reporting burdens are passed on to the nonprofits they fund, but as mentioned, state agencies often have little or no authority to make changes.

Though standardization has its merits, the rigidity of federal and state contract and grant award processes may not account for the variance among state agencies. As mentioned, state agencies have different capacities and infrastructures. Therefore, some state agencies find it especially difficult to meet certain mandates or face certain challenges, which can ultimately affect their relationships with the nonprofits they fund.

State Government Contracts and Grant Awards Processes

Institutional and legislative requirements profoundly affect how state agencies operate. In most instances, federal and state requirements broadly frame state-level contract and grant processes. As discussed in the previous section, state agencies must adhere to strict federal and state requirements. But in some parts of the contract and grant process, state agencies can exercise some discretion in establishing how certain practices occur. As outlined in figure 1, contract and grant processes generally involve four stages (preaward, award, implementation, and closeout), and each stage entails distinct activities. It is not uncommon for state agencies to have internal dynamics, practices, and processes (e.g., goal-setting, decisionmaking, levels of approval, forms, and channels of communication) that influence how their contract and grant processes are implemented.
One goal of this study is to identify trends, promising practices, and challenges in how government agencies contract with or award grants to nonprofit organizations. In view of this goal, state agency respondents described the systems and processes employed by their agencies or programs and the factors that affect their ability to effectively administer nonprofit contracts or grants. To provide a more detailed depiction of how state-level nonprofit-government contract and grant processes are carried out, this section provides an overview of the underlying forces, organizational capacities, and activities that can affect those processes.

Announcing Funding Opportunities

State agencies tend to pursue similar outreach activities. Eighty-three percent of respondents regularly conduct outreach at the start of the contract or grant funding cycle. About half of those who conduct outreach mentioned that their agency or program budgets limit the amount of outreach they are able to perform. As one respondent shared,

But honestly, at this point in time we don’t have a budget for doing outreach and information on it, so a lot of it is someone calling after seeing something on the website and calling and asking a question. Or if we’re at a partner’s meeting we can promote it that way, but it’s not at a level that we wish we could have.

Of the respondents who conduct regular outreach activities, the most frequently mentioned tactic is posting funding opportunities on the agency’s website, followed by distribution of a funding notice via a press release or email blast to organizations in the agency’s network. A few respondents partner with
other organizations to help spread the word about their funding opportunities. In the examples shared during the interviews, respondents either attend meetings at other organizations where they can make an announcement, or they ask other organizations (e.g., large nonprofits, membership and umbrella organizations, and other government agencies) to distribute their notice of funding availability. One arts, culture, and humanities agency respondent described the agency’s outreach activities as follows:

We have a pretty strong social network campaign, we have a strong web presence, we do send out press releases across the state, and we have an active arts advocacy group that exists within the state that also promotes grants opportunities... So that’s how we get the word out.

Three human services state agency respondents shared that they typically fund the same nonprofit organizations year after year. Though they may have information on their websites about funding, these agencies typically do not conduct outreach activities. In one case the respondent shared that the pool of eligible nonprofits is small, and rather than perform traditional outreach, the agency convened a statewide group of stakeholders to determine which nonprofits would receive the funding. As this respondent stated, “that’s how we chose the provider and we’ve stuck with that provider because things have worked out well, plus I don’t think we really have other options.” In the other two cases, the respondents shared that they conducted outreach activities when they initiated their funding. Because only a small number of nonprofits in their respective states possess the expertise or capacity to manage the specific contract or grant, their agencies typically fund the same nonprofit organizations each funding cycle.

For the most part, the onus is on nonprofit organizations to seek out funding opportunities with state agencies. Those nonprofits that are already in the agency’s network usually have an advantage because they are most likely to receive a notice of funding and understand the funding process. When asked how nonprofit organizations learn about state funding opportunities, a typical response was, “To be honest, most of the folks know to apply because they’ve applied before or they’re well integrated into the [network] and so they know through that way.”

A handful of respondents expressed a desire to strengthen their outreach activities to inform nonprofits outside of their current network about their agency’s programs and broaden their applicant pools. As one respondent shared,

I think that being a new program, one of our challenges has been finding good ways to let people know that our funding exists. We’ve posted a few websites and we have our own internal email lists and there are a couple of big organizations that can forward our stuff on to their membership so that has sort of worked for us. But I think that we are not really reaching some of the smaller nonprofits and the minority run nonprofits that we would like to reach. So I think that’s a challenge.
Respondents who desired broader applicant pools commonly worked with their state communications or outreach departments to expand their reach and conducted information sessions to inform nonprofits about their agency’s programs, services, and available funding.

**Evaluating and Selecting Nonprofit Organizations**

State agencies tend to have some discretion in how they review and select nonprofits. Even though federal and state guidelines may mandate that state agencies use a particular format, such as a panel review, and score nonprofit applicants on certain evaluation criteria, the interview data indicate that state agencies can exercise some autonomy in deciding who should participate in the review process and which nonprofits will receive funding. For example, when asked how their agencies select nonprofits for funding, most respondents reported that each program has established evaluation criteria used by a review panel, but the agency may add additional measures. Further, the make-up of the review panels may differ: some are composed solely of agency staff while others may contain invited external experts or stakeholders. As one respondent explained,

> They [applicants] are evaluated dependent upon the grant...There are different grants and the process varies... there are two types of grants, those that are reviewed by advisory panels of experts and adjudicators and those that are reviewed in-house. The panel review—they all get a panel review, but it depends on the grant who is on the panel.

Only a few respondents mentioned that they plan to strengthen or initiate their use of risk assessments to evaluate and select nonprofit organizations. State agencies that award federal funds must determine the eligibility of potential nonprofit grantees and evaluate the potential risks of certain applicants. State agencies assess several factors, such as financial stability, management systems, history of performance, and audit findings, to determine if a nonprofit is able to complete deliverables or program work on time. For the most part, state agencies can decide which factors to include in their risk assessments as long as the factors are listed on the funding announcement. The respondents that mentioned risk assessments discussed either adding additional factors to risk assessments or initiating this process for new federal funding streams to better assess a nonprofit’s capacity (e.g., sufficient staffing, expertise, and resources) to support the goals of the funding agreement.

**Who State Agencies Fund**

The interviews with state agency representatives highlight four common patterns in the types of nonprofits the state agencies fund.
Respondents overwhelmingly indicated that no preference is given to certain types of nonprofit organizations. The respondents described funding a spectrum of large, established entities to small, volunteer-run organizations.

Environment and animal–related state agencies are most likely to offer larger amounts of funding, often ranging from $5,000 to more than $3 million during a funding cycle (the average funding cycle lasts one to two years), followed by human services agencies and arts, culture, and humanities agencies.

Human services agencies tend to offer the highest number of grants within a funding cycle.

Most of the respondents did not fund, were not currently funding, or only funded a very small number of for-profit organizations (though this varies depending on the nature of the contract or grant).

**State agency representatives feel that nonprofits face little or no competition for their funds.**

Two-thirds of the state agency representatives felt there is little to no competition among nonprofits applying for their funds. Some of these respondents said they suspect there could be some competition among the nonprofits, but they have not observed it. There are three reasons for this perspective:

- The agency has enough funds to fund all requests received.
- The number of nonprofits operating in the state is low, leading to very little competition.
- Only a small number of nonprofits possess the specialized skills, capacity, or experience to meet the state agencies’ specific grant program requirements.

Only a few state agency representatives thought there is competition among nonprofits to receive funding from their agencies. These agency representatives indicated that competition exists primarily because the processes for their grant programs are discretionary and their agencies routinely receive more requests than the agencies can afford to fund. For those state agencies in which competition exists, the agency representatives explained that nonprofits are least likely to compete against for-profit organizations for funding and most likely to compete against other nonprofit organizations, local government agencies and school systems, and colleges and universities.

Several respondents explained that for-profit entities often are not eligible for the same funding streams as nonprofits or compete for different types of funding; therefore, little to no direct competition exists between nonprofit and for-profit groups.
State Agency Funding Mechanisms

Governments generally tend to fund nonprofit organizations through contracts that procure specific products and services or grants that provide financial assistance for programs and services with broadly defined outcomes. The majority of state agency representatives we spoke with award grants rather than contracts to nonprofit organizations. Arts, culture, and humanities agencies and environment and animal–related agencies are most likely to award grants to nonprofits; human services agencies tend to offer both contracts and grants, depending on the funding source.

Respondents did not express a preference for a particular type of funding mechanism, because the payment method is usually determined by the federal or state funding source. State agencies tend to have little to no discretion in how they will pay nonprofits for providing programs and services. Roughly 55 percent of respondents said their agencies employ a cost-reimbursement payment method. Only two human services agencies employ a fee-for-service payment method, and two environment and animal–related agencies also provide loans to nonprofit organizations.

Though cost-reimbursement grants seem to be the most common form of payment, several respondents raised concerns about the additional oversight and added administrative burdens to state agencies and nonprofit organizations. In this section, we summarize the four most frequently mentioned issues.

COST-REIMBURSEMENT GRANTS EXPECT THAT NONPROFIT ORGANIZATIONS WILL HAVE THE RESOURCES AND CAPACITY TO FUND THEIR PROGRAM ACTIVITIES UPFRONT

Several respondents recognize that not all nonprofit organizations have the financial resources to invest or cover the startup cost of programs or services. The respondents expressed some frustration with the strict funding guidelines and said they have little or no control to make changes. As one respondent described,

But for the grants themselves we really don’t have the ability to fix a lot of it, we’re limited by some state and federal guidelines. Like the nonpoint source pollution control grant is a reimbursement program. So in cases like that we’ve tried to look at making more payments upfront but we logistically can’t do it.

COST-REIMBURSEMENT GRANTS CAN AFFECT A NONPROFIT’S BOTTOM LINE

Under cost reimbursement, a nonprofit’s expenses are classified as either direct or indirect costs. Direct costs refer to expenses that are easily identified and unquestionably associated with a specific project (e.g., wages and salaries, equipment, and supplies) and, on average, can amount to 70 percent of a grant award. Indirect costs refer to expenses that are not easily identified and cannot be attributed to a
specific project. The Office of Management and Budget Circular A-122 defines indirect costs as those “that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.” Indirect costs are often referred to as administrative or overhead expenses and can amount to approximately 30 percent of a nonprofit’s grant award. Thus, cost-reimbursement grants that exclude or limit reimbursements for indirect costs can affect a nonprofit’s bottom line by widening the gap between the actual cost of a project and the amount reimbursed.

COST-REIMBURSEMENT GRANTS REQUIRE NONPROFITS TO PERFORM DETAILED RECORD KEEPING TO DEMONSTRATE AND VERIFY HOW FUNDS ARE EXPENDED

To receive reimbursements, nonprofits must verify their expenses with credible documentation such as receipts, invoices, credit card statements, and sometimes photographs of the completed work. Several respondents reported challenges receiving complete and timely paperwork from nonprofits. Respondents also remarked that nonprofits sometimes don’t understand allowable expenses. In such cases the agency representative often has to return the nonprofit’s paperwork for corrections, which can delay reimbursement payments. When asked about the reasons why nonprofits sometimes submit late paperwork, one respondent suggested,

I think it’s because of the amount of paperwork that’s required to get the reimbursement. You have to document all of your expenses; it’s pretty much like a desk audit. So that can be an arduous process, you have to pull out a whole bunch of invoices, depending on what accounting system they have and it can involve a lot of pulling out payroll stuff. So I think that’s why they are coming in late, it takes a while.

Another respondent remarked,

The paperwork burden...the federal money that is administered by state government; we don’t have a lot of control over some of the paperwork necessarily. These are reimbursement grants and the amount of documentation that is required to get your reimbursement is pretty high. And we get some complaints from nonprofits; they say that it’s way too much of an administrative burden.

COST-REIMBURSEMENT GRANTS UNDERSCORE THE NEED FOR NONPROFITS TO IMPLEMENT OR UPGRADE SYSTEMS AND INFRASTRUCTURE TO HELP THEM MANAGE GOVERNMENT FUNDING AND COMPLY WITH REPORTING REQUIREMENTS

Nonprofits, especially small- and medium-size organizations, may not have sufficient financial staff and software to produce timely, regular, and accurate financial reports. Several respondents mentioned that nonprofits’ lack of administrative capacity limits their ability to produce the requisite documentation. In comparing their nonprofit grantees to their government grantees, one respondent explained,
I think that other governmental entities have a better understanding that yeah, this is going to take some time and work to get all the paperwork done and together to get reimbursed. And they [government grantees] have systems in place that are ready to do that. Some of the nonprofits just don’t and it’s a bit of a challenge because I have no control over it and there’s only so much I can do to make it easier for them. And so I think that’s a frustration on both ends. We’re in the middle there and we are having to comply with both state laws and a lot of federal laws and rules.

Despite the mentioned challenges, a few state agency respondents acknowledged the advantages to using cost-reimbursement grants: this mechanism enables state agency representatives to monitor nonprofits’ work and helps assess whether a nonprofit is fulfilling the goals and expectations of the grant agreement.

State Agency Management and Oversight of Nonprofit Contracts and Grants

To ensure government funds are used for their intended purposes and minimize the opportunities for waste, fraud, and abuse, state agencies are required to monitor the nonprofits that receive funding. Although management and oversight practices can vary by funding source, the activities typically focus on regulatory, fiscal, and programmatic compliance. To monitor a nonprofit’s fiscal and programmatic performance, state agencies primarily review financial and progress reports that are submitted during the contract or grant cycle and at the conclusion of the agreement. Also, state agencies may be expected to conduct site visits to nonprofits; the frequency of these depends on the funding source and agency capacity. All state agency respondents indicated a heavy reliance on reports to monitor a nonprofit’s financial management, confirm alignment of programs and services with state agency goals, and assess final outcomes and results. However, the interview data show that human services agencies are expected to conduct site visits more often than the other groups.

Respondents from arts, culture, and humanities agencies and environment and animal–related agencies mentioned that fiscal and staff constraints influence how they manage and oversee their contract and grant programs. Specifically, these respondents commented on the administrative and cost burdens associated with monitoring requirements, and they reported that their agencies were more likely to use reports, telephone calls, and emails rather than site visits to determine whether a nonprofit’s programs and services are in accordance with the contract or grant agreement. But when required by federal and state statutes, these respondents indicated that their agencies conduct site visits to audit the fiscal practices of the nonprofits they fund. From one respondent’s experience,

We’re supposed to be doing site visits with all of our projects, but with four of us for the state of [name of state], one of us gets out more often than the rest of us do. I do a lot of my project
overviews by phone or by email, they [nonprofits] submit photos of things they’re supposed to be working on or submit documents and I’ll do an edit and review, back and forth that way. I’ve had some projects that I’ve never set foot on but they’ve documented through their invoices and final reports and photos that show that it’s done.

The following comment further illustrates how fiscal and staff constraints influence the way state agencies manage and oversee the nonprofit they fund:

We don’t have enough funding to send out staff as evaluators to all these events. There may have been a time when we did more of that especially for the larger institutional grants, but we don’t do that now. There’s a certain amount of trust in the information that they’re putting into the proposal and us looking at the final report and saying this written final report reflects what they said they were going to do.

When asked whether their agency conducts more monitoring than required or applies sanctions or penalties during management and oversight, the majority of the respondents explained that federal and state funding sources typically include guidelines on how to manage nonprofits’ negative performance or behaviors (e.g., repeatedly late or inaccurate reports, questionable outputs and outcomes data, and financial red flags uncovered during an audit). Moreover, states can apply many corrective methods such as increased monitoring, reductions in future funding, repayment of past funding, and barring a nonprofit from receiving funds for a specified time. Most respondents indicated that aside from increased monitoring, they rarely apply severe sanctions or penalties unless in extreme circumstances. As one respondent explained,

If an organization has not been able to fulfill the requirements of their grants or is late filing paperwork they may be penalized by us, but obviously we try our best to reach to them and help them to achieve success, but if that’s not possible we do have safeguards to make sure that repeat offenders get held out until they can prove to us that they are capable of meeting our requirements.

State agency respondents that currently conduct risk assessments pointed out that nonprofits deemed “high risk” may be subject to more rigorous monitoring. The following quotes highlight how increased monitoring might occur at the state level:

It could be that instead of advancing them any money, everything that’s done with them is on a cost-reimbursement basis. It just depends on what their high-risk indicators are as to the additional monitoring steps we will take with that particular monitoring entity.

Someone can be placed on a high-risk status if their grant manager finds that there is a little bit of confusion or difficulty over their financial practices. They will be put on high-risk status, which really limits their capacity to get advances on their grants or move funds around; it’s a much more strict form of monitoring.

Interestingly, even though oversight ultimately works toward regulatory, fiscal, and programmatic compliance, the study respondents largely reported that they are attempting to broaden their approach
by incorporating training and technical assistance (T/TA) to address problems. Respondents talked about supporting nonprofits and how their agencies can help nonprofits better manage government contracts and grants, as exemplified in remarks such as the following:

I was told in my last job, a federal partner kept reminding us that we were partners, that it was our job to strengthen agencies. Yes, sometimes we might have to come down on agencies if they are really falling down, but for the most part when you’re going in for a monitoring, you even let the agency know that ‘I’m finding things to help you be stronger, I’m not here to try to take away your money or try to be this negative force, I am here trying to protect you and the state to make sure we’re all doing the work that is necessary so that we keep our federal funds and we provide the services that [clients] need.’... The goal is not to go in and tear an agency apart; it’s to go in and make all of us stronger. I think that mindset really helps agencies look at you as more of a partner and not as somebody to dread.

DESPITE SIGNIFICANT ADVANCES IN STATE AGENCIES’ USE OF TECHNOLOGY, SYSTEMS FUNDAMENTALLY REQUIRE UPGRADES AND AUTOMATION.

A few respondents described having fully automated grant management systems or talked about their agency’s efforts to fully automate or digitize the contract and grant award process. One human services agency respondent declared, “Our process is wonderful because it’s all electronic. We make payments with e-signature and it’s so much faster.” Two arts, culture, and humanities agencies described successful efforts in their states. One respondent remarked, “I go to these conferences... and I learned that we’ve been a leader in the online grant process and using little paper... Moving to the online world would be a good investment for other states.” The other interviewee stated,

We’re moving toward a completely digital process and we are trying to make it easier in that manner. And so the process has been continually streamlined so that the cost of doing business with us has been reduced for constituents. So that is a major innovation over the last couple of years... the process has become a little less costly for applicants as far as time is concerned. I feel as if they have benefitted because of the response time from us. We’ve always been very good at responding to applicant’s queries within two to three working days, but this has reduced the time from application to awarding of a grant significantly. In some instances it could be as short as a week’s time. They’ve [nonprofits] enjoyed that. So as we get more digitized things like contract generation will be completely digitized as well.

Although state governments have implemented efforts to use less paper and more electronic systems, several respondents claimed that their agencies are slow to embrace fully automated processes to award and process contracts and grants. Even though nonprofits may submit their proposals and application materials electronically, the internal processes at many state agencies involve manual steps to review, approve, and distribute funds. As one respondent conveyed, “Maybe we haven’t fully embraced automation as far as contracting. We still require actual signatures and these contracts are going through the mail.” The lack of technological upgrades and fully automated processes could be
attributed to limited fiscal resources: “If there were additional resources to improve making the contracting process a little less manual and more automated that would be useful,” said one respondent. Given the constraints of many state budgets, it remains questionable whether or when states agencies will have the resources to upgrade their systems. Moreover, the lack of fully automated systems and current technologies contribute to lengthy delays in processing awards and paying nonprofits. This pressures nonprofits to deliver public programs and services with fewer resources.

**State Agency Strategies to Improve or Streamline Nonprofit-Government Contract and Grant Processes**

As discussed, fiscal, legislative, institutional, and organizational constraints that are outside of a state agency’s control can complicate the administration of nonprofit-government contracts and grants. For many state agencies “it sometimes can be a convoluted process...a bit time consuming—about a year from [the request for proposals] to execution of grant agreement.” Though fixing inefficiencies in government is not straightforward or an easy task, several states are improving or streamlining what have become slow, long, and cumbersome dealings. Though the research shows that reform is occurring broadly at the state level, the interview data revealed more focused efforts by individual state agencies to make their processes mutually beneficial for themselves and the nonprofits they fund.

According to research conducted by the Urban Institute (Pettijohn et al. 2013) and the National Council of Nonprofits (2013a), several states are broadly reforming their nonprofit-government contracting systems. For the most part, state reform efforts involve working groups and input from nonprofits to identify problems and ways to improve deficiencies. Though these initiatives’ activities and goals may vary, they generally aim to make processes more efficient and reduce the burdens on state and nonprofit staff by simplifying application procedures, enhancing reporting, and encouraging and increasing the use of technology.

A little more than 20 percent of the agencies participating in this study were selected because they are actively working to improve their relations with nonprofits or reform their contract and grant processes. Only two representatives from those states, however, acknowledged widespread reform efforts that have improved or streamlined their agencies’ processes. Others reported either that they were not aware of reform efforts in their state, or that they were aware of such efforts but changes had not yet filtered down to their particular agency.
Respondents described several agency-level strategies to improve or streamline their processes that dovetail with the broader state efforts mentioned (box 1). In response to nonprofits’ concern that complex application processes are a major problem (Pettijohn et al. 2013), several agencies are exploring ways to make it easier for nonprofits to apply for state funding. Strategies that have been implemented or are being considered include

- creating a general application nonprofits can use to apply for multiple funding streams at one agency;
- providing online informational tools and resources that explain and guide nonprofits through the application process;
- increasing technical assistance to applicants by answering questions, reviewing applications, and providing feedback before submittal; and
- revamping the application process to present the guidelines and goals of the contract or grant up front, allowing nonprofits to understand and agree to the expectations before submitting their application.

Respondents also mentioned increasing the use of technology as a way to improve the contracts and grants process. For example, when asked about efforts to improve the grant process, one respondent replied, “I think we have it pretty streamlined. It’s certainly a benefit to have an electronic grants system... having data available through that is a way in which things can be streamlined.” Another agency respondent said,

> It has to do with technology. I think the system that we’re using right now for our e-granting system is very clunky and old and is not a very friendly system for all parties and that includes the agency staff as well as our applicants as well as our panelists. And so that I think if there was a system out there that was much more intuitive and had much greater capacity on the reviewing end we could streamline the way we do business, the way we run panel reviews, the time that’s spent in organizing and getting the materials out to our panelists. All of that would just make our lives so much better and I think we would have more time to spend on the actual reviewing of the applications instead of having technology getting in our way.

Two human services state agencies located in different states mentioned efforts to enhance reporting requirements to allow nonprofits to better demonstrate their effectiveness. Enhancing reporting requirements can help both state agencies and nonprofits by showing statewide achievements made through state contracts or grants.
BOX 1
A State Agency’s Attempt at Making the Contracts and Grant Process More Streamlined and Less Complex for Nonprofit Organizations

“I think that we are very innovative in having a very streamlined application process and a very streamlined reporting process. I think we make it very easy to work with our agency. We have heard from some of our nonprofit grantees that we are a good model for other programs. And that’s not just us trying to toot our own horn, that’s coming out of their mouths. We don’t overwhelm the applicant with a lot of information that we may not need right now. I think that if you have a lot of information and if you have a lot of requirements within your program, number one—you should work until you’ve laid it out in plain easy language; and number two—you try to make sure that it’s delivered in an appropriate time frame because sometimes you can overwhelm with too much information up front. So that’s one of the things that we strive to ensure that we do every single time, is be very explicit about what we require and what we need and be very concise about it because I think that when you hand somebody a book as far as the application and instructions then you’re looking at a book in order to get $20,000. That can seem a little ridiculous. And then you’re doing like six reports throughout the term and I just think that can be a little ridiculous.”

One arts, culture, and humanities agency has been considering providing operating support and multiyear grants to nonprofits:

We talk about that all the time. There is a movement to provide operating support grants and multiyear grants so that they don’t have to apply every year. That would be an answer to improve or streamline the process. I’d have to say that because of our lack of funding if we did offer the operating grants or multiyear funding it would reduce the number of grants that we could give out.

Offering multiyear contracts or grants can benefit state agencies that lack staff and resources by eliminating the burden lengthy yearly processes and by allowing staff more time to review and analyze program reports and data. Multiyear funding can also support nonprofits’ organizational capacity by offering more stable and consistent funding patterns by reducing payment delays at the start of the fiscal year.
State Agency Views on the Nonprofit-Government Relationship

Nonprofits and governments have a reciprocal relationship: both entities have valuable resources they can offer each other to enhance service delivery. For instance, state governments have financial resources they can allocate to meet the needs of communities across their state. Nonprofit organizations, on the other hand, offer expertise with certain populations and greater flexibility and reach to help state governments address social problems. Effective partnerships can be mutually beneficial but also can be complex and challenging, often requiring time and resources from all parties.

The Urban Institute’s 2013 national nonprofit survey found many problems and issues partnering with government, especially at the state level (Pettijohn et al. 2013). This study aims to gain the state agency perspective to get a sense of how government views their relationships with nonprofit organizations. This section highlights the factors that influence nonprofit-government relationships and contains discussion points made by the state agency respondents that participated in this study.

Advantages of Working with Nonprofits

All state agency respondents described their relationships with nonprofits in mostly positive ways, though they recognize there is room for improvement and certain tensions exist. Agency representatives willingly admitted that without nonprofit organizations, they would not be able to provide important services and programs in their states. This sentiment was echoed by many respondents in remarks such as the following:

I think that as a state agency, it is a way for us to impact communities throughout the state through the not-for-profits. We don’t have the staff nor do we have the capability of doing our programming throughout the state so this is a way to work with organizations, or to provide support to organizations who can further our mission along with their mission.

The interview data identified four commonly mentioned benefits to working with nonprofits.

NONPROFIT ORGANIZATIONS HAVE A GREATER REACH THAN STATE AGENCIES, GIVING THEM GREATER CAPACITY TO MEET STATEWIDE PUBLIC NEEDS

Providing funds to nonprofit organizations allows states greater reach and statewide impact. Respondents usually described this benefit in two ways. First, they explained that nonprofits in certain neighborhoods or communities make good partners because they have established trust and credibility with the people in those areas and are therefore able to engage clients more effectively than
government agencies. Second, several respondents mentioned that their agency staff has decreased over the years because of budget cuts and they have thus become more dependent on nonprofit organizations to deliver programs and services. As one arts, culture, and humanities agency representative shared,

Clearly we are a public agency and we feel public dollars need to go for public good. The nonprofit agencies reach into communities that we can't. We're a small staff of under 20 individuals and we are managing over 1,000 grants annually and we can't get into all of our communities... Without them we wouldn't be able to reach those people living in all of our counties.

GOVERNMENTS AND NONPROFIT ORGANIZATIONS USUALLY HAVE MUTUAL VALUES AND SHARED GOALS
Governments and nonprofit organizations often address the same social issues and serve the same people, so several respondents spoke about having complementary missions and values as a meaningful benefit to working with nonprofits. In describing how nonprofits supplement their agency, one human services agency representative shared, “with nonprofit organizations they are in the business to help those who basically cannot help themselves or encourage others. They’re not just in it to make a profit... For me, that is really a great benefit.”

NONPROFIT ORGANIZATIONS HAVE EXCEPTIONAL INSIGHT, AND STATE AGENCIES BENEFIT FROM A NONPROFIT’S EXPERTISE WITH CERTAIN POPULATIONS
As one respondent said, “Nonprofit organizations have their finger on the pulse of what’s happening in the communities in which they’re serving.” Because nonprofit organizations have a tendency to be more narrowly focused than state agencies, they can devote the time necessary to identify, understand, and effectively address specific issues or target populations. As one environmental agency respondent described,

And often the work on the ground will require many more hands than we have and much more time. So, the nonprofits are the workforce that get the job done for us. And also they have specialized experience... Basically we’re looking for solutions for our problems. We identify the problems we know what we want to get out of it... but we’re looking at nonprofits for their expertise to come up with the solutions and basically carry out the solutions that they propose.
State agency respondents value the flexibility and agility of nonprofit organizations to act faster and with fewer procedural hurdles than government agencies.

State governments’ program changes and decisions can take months because they commonly involve multiple layers of approval. In contrast, respondents explained that nonprofits generally can implement programs and services more rapidly and, unlike state agencies, they can often customize programs and services to meet their communities’ needs. Two state agency respondents said,

Nonprofits have the expertise...So they have the ability to be a little more flexible, a little more nimble in how they respond to these folks. Government agencies tend to be a little more bureaucratic and governed by internal policies, procedures, and bureaucracy. So I would say their expertise as well as their ability to be pretty nimble and flexible in their response.

The benefit is that we are able to put the money into the hands of nonprofits and see a direct impact on the ground. So that’s important in that it helps empower the nonprofit organizations at the level that they work at and you cut through the bureaucratic mess that we often see as bureaucrats, and that regulators face, in the funding opportunities that we have to go through.

Challenges to Working with Nonprofits

Despite the benefits mentioned, state agency representatives did acknowledge some challenges when working with nonprofit organizations. Three main issues emerged from the interview data. These were raised by multiple state agency representatives, regardless of the type of agency, location, or whether the agency awards contracts or grants to nonprofits.

Nonprofit organizational capacity continues to be a concern for state agencies

The most frequently mentioned challenges concern a nonprofit’s organizational capacity to achieve the goals and expectations of the program or service. Contract and grant awards processes work best when both sides of the arrangement have the capacity to operate effectively. But some nonprofits still lack basic administrative capacity, and this lack can hinder their ability to effectively fulfill the expectations of the contract or grant. Two environment and animal–related agency representatives described how this issue affects their programs:

But at the same time we can see some groups that overextend themselves and really struggle to not only survive the two-year contract with us, but possibly long-term improvements because they were so committed to trying to accomplish something at so little cost.
Some cut corners because they don’t have resources available to them. Whenever we’re getting ready to enter into an agreement the first thing we say is have your legal counsel review it, it is a legal document and we will expect you to abide by what you sign off on and we expect ourselves to abide by it as well. And a lot of them don’t have legal assistance available or it would cost them too much to do it so they just go into it with a ‘we’ll just figure it out tomorrow’ attitude.

Even though all of the state agency representatives acknowledged the need to fund nonprofit capacity-building efforts in their states, they maintained that unless the cost of T/TA is included in a federal or state funding stream, their agencies can only provide limited assistance (see section on T/TA for more details).

LACK OF UNDERSTANDING OF THE PERFORMANCE GOALS AND EXPECTATIONS IN CONTRACT AND GRANT AWARDS CAN ADVERSELY AFFECT NONPROFIT-GOVERNMENT RELATIONSHIPS

Respondents discussed the importance of nonprofit organizations understanding not only the overarching goals of the contract or grant, but also the nonprofits’ roles, responsibilities, and obligations. Particularly, some nonprofits do not fully grasp what is expected of them once they receive funds from state agencies. Respondents shared examples of nonprofits “getting in over their heads” or not being able to satisfy the requirements of the contract or grant agreement. As one state agency representative explained,

I know that a couple of our project managers have run into some difficulties where communication has truly made the project more difficult and they have not been able to accomplish it because the guidance wasn’t there and the project never came to fruition because there was a misunderstanding or lack of understanding.

State agency representatives also raised concerns about the timeliness and completeness of the required paperwork nonprofit organizations submit. As mentioned in previous sections, the documentation, reporting requirements, and timelines are usually established by the federal and state funding sources and passed down to nonprofit organizations. In some cases, nonprofits may not be fully aware of the amount of time and resources needed to comply with the agreement. Some respondents articulated that nonprofits submitting late and incomplete paperwork could stem from a lack of organizational capacity, cumbersome government requirements and processes, or a lack of understanding on both parts about how each sector operates. Regardless of the circumstances, state agencies view this as a challenge to working with nonprofit organizations; respondents mentioned it repeatedly.
HIGH TURNOVER AT NONPROFIT ORGANIZATIONS CAN NEGATIVELY AFFECT RELATIONSHIPS WITH STATE AGENCY PARTNERS

Another challenge noted often during the interviews concerns staff turnover in nonprofit organizations. Respondents often discussed the amount of time and resources invested in developing relationships with nonprofits and informing them of their agency’s contract or grant processes. This becomes more of a challenge when the nonprofit’s leadership or contact people experience high turnover. Moreover, state agencies pointed out that when dealing with nonprofits with high turnover, the constant change leads these nonprofits to struggle to complete contract or grant tasks and requirements. In turn, the state agency may not meet their objectives, and this can weaken relationships with and trust in nonprofits:

The other big thing is if you have a not-for-profit group that comes in that had one lead worker, one spark plug, and that person leaves, a lot of the projects just simultaneously shut down when that person walks away.

Some of them [nonprofits] don’t pay their employees enough because they don’t have enough funding and so they have a lot of employee turnover. When their employees get educated and good at what they do, they go find jobs that pay a lot better. So there can be a lot of employee turnover, which can create gaps in the quality of services being provided while a new person is getting up and going.

Sometimes you have a particular organization in place and while they are strong when you award them [a grant], they might face certain challenges that are unexpected and that they aren’t able to meet, maybe staff wise, so they lose particular key staff and so the project does not continue or it’s not successful. So I think that nonprofits face the normal kinds of things that they face, but in wrapping grant funding around that, we kind of face the same challenges together.

Interestingly, several agency respondents specifically stated that they encounter greater challenges with smaller nonprofit organizations. Though none of the agency representatives indicated a preference for working with a certain type of nonprofit organization, several respondents highlighted the variance in abilities between large and small organizations. They remarked that larger nonprofits tend to have more advanced capacity and resources, so challenges from turnover appear more prevalently among smaller nonprofit contractors and grantees.

But especially with the smaller ones, you constantly have to keep track of when they have staff turnover and that things aren’t lost in the process. You don’t have that problem with the larger agencies. In smaller organizations you lose somebody and you end up losing the majority of the program knowledge...When you work with smaller organizations they sometime lack the expertise in the fiscal area, so maybe you have to do training on fiscal checks and balances and some of those things to make sure your dollars are protected. Those are the major things, for the most part working with nonprofits is a really good experience.
Well, I would say that it’s the administering, administrative capability of some of the organizations. It can be difficult to work with when you’re dealing with some of the smaller not-for-profits that are volunteer based, they don’t necessarily have the administrative capacity that is needed... It doesn’t mean that what they do is not a good thing, it just means that sometimes working with them, these not-for-profits, can be challenging.

State Agency Strategies to Build and Sustain Effective Nonprofit-Government Relationships

Effective nonprofit-government relationships increase the likelihood of successfully accomplishing the contract or grant goals. However, developing effective relationships with nonprofits does not happen organically and requires time and resources from all parties to actively nurture relationships and employ strategies and techniques that stimulate healthy interactions. The interview data reveal that state agencies are taking steps to improve their relationships with nonprofit organizations in several ways. Because most states are constrained by budgetary and procedural controls, these efforts largely center on how state agencies interact, connect, and build trust with nonprofit organizations. In describing the strategies at one human services state agency, the respondent shared, “The first strategy that I would identify may not be considered a strategy, but it is making sure that there is a professional relationship that exists between the state agency and the local nonprofit. One that would entail mutual respect and mutual accountability for service provisions.” The activities and strategies the state agencies in this study are using to build and sustain effective relationships with nonprofit organizations are reflected in two themes: (1) improved communications; and (2) training and technical assistance (T/TA).

IMPROVED COMMUNICATION AND INTERACTION

The interview data suggest that state agencies are improving how they communicate and interact with nonprofits, often by shifting the way they view and approach their relationships with nonprofit organizations. Specifically, several respondents explained that they intentionally approach nonprofits with less of a rigid, authoritative posture and more of a collaborative style. Moreover, quite a few respondents talked about referring to nonprofits as their partners rather than as their vendors or grantees:

And I think that from my experience having more of a partnering or technical assistance type of relationship with the [nonprofits] has been effective rather than more of a policing attitude. So, each of the [nonprofits] knows that our department is looking for their best outcome and the staff know that we’re here to support them and they view us as a partner in the services that they’re providing.
I suppose there is a time for being more of a ‘gotcha’ policing entity...in my experience it’s been more effective to be more of a partner and technical assistant.

The effectiveness of nonprofit-government relationships largely depends on how well government and nonprofit organizations communicate with each other. Accordingly, all of the state agencies in this study mentioned the importance of communication. When asked to recommend a best practice in partnering with nonprofit organizations one respondent conveyed, "I’d say communication, communication, communication. I think it’s really important to have good back and forth communication that doesn’t only pop up in situations like a protest of an award after an RFP or evaluation of a proposal." Respondents talked about strategies to facilitate ongoing, clear, and open communication with nonprofit organizations.

Respondents indicated that they try to communicate with nonprofits in ways that they are most likely to find valuable and effective. Though e-mail and phone calls are the most popular forms of communication, many state agencies coordinate regular conference calls and are exploring the use of online newsletters and posts on the agency’s website containing information and tools.

All of the state agencies encourage and welcome nonprofits to e-mail or call their staff to ask questions or discuss issues and concerns. Respondents mentioned making themselves available for conversations with nonprofits and encouraging nonprofits to contact their supervisors or another senior government official should they continue to have concerns.

Several state agency respondents indicated that their agencies recognize the need for a single point of contact and have therefore assigned a dedicated contact person to their nonprofit partners. Whereas environment and animal–related agencies were most likely to have a dedicated project manager to work with each of their nonprofits, a human services state agency described having “liaisons that work for our department that are effective in keeping us apprised of any issues that are going on at the [nonprofits].”

Few state agencies have established formal feedback loops. The agencies that have formal feedback loops conduct surveys or obtain feedback as part of the contract or grant closeout process by asking nonprofits to rate or provide comments on the state agency’s performance.

In the final evaluation of their grant program we ask them specific questions not just about the success of their activity but what their major challenges were for their activity but also what their major challenges were dealing with us. We also have always encouraged a two-way discourse among our constituents... we often send our surveys to our grantees. We use SurveyMonkey so it can be anonymous and it’s specific about our granting program and we’ve had several feedback sessions ...and those sessions were face to face meetings, group kind of town hall meetings, and we hold state public convenings that help us gather the information for our new strategic plan.
Few state agencies invite nonprofits to be involved with program changes and decisions or cross-sector workgroups.

So we sat down with a lot of our nonprofits and federally recognized tribal council counterparts and just said, what kinds of things are you looking for? And so, simplicity, simplicity, simplicity was the big thing that we heard... I think the best practice in working with nonprofits is to before you begin a grant process to really listen to the needs of the grantees. Sometimes you'll find that they don’t understand the grant bureaucracy we have to deal with behind the scenes to make certain things happen... So, I think working closely with nonprofit organizations, really listening and hearing what their needs are and then going back and seeing how within your own regulatory process you can support that. This is one way you can work to build a successful program.

TRAINING AND TECHNICAL ASSISTANCE

The interview data show that state agencies are focusing on bolstering nonprofits’ knowledge and capacity to help them successfully receive and better manage government contracts and grants. Agency representatives expressed the importance of equipping nonprofits with the information and tools they need to obtain and manage their grants effectively, and representatives described a range of formal and informal T/TA activities and strategies.

A few agency representatives described formal, structured T/TA efforts. Several state agency respondents noted that unless the administrative costs associated with T/TA were built into the contracts or grants program, states often have limited resources and staff to provide formal or intensive T/TA activities. As one respondent explained, “A small percent of budget is devoted to administrative overhead; the rest goes into grants. So program budgets are tight and state budgets are tight.” If T/TA are built into a federally or state-funded program, then agencies are more likely to travel across their state to deliver workshops, develop and conduct webinars specific to the grantee population, or hire consultants to provide assistance to help their program grantees build capacity or improve their performance. Human services agencies managing federally funded programs are most likely to provide formal T/TA. Arts, culture, and humanities agencies are more likely to set aside funding for capacity-building grants, which nonprofits can apply for and use to obtain a consultant, register for training, or attend a conference.

Consistent with the Urban Institute’s 2013 national survey results (Pettijohn et al. 2013), the interview data suggest that the informal T/TA delivered by the state agencies that participated in this study deliberately focuses on the early stages of the funding process. Per the 2013 national survey, nonprofits reported problems with complex application processes. Further, state agency representatives routinely stated that the decision to award a contract or grant generally comes down to the nonprofit’s ability to submit a well-written application or proposal. Accordingly, the majority of the
respondents’ agencies offer tools and resources on their websites, and respondents described informal T/TA activities such as ensuring that agency staff are available by phone or email to answer questions about the funding process, explain the guidelines, or assist nonprofits with their applications or grant proposals before the submission deadline. That last type of assistance includes reviewing the nonprofit’s actual application or proposal and providing feedback to strengthen the organization’s chances of receiving funding. Two agency representatives mentioned they are aware this could create a perception of favoritism, but they stressed that their agency offers this service to any nonprofit that seeks assistance before the submission deadline. As two arts, culture, and humanities agency respondents explained,

Not to say that we are going to write everyone’s grant, but just to have staff available to help organizations navigate the process, the guidelines for the process. And giving them resources that go beyond just the [agency].

We are all available to assist people with the online grants system or to help them understand what the guidelines are in terms of the shaping of their narratives and grant application. Sometimes people get mixed up on the electronic online application system, sometimes they don’t know that under a certain category they can’t apply for certain things, there are a lot of nuances to the programming that they might have questions about.

Two environment and animal–related agencies also described their practices:

We allow people to schedule a 45-minute phone call or in-person meeting where they can come in, but we’re not going to tell them how their projects are going to score. But we’ll talk through what their project idea is and whether first of all it is qualified and if it’s a fit for our program priorities.

There are several applicants who are not awarded any funds then they have an opportunity to ask us why, and we meet with them and we can tell them about the process and what has been rated high in their application and where they need to improve to have a better chance in the future.

Arts, culture, and humanities agencies and environment and animal–related agencies located in the Midwest and South were more likely to offer in-person and online workshops and information sessions to inform nonprofits about eligibility and application requirements for grant programs, conduct pre- and postapplication consultations, or provide general information about their agency. An environment and animal–related agency representative from the West mentioned a plan to start offering information sessions and workshops.

After we publish [a request for applications], we often hold an information session about that [request for applications]. Technical experts and would-be project managers and others from our [division] and potentially financial officers will be available to answer questions of grantees during the application process.
After realizing that some successful nonprofits in the community were unable to submit successful projects, one environment and animal–related agency decided to develop a workshop.

So we have translated that to the need to put out a workshop provided by our agency to help encourage and basically outline step by step how to put together a successful project. This will be an in-person workshop.

Additionally, the geographic spread of many states limits how T/TA is provided. To enhance their reach across their states, agencies heavily relied on technology and partnerships. State agencies across the board are finding ways to use their websites to post tools and resources for nonprofits, including webinars, tutorials, or links to other organizations that may have useful information. More and more agencies are incorporating technology when they are unable to support in-person, on-site T/TA. Agencies described providing tools and resources related to performance measurement, reporting, application procedures, and program goals and requirements.

Again, the majority of the groups that I’m seeing and that we’re working with, their hearts are in the right spot to accomplish things but they don’t always have all of the tools available to them to do what we require in our programs...we do try to put together some tools whether it’s for reporting or documenting what they are accomplishing so that we’ve got some consistency and they’re able to do the work at the least expense for them while still meeting the minimum requirements.

The state agencies in this study also expressed a heavy reliance on partnerships with regional and state associations, coalitions, larger nonprofits, nonprofit umbrella and membership groups, and other government agencies. State agencies find value in these partnerships because many of these third-party groups have the resources to provide nonprofits with T/TA for their applications, reporting, and performance management efforts.

But we don’t have the staff anymore to provide training and technical assistance. But we do have some good state and federal agencies that are specifically set up to provide training and technical assistance. So we do try to partner them up as we can there.

As I can, when I can. We had the training last year and there’s a little bit of money in the budget for some training this year. It sort of depends on where the budget is. Sometimes it’s linking them up to training that others are providing

Several agency representatives mentioned that as an added benefit to partnering with these third-party organizations, they periodically facilitate communications between the agency and contractor or grantee nonprofits. For instance, nonprofit umbrella or membership organizations generally represent the collective views and interests of nonprofits, and they often share information and feedback from the nonprofit community. State agency respondents commented that some nonprofits may not feel
comfortable providing feedback directly to their state agency funder, so this is one way agencies can find out what is or is not working.

Conclusion

This research report presents the findings from an initial exploration of state government agency perspectives on nonprofit-government contract and grant relationships and aims to advance the discourse on critical issues, challenges, and strategies involving these arrangements.

The study respondents’ experiences shed light on the critical issues and conditions, often outside an agency’s control, that can profoundly affect their contract and grant processes. Two themes spanning agency types and locations surfaced from the interview data. First, states continue to face fiscal challenges that limit what a state agency is able to do. Decreases in federal and state funding can influence the priorities and activities of state agencies, which can in turn affect a state agency’s relationship with the nonprofits it funds. Second, institutional, legislative, and organizational policies impose problems on state agencies’ abilities to effectively administer contracts and grants. Bureaucratic and procedural hurdles lead to slow, long, and cumbersome dealings, and the rigidity of these requirements often stymie an agency’s ability to make timely and meaningful changes to the process. Moreover, the inconsistency across federal and state funding streams creates confusion and paperwork burdens for both state agencies and nonprofit organizations. The experiences of the study participants demonstrate the need for state policymakers to strategize with their nonprofit and government partners about how to better align their efforts.

State agency respondents mostly described positive relationships with nonprofits and noted several benefits to working with these organizations. State agency respondents overwhelmingly recognize that nonprofit organizations provide an important service delivery resource because of their unique insight and expertise working with specific populations and their ability to act faster and with greater reach than state government agencies. But despite these advantages, working with nonprofits also has challenges. Nonprofit capacity is a leading concern for state agencies. Respondents also mentioned issues with high staff turnover and the timeliness and completeness of the paperwork nonprofit organizations are required to submit.

Despite their inability to control or change certain operating conditions, state agencies described some promising strategies that could lead to immediate, incremental improvements to the contract and grant process and strengthen their relationships with nonprofit organizations. Though some states are
pursuing large-scale efforts to reform contract and grant systems, this study revealed efforts by individual state agencies to streamline their processes, improve communication with nonprofit organizations, and help build nonprofit capacity to better manage funding. Because many state agencies are constrained by budgetary and procedural controls, the efforts described in this report require a low investment of resources and largely focus on how state agencies interact, connect, and build trust with nonprofit organizations. Common themes that emerged from the interview data include the following:

- State agencies are not only looking at ways to simplify the application process for nonprofits, but also bolstering informal efforts to guide nonprofits through the application and grant proposal process, such as reviewing the application and providing feedback before submittal.

- States are shifting the way they approach their relationships with nonprofit organizations. State agencies are making an intentional effort to approach nonprofits with less of a rigid, authoritative posture and a more collaborative style, such as by referring to nonprofits as their partners rather than as their vendors or grantees.

- More and more state agencies are partnering with nonprofit umbrella and membership associations, coalitions, larger nonprofits, and other government agencies that have resources to help state agencies provide much-needed T/TA. Moreover, state agencies use these partnerships to better understand the collective views and issues of nonprofits.

- State agencies are making an effort to increase their use of technology by increasing online communications, offering T/TA via webinars and online tutorials, and in some cases automating the contracts and grants process.

As governments continue to rely on nonprofits to deliver public programs and services, strengthening the relationships between these sectors is essential to enhancing quality and effect. Ultimately, states and nonprofit organizations can and should work together to build healthy, mutually beneficial relationships and help policymakers reform government contract and grant processes to be more efficient and effective for all parties.
Appendix A. Study Methods

To gain a deeper understanding of the government factors and dynamics relevant to nonprofit contracts and grants and provide a more complete picture of the nonprofit-government relationship, we used a qualitative multiple-case study. Individual cases were selected from whom we could receive accurate descriptions of agency systems, processes, and experiences (Stake 2006). Each agency in this study has unique experience working with nonprofits and a unique process for administering nonprofit contracts and grants, but this investigation’s significance is in the total picture provided by the state agencies selected. The data from these multiple cases differ and are much richer than those from a single case study, and they therefore expand the research scope and potential for replication (Yin 2003).

Sampling Approach

The overall project goal was to explore nonprofit-government relationships through the lens of state government. To support this research objective, we used a purposive sampling approach to select government agencies that would facilitate our understanding of the factors, challenges, and promising practices involved in the funding relationship between state agencies and nonprofit organizations. Purposive sampling allowed the widest range of experiences because the sample agencies reflect variation in agency characteristics such as size, region, agency type, and approach to nonprofit funding.

The purposive selection of the participant agencies occurred through a multistep process. First, we established the selection criteria. The criteria used to select agencies for case analysis (discussed below) stem from (1) a review of the literature on government and nonprofit relationships and (2) data from the Urban Institute’s Center on Nonprofits and Philanthropy and the National Council of Nonprofits joint research projects (Pettijohn et al. 2013; Boris et al. 2010).

State governments vary, so including states from across the country helps identify patterns and trends that represent a cross section of state agencies and presents a broader picture of the nonprofit-government relationship. Accordingly, a minimum of two states were selected in each of the US census regions (Northeast, South, Midwest, and West).

Reports by Pettijohn and colleagues (2013) and the National Council of Nonprofits (2013b) identified states actively working to improve their relations with nonprofits and states in which
nonprofits reported multiple problems. Based on these data, a mix of states fulfilling those two criteria was selected from each region.

Pettijohn and colleagues (2013) show that human services nonprofits receive the highest number of government contracts and grants, followed by arts, culture, and humanities nonprofits. The survey results also reveal that environment and animal–related nonprofits are most likely to receive government contracts and grants worth $1 million or more. Therefore, we selected a mix of state agencies in each region that partner with nonprofits to implement human services programs; arts, culture, and humanities programs; or environment and animal–related programs.

Next, we identified potential agencies by developing a list of agencies that met the aforementioned criteria. As part of that sampling process, we identified comparable alternates when possible to use if the original sample agency was unable or unwilling to participate. The last step for sample selection included contacting each agency asking them to participate in the study. We e-mailed agency contacts introducing the study and inviting them to participate. We placed follow-up recruitment e-mails and calls to the selected agencies to obtain their consent to participate to answer questions. Eighteen state government agency representatives responded and agreed to participate (table A.1).

**TABLE A.1**

**Description of Sample Agencies**

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<th>Northeast</th>
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**Data Collection**

Data collection consisted of semistructured telephone interviews with government agency staff with direct knowledge of or involvement with the funding of nonprofit organizations via contracts and grants. Data were collected over a 5 month period from October 2014 through February 2015. Interviews used open-ended questions and lasted between 45 and 60 minutes. With the permission of the respondent, all interviews were digitally recorded and transcribed by the researcher.
Strengths and Limitations of the Study

The use of multiple cases from a range of geographical locations and state agency settings enhanced validity and contributed to the reliability of the findings (Brannick and Roche 1997; Miles and Huberman 1994). This study covered a mix of government agencies to capture the range of state-level social, political, and economic contexts that can influence nonprofit-government relationships. Selecting a range of cases allowed the research team to explore data use from various perceptions, which enabled greater insights and identification of common themes or principle outcomes across the sample.

While this study provides a more in-depth look at the nonprofit-government relationship and contract and grant processes, the limits of this approach must be considered. Because this study focused primarily on state-level operations, there may be limitations on whether the study’s findings can be applied to the federal and local levels of government in that the political, economic and administrative climate may vary for each level of government. Moreover, this study was limited to agencies that award contracts or grants to nonprofit organizations that deliver programs and services related to human services; arts, culture and humanities; and environment and animals. Therefore, care should be taken in drawing conclusions to the broader population of state government agencies that fund nonprofit organizations. The agencies that participated in this study are not intended to represent the diversity of experiences, structures, and processes of state government agencies in all 50 states and the District of Columbia. According to Yin (2003), case studies are only “generalizable to theoretical proposition and not to populations or universes” (p.10).

Another limitation is the possibility that respondents tailored their responses to present a positive image of themselves and their agencies by calling attention to certain details and events and lessened the importance of or omitted others (Pasupathi 2001). To help alleviate this possibility, each respondent was ensured privacy and the confidentiality of any information obtained during the telephone interview.

Research Questions

The overarching research questions to be addressed through the case studies are:

- How do state governments view contract and grant relationships with nonprofit organizations?

- How and why do state government agencies contract with or award grants to nonprofit organizations?
What are the trends and issues, as identified from interview with key informants, related to nonprofit-government contracts and grants?

- What are promising practices?
- What are major challenges?
Notes

1. See for example, Ashley and Van Slyke (2012); Boris et al. (2010); Gazley and Brudney (2007); National Council of Nonprofits (2013a); Pettijohn et al. (2013); Smith (2010, 2014); Smith and Lipsky (1993); and Van Slyke (2007).

2. An encumbrance is a special type of accounting transaction that anticipates future expenditures. Funds are encumbered (set aside) in a specific appropriation budgetary account to be obligated to a future or impending expenditure after obtaining proper authorization.


4. Organizational overhead or administrative expenses include costs associated with the organization as a whole that cannot be attributed to a program (such as utilities, accounting staff, or a receptionist). Program overhead or administrative expenses refer directly to related programs and services (i.e., program administration, such as computer use, copying, rent, and telephone use).

5. Purposive sampling is a “qualitative inquiry that typically focuses on relatively small samples...selected purposefully to permit inquiry into an understanding of a phenomenon in depth” (Patton 2002, 46). This approach is a common, nonprobability sampling technique in which cases are selected based on characteristics that are of interest to and central importance to the purpose of the study.
References


About the Author

Saunji D. Fyffe is a research associate in the Center on Nonprofits and Philanthropy at the Urban Institute. She serves on project teams that evaluate federal programs; examine government-nonprofit relationships, collaborations, and networks; study organizational accountability, capacity and performance; and analyze trends and issues affecting the public and nonprofit sectors. She also works on a range of capacity-building projects to help the nonprofit sector implement performance management. Fyffe holds a BA from the University of Virginia, an MPA from George Mason University, and a PhD from Virginia Tech.
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