

Report: New Jersey “Worst” at Paying Non-Profits Full Cost of Services

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Although some progress has been made in the past several years, the system of contracting between governments and non-profit organizations remains rife with problems that threaten the ability of non-profits to provide services across the country, according to new data released by the National Council of Nonprofits and the Urban Institute.

The National Council of Nonprofits report, [Toward Common Sense Contracting: What Taxpayers Deserve](#), examines the causes and consequences of five recurring problem areas that involve billions of dollars. The report connects new data from the Urban Institute with the experiences of front-line non-profits that are delivering services on behalf of governments at all levels, and then outlines sixteen proven and often readily available solutions to these problems, including many proposed by New Jersey advocates.

The Urban Institute also today released its state-specific data from a national survey documenting the serious and widespread problems experienced by non-profit organizations that have contracts and grants with governments at the local, state, and federal levels. The report, [National Study of Nonprofit-Government Contracts and Grants 2013: State Profiles](#), provides essential nationwide and state data on contracting practices, and ranks states on several areas of concern.

According to the Urban Institute report, 76% of New Jersey non-profit survey respondents, **the highest percentage in the country**, indicated that contracts that don't cover the full costs of providing services is a problem.

“This is a case where being ‘Number One’ is not a good distinction,” commented Linda Czipo, executive director of the [Center for Non-Profits](#). “Governments are turning to non-profits to provide vital services in our communities. Non-profits are still [working their way back](#) from the devastating economic downturn, and yet they are being expected, unreasonably and unrealistically, to subsidize these costs.”

The following were the most commonly reported problems by non-profit respondents in the Urban Institute survey, and the percentage of each identified by New Jersey organizations:

- 1) **Contracts that don't cover the full costs of providing services** – identified as a problem by 76% of New Jersey respondents, the worst in the nation in a state-by-state comparison. The problem can take the form of match requirements – some as high as 50%; high costs of compliance; limits on reimbursable overhead or indirect costs under the contract; or limits on allowable overhead costs for the organization overall.
- 2) **Complex or time consuming application requirements/procedures** – identified as a problem by 81% of organizations, placing New Jersey fifth among the worst states according to this criterion.

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- 3) **Late payments for providers**, beyond what contract terms allow – identified as a problem by 53% of New Jersey respondents, ranking New Jersey ninth worst in the country.
- 4) **Complex or time consuming reporting requirements** that drive up costs and divert scarce resources – identified as a problem by 75% of New Jersey respondents, ranking New Jersey twelfth worst in the country.
- 5) **Governments that change the terms of the contract in mid-stream**, such as imposing additional program requirements or expectations without providing additional resources – identified as a problem by 45% of New Jersey respondents. New Jersey ranked 22nd worst in the nation.

The national reports also highlight the problem of caps imposed by many government contracts on allowable indirect costs, or overhead – insurance, rent, utilities, technology, audits and similar items that are integral to operations but might not be directly tied to a particular grant or program. Although numerous studies have shown that it is normal for effective non-profits to have indirect costs of 25-35% of total expenses, many governments arbitrarily set caps that are far less – and some allow no indirect costs at all. In New Jersey, more than half (55%) of non-profit respondents reported that their contracts either imposed limits or completely prohibited indirect costs for the specific programs being funded, while 61% reported that organization-wide indirect costs were either capped or prohibited. Among those organizations reporting limits, one-fifth said their contracts did not allow any organization overhead at all.

The Center for Non-Profits and other organizations in the state have been working to advance a [series of recommendations](#) to make service delivery more effective by improving government contracting.

The Council of Nonprofits report outlines recommended actions to help alleviate the problems – including many that have either been advocated or implemented in New Jersey. The inclusion of non-profit concerns in New Jersey’s Red Tape Review Commission was cited as an effective example. Other key recommendations included:

- Full reimbursement by government of legitimate indirect costs incurred by non-profits in delivering contracted services for the government.
- Legislative repeal or prohibition of arbitrary caps on indirect costs that undermine non-profit effectiveness.
- Disclosure by governments at all levels of how much they pay in indirect costs for each program.
- Reform and strong enforcement of prompt payment laws.
- Enactment of prompt contracting laws to eliminate needless delays in completing the contracting process prior to commencement of work by non-profits.
- Creating a government “document vault,” to serve as an electronic repository for standard documents such as good standing certificates, IRS determination letters and others, to avoid needless repetitious filings (in process in New Jersey).
- Recognizing one single audit or reciprocal recognition of a government-initiated audit, rather than the current, common practice of multiple, duplicative audits by separate governmental units.
- Reducing redundant monitoring by standardizing and integrating reporting procedures across multiple government agencies.

“We know that there are many straightforward solutions that will help government and non-profits work better together to ensure that people can get the programs and services they need,” noted Czipo. “Everyone has a stake in improving the situation and we’re looking forward to working to make that happen.”

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For more information:**National Council of Nonprofits:**

- **Special report: [Toward Common Sense Contracting: What Taxpayers Deserve](http://www.councilofnonprofits.org/files/downloads/toward-common-sense-contracting-what-taxpayers-deserve.pdf) –**
www.councilofnonprofits.org/files/downloads/toward-common-sense-contracting-what-taxpayers-deserve.pdf

Urban Institute:

- **Report: [National Study of Nonprofit-Government Contracts and Grants 2013: State Profiles](http://www.urban.org/UploadedPDF/412949-National-Study-of-Nonprofit-Government-Contracts-and-Grants-2013.pdf)**
www.urban.org/UploadedPDF/412949-National-Study-of-Nonprofit-Government-Contracts-and-Grants-2013.pdf

Center for Non-Profits and partner organizations:

- **Report: [Strengthening Program Delivery by Improving the Contracting System for Non-Profits and Provider Agencies: Recommendations to the Red Tape Review Commission](http://njnonprofits.org/RedTape_Statement_FINAL_07172012.pdf)**
http://njnonprofits.org/RedTape_Statement_FINAL_07172012.pdf

Founded in 1982, the Center for Non-Profits is a charitable umbrella organization serving New Jersey's non-profit community. The Center's mission is to build the power of New Jersey's non-profit community by serving as the premier voice and comprehensive resource for and about our sector. Through public education, legal and management assistance, publications, workshops, and member services, the Center strengthens non-profits, individually and collectively, in order to improve the quality of life for the people of our state. For more information, visit the Center's Web site, www.njnonprofits.org, or call (732) 227-0800.

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