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Common Problems in Government-Nonprofit Grants and Contracts

Research consistently finds that governments are not always good partners with nonprofits, with many governments routinely failing to pay the full costs of the contracted services, imposing unnecessary and wasteful burdens, and not honoring their legal obligations of the written contracts they signed — all of which add unnecessary costs to governments and nonprofits alike. These challenges increase nonprofit costs of doing business.

The consistent underfunding is a significant contributor to what is known as the “nonprofit starvation cycle” and results in a myriad of challenges for nonprofits, all of which ultimately limit a nonprofit’s ability to achieve outcomes and erode the availability of quality services in communities throughout the country.

The following summarizes the five challenges that nonprofits face. For more information on these and other challenges, see [Toward Common Sense Contracting: What Taxpayers Deserve](#) (May 2014).

- **Failure to Pay Full Costs**

Nationwide, the majority of nonprofits report problems with governments not paying nonprofits the full cost of services they provide under contracts and grants on behalf of governments. Often, this is due to artificial limits being set

in advance, without regard to the true costs required. One of the most problematic ways this occurs is through the imposition of arbitrary caps on reimbursement of indirect costs (sometimes called overhead costs or administrative costs). Among nonprofits reporting that governments cap indirect cost reimbursement, the Urban Institute's latest survey reveals that three out of four nonprofits (76%) were unable to recover an indirect cost rate of more than 10%; a quarter (24%) are paid zero.

Studies reveal that the usual range of overhead rates for for-profit companies and nonprofit organizations alike is approximately 25% to 35%. Yet, governments have historically treated nonprofit organizations differently, imposing arbitrary restrictions on reimbursement rates that undercut the ability of their partners to succeed on behalf of taxpayers. Unrealistic limits on reimbursement of a nonprofit's legitimate costs undermine its efficiency, effectiveness, and ability to perform vital services on behalf of the governments.

- **Complex Application Processes**

Nearly three-quarters (71%) of nonprofits on the front lines regularly report encountering the needless waste of taxpayer and donor dollars when government red-tape, duplicative submission requirements, and costly protocols waste time and resources that could be used more effectively. The problems experienced by nonprofits range from unduly complex applications and dysfunctional electronic submission processes to needless duplication and redundancy, and excessive formatting requirements.

- **Complex Reporting Requirements**

Similar to complex application processes, almost three-quarters (72%) of those surveyed report that reporting requirements are complex and time consuming. Duplicative audits, overlapping, inconsistent, and sometimes even conflicting compliance procedures, retroactive imposition of reporting requirements, incompatible and inconsistent data collection, and a lack of standardization that inject vagaries into an already complex process waste countless dollars for both nonprofits and governments. Making matters worse, it is rarely clear how the government even uses the required information.

- **Mid-Stream Changes to Contracts**

Mid-stream changes to written agreements that governments previously signed and agreed to honor is most vexing, in part because it often increases the costs for nonprofits that are then not paid. These mid-stream changes, reported by almost half (44%) of nonprofits surveyed, take many forms, including cuts to agreed-upon payments, redefined eligibility for payments, nonprofits instructed to perform additional or increased levels of service, and new reporting and compliance requirements with no additional reimbursement for these added costs.

- **Late Payments**

Late payments by governments is a problem that is both frequent (45% of nonprofits responding) and debilitating, given the significant dollar amounts reported by nonprofits that said they were paid late: on average state governments owed each nonprofit the past due amount of \$200,458, the federal government owed \$108,500, and local governments owed \$84,899. With 81 percent of nonprofits having budgets under \$1 million (2013 Urban brief, Table 2), the substantial sizes of those late payments present serious challenges for nonprofits struggling to deliver reliable services. A subset of the problem is “late contracting,” when a government does not complete all of its own contracting procedures prior to demanding that the nonprofit begin performing services.

Learn about [Solutions to Government-Nonprofit Grantmaking and Contracting Problems](#).

More About Common Problems

- [Government Grants and Contracts](#), National Council of Nonprofits
- [Toward Common Sense Contracting: What Taxpayers Deserve](#), National Council of Nonprofits, May 2014.