

# The Financial Health of Child Welfare Nonprofits in New York State



**August 2019**

***Rahul Pathak  
Alexis Perrotta  
James Krauskopf***

**COFCCA**

**25<sup>TH</sup>**  
ANNIVERSARY

**Baruch** COLLEGE  
MARXE SCHOOL OF PUBLIC  
AND INTERNATIONAL AFFAIRS

**CUNY**

# TABLE OF CONTENTS

<b>List of Figures .....</b>	<b>2</b>
<b>Letter from Council of Family and Child Caring Agencies .....</b>	<b>3</b>
<b>Acknowledgements.....</b>	<b>5</b>
<b>Executive Summary.....</b>	<b>6</b>
<b>I. Introduction .....</b>	<b>8</b>
<b>Background and Methodology .....</b>	<b>8</b>
<b>Size and Scope of the Sector .....</b>	<b>9</b>
<b>The Spectrum of Services .....</b>	<b>13</b>
<b>II. The Financial Situation .....</b>	<b>15</b>
<b>Deficits .....</b>	<b>15</b>
<b>Walking the Tight Rope – Short-Term Resources and Liquidity .....</b>	<b>15</b>
<b>Managing Resource Shortfalls and Rising Costs.....</b>	<b>21</b>
<b>III. Challenges for the Future.....</b>	<b>25</b>
<b>Opportunity Costs.....</b>	<b>25</b>
<b>Medicaid Managed Care .....</b>	<b>26</b>
<b>Recruitment and Retention.....</b>	<b>27</b>
<b>Relationship with Government Agencies .....</b>	<b>28</b>
<b>Methodology .....</b>	<b>30</b>
<b>Management Addendum.....</b>	<b>31</b>
<b>Author Biographies.....</b>	<b>33</b>

## LIST OF FIGURES

Figure 1 - Nominal Growth of the Sector – Total Aggregated Revenue for the Sample.....	10
Figure 2 - Total Real Revenue by Location (2013-2017, 2017 Dollars) .....	11
Figure 3 - Total Real Expenditure by Location (2013-2017, 2017 Dollars).....	11
Figure 4 - The Distribution of Total Revenue by Sources of Funding .....	12
Figure 5 - Management, General & Fundraising Ratio.....	13
Figure 6 - The Distribution of Days of Cash in Hand in 2017 (15 Days Bins) .....	16
Figure 7 - Current Ratio for City and Upstate Organizations, 2013-2017 .....	17
Figure 8 - Modified Quick Ratio for City and Upstate Organizations, 2013-2017.....	18
Figure 9 - Average Collection Period by Agency Location, 2013-2017.....	19
Figure 10 - Collection Period in 2017 by Agency Location.....	19
Figure 11 - Debt-Ratio of Child Welfare Nonprofits in New York State, 2013-2017.....	22
Figure 12 - Number of Organizations by Endowment, Reserves, and Investments .....	23



Leadership, voice and vision for child welfare in New York State

August 2019

Dear Friend of Child Welfare:

In 2012, at the request of the Council of Family and Child Caring Agencies, the Center for Nonprofit Strategy and Management at the Austin W. Marxe School of Public and International Affairs at Baruch College issued a report on the financial status of New York's child welfare agencies. That study examined five years of financial data from fiscal year 2007 to 2011 and also included findings from interviews with CEO's and CFO's of the member agencies about how agencies managed their financial affairs.

Informing government agencies about the status of the child welfare network is a major element of COFCCA's mission. Similarly, COFCCA serves to assist agencies in determining how to assess their own performance.

The conclusions of that report were stark. On the one hand, these agencies fared poorly on standard measures of financial health for nonprofit organizations, resulting primarily from their reliance on inadequate government funding. On the other hand, even in the face of funding challenges, most agencies were utilizing best practices for internal management, board leadership, and transparency.

The report was extremely useful in setting the framework for dialogue with government officials by establishing a basis of fact to assess the financial condition of the network of agencies. In addition, individual agencies found the report useful for highlighting issues and setting parameters for determination of where they stood in relation to their peers.

COFCCA has been updating the financial information annually. This year in addition, COFCCA decided to return to the Center at Baruch's Marxe School to replicate the initial study. This current report reflects a review of financial statements through fiscal year 2017 supplemented by surveys of CFOs, online questionnaires, and individual interviews with key decision-makers at its member agencies in 2018-2019.

I want to thank the Baruch team, led by Distinguished Lecturer and Center Director James Krauskopf and faculty members Alexis Perrotta and Rahul Pathak, and ably supported by Baruch College Survey Research.

The intervening years have been demanding for COFCCA members. The State, counties and New York City have presented new challenges – whether expansion of existing services, new initiatives to respond to mandates for juvenile justice reform, or implementation of managed care for children and youth in the care and custody of member agencies.

As you read this report, you will see similarities to the conclusions drawn in 2012. Agencies operate with very limited margins for failure with most agencies possessing limited reserves and indicators of financial performance that are troubling. It is a credit to agency board and staff leadership that they can ensure some measure of financial stability while at the same time providing quality services to children and families.

COFCCA will be bringing this report to the attention of government decision-makers and leaders of the philanthropic community that support programs for child welfare with the intent of continuing an informed dialogue with regard to the resources agencies need to effectively perform their mission and respond to new challenges.

Similarly, COFCCA will work with member agencies to help determine how the report and their individual profiles can be instructive in financial and program planning.

We welcome your review and look forward to your comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jim Purcell", is written over the typed name and title.

Jim Purcell  
President & CEO

## ACKNOWLEDGEMENTS

This report would not have been possible without the efforts of Baruch College Survey Research (BCSR). BCSR Director, Micheline Blum, who so sadly passed away in November 2018, had applied her considerable expertise to the survey design and initial implementation in Summer 2018. In addition to her leadership of BCSR, Mickey Blum was a Distinguished Lecturer teaching at the Austin W. Marxe School of Public and International Affairs at Baruch College; a well-known media and polling source; and a highly respected voice in public affairs. Her staff at BCSR, including Sunny Jiao and Leone Levin, continued to implement the survey and collect data even as they grieved the passing of their colleague and friend. We are grateful for their perseverance.

Many thanks go to Graduate Assistant, Wooserk Park for his diligent work to support the financial data in this report.

Finally, this report is ultimately the result of the considerable time and attention spent by CFO's and CEO's of the member organizations of the Council of Family and Child Caring Agencies. We appreciate the commitment and support of Jim Purcell and his staff at COFCCA and the broad perspective and attention to detail by Phil Gartenberg throughout the project.

## EXECUTIVE SUMMARY

In 2012, the Baruch College Center for Nonprofit Strategy and Management (CNSM) worked with the Council of Family and Child Caring Agencies (COFCCA) to produce a report on the financial condition and management practices of the child welfare sector in New York. The original report was based on a five-year review of financial statements and IRS form 990s and interviews with CEO's and CFO's. COFCCA continued the work initiated by Baruch by collecting financial statement data since the 2012 report, and the analyses were provided to member agencies and government sponsors. COFCCA returned to CNSM to conduct an updated assessment of financial statements using the most current data available through fiscal year 2016-2017 and reprising the interview process with CFO's and CEO's to assess how management practices may have adapted during the intervening years.

This report follows up with additional, current data, and insights from practitioners. Most of the 100+ nonprofit organizations that provide residential, preventive, juvenile justice, education, and related services for children in need, both upstate and in New York City, contributed to and are reflected in this report. This report assesses their financial condition and fiscal management practices including cash flow, liquidity, and deficits; accounts receivable; borrowing and use of reserves; financial planning; staff recruitment, retention, and training; sector-wide trends; and management practices.

Overall, the sector can be described as growing but not necessarily thriving. Organizations operate on thin margins. They report frequently cutting expenses to stay afloat, despite potential implications for future funding rates which are based on past expenditures. Fiscal staff report working long hours, performing additional tasks without additional compensation, and foregoing the internal planning that could bolster the organization for the future. Staff are required to account for ever-more granular details and comply with increasing reporting requirements. In turn they forego internal analyses and creative, strategic planning. Nonprofit leaders have demonstrated their ability to maintain consistent service despite growing reporting requirements and changing service populations. This report shows they have thus far been able to avoid deficit and debt enough to continue. Sector-wide we see agencies are incurring more difficult-to-quantify opportunity costs as well, affecting innovation, expansion, and operational efficiency.

The sector is changing, growing, and facing considerable challenges. New York State is continuing a long-standing policy of asking non-profit organizations to provide a significant portion of legally mandated child welfare services and juvenile justice. As such, most organizations receive nearly all their funds through government grants and contracts, involving thousands of Federal, State, city and county agencies and local school districts. The 2012 report measured COFCCA member agencies against a number of commonly accepted standards of fiscal health – looking at ratios that compare assets to



liabilities, liquidity, debt ratios, and accounts receivable status, among others. COFCCA agencies fared poorly against these standards when the first report was issued. This report continues to highlight the vulnerability of member agencies by demonstrating how poorly they continue to compare to the accepted standards.

This report finds there are frequent and persistent cash flow interruptions that stem primarily from issues such as lagging and changing rates, rebilling, and delayed contract registrations, leading to delayed government payments. When their payments are affected, organizations have limited options. Most do not have an endowment or investment income of any kind. Revenue from private fundraising is scarce and often earmarked for unfunded program components and/or anticipated deficits. Organizations report borrowing, delaying payment to vendors, and taking other deleterious measures to compensate.

## **Policy Changes**

Agencies continue to be responsive to changing government mandates. While agencies are supportive of the changes on the basis of sound policy, they find that these mandates pose challenges for sound implementation. There are two policy shifts that emerged as points of concern for nonprofit leaders in this sector. One is the shift from per-diem billing for health and mental health services to Medicaid Managed Care. Most organizations are anticipating that their funding streams will become less predictable. While a few organizations have staff experienced with a Medicaid Managed Care-type of negotiated funding arrangement, most are very concerned about the transition and ultimately, staff requirements.

The second policy shift is related to the juvenile justice system. The “Close to Home” program was inaugurated in 2012 and involved New York State and New York City with the intent of moving as many children as possible from upstate facilities to programs run by agencies in New York City. More recently, the state’s “Raise the Age” policy has statewide implications and provides for the inclusion of 16- and 17-year-old youthful offenders in the child welfare system.

These changes, plus a sector-wide shift toward preventive care for families working to keep their children out of foster care placement may be leading to a residual residential system with more difficult-to-serve children. While the shift is supported by mission-driven nonprofit leaders and their dedicated program managers, it presents a problem for recruitment and retention of frontline positions. Organizations are challenged to fill staff lines as government contracts dictate salaries that fall short of comparable jobs in the public and private sector. When frontline staff positions are unfilled, managers sacrifice program development, innovation, and staff development to fill acute staffing needs themselves.



# I. Introduction

The child welfare sector in New York includes diverse nonprofit organizations, some of which began as orphanages in the 19<sup>th</sup> century, others with roots in community activism of the 1960s, and newer groups that emerged in more recent generations.<sup>1</sup> Contracts and grants from government programs comprise the largest source of revenue to support the many vital services provided by these organizations, most of which are members of the Council of Family and Child Caring Agencies (COFCCA). These programs coordinate their work with dozens of federal, state, county, and municipal level agencies that administer policies ranging from the national Medicaid program to local schools. This sector is also a collection of people: families, caregivers, administrators, funders, and evaluators all ultimately invested in the wellbeing of children. This report assesses the financial condition and fiscal management practices of the sector. As such, it addresses cash flow, liquidity, and deficits; interagency coordination and accounts receivable; the borrowing and use of reserves; financial planning; staff recruitment, retention, and training; and sector-wide trends, including shifts in populations served, funding arrangements, and types of care. It also assesses management practices based on an extensive survey involving CEO's and CFO's, as noted in the Management Addendum on page 31.

## ***Background and Methodology***

The Center for Nonprofit Strategy and Management (CNSM) at the Austin W. Marxe School of Public and International Affairs at Baruch College worked previously with COFCCA to produce the October 2012 report, "The Financial Health of New York's Child Welfare Nonprofits."<sup>2</sup> That report used audited financial statements and IRS 990s from 2006-2010 and a 2011 survey of CFO's to inform a five-year assessment of the sector. COFCCA independently collected and analyzed financial statement data for the intervening years. This report follows up by analyzing the financial data for an additional five years (2013-2017) as well as data from original surveys and one-on-one interviews conducted in 2018 (see Methodology for details). For additional insights into the functioning and financial challenges of these organizations, the researchers reached out to all the child welfare nonprofits that are COFCCA members in a process that was facilitated by COFCCA.

---

<sup>1</sup> The child welfare sector includes nonprofits that provide residential, preventive, juvenile justice, educational and other related services to children in need.

<sup>2</sup> The 2012 report is available via the Center for Nonprofit Strategy and Management:  
[http://www.baruch.cuny.edu/mspia/centers-and-institutes/center-for-nonprofit-strategy-and-management/documents/COFCCAReporFINAL\\_TheFinancialHealthofNewYorksChildWelfareNonprofits.pdf](http://www.baruch.cuny.edu/mspia/centers-and-institutes/center-for-nonprofit-strategy-and-management/documents/COFCCAReporFINAL_TheFinancialHealthofNewYorksChildWelfareNonprofits.pdf)

Fifty-six CFO's and CEO's of child welfare agencies consented to participate in two surveys (one telephone, one self-administered web-based) during 2018. Details are available in the Methodology section at the end of this report.

### ***Size and Scope of the Sector***

New York's child welfare nonprofits have revenues of more than \$3 billion in the recent fiscal years following a modest and steady expansion over the last decade. Approximately two-thirds of the sector's revenue is in organizations that have contracts with and primarily serve New York City children, and are funded through contracts with New York City's Administration for Children's Services. These agencies are designated as "city" for the remainder of the report, and the rest are organizations outside of New York City which will be designated as "upstate" (including agencies which work primarily on Long Island). In the sample of 69 organizations, revenue and expenses changed by approximately the same amounts each year, consistent with the structure of nonprofit organizations. During the five-year study period, the overall sector grew by 14% in nominal terms and about 8.4% in real terms, i.e., after accounting for inflation in the economy. Sector growth was a result of both program growth as well as additional funding. The sector's growth beyond costs (that is, revenue in excess of expenses) has fluctuated substantially in recent years. Figure 1 reports the aggregate of nominal positive balance across these 69 organizations for the study period. In recent years, the overall positive position has declined vis-à-vis the first couple of years of the study period. Many of these organizations have periodic deficits as described later in the report.

Both the upstate and the city organizations grew during the reviewed period. However, the upstate organizations grew at a faster pace in real terms. Adjusted for inflation, the city organizations grew by 7.0% between 2013 and 2017 while upstate organizations grew by around 11.8% (Figure 2). The growth in real revenue and expenditures has been relatively similar. While the former witnessed an aggregate increase of 8.4%, the latter grew at around 9.3%. The patterns in expenditure growth varied across the city and upstate organizations, following a trend similar to revenue growth.

Figure I - Nominal Growth of the Sector – Total Aggregated Revenue for the Sample

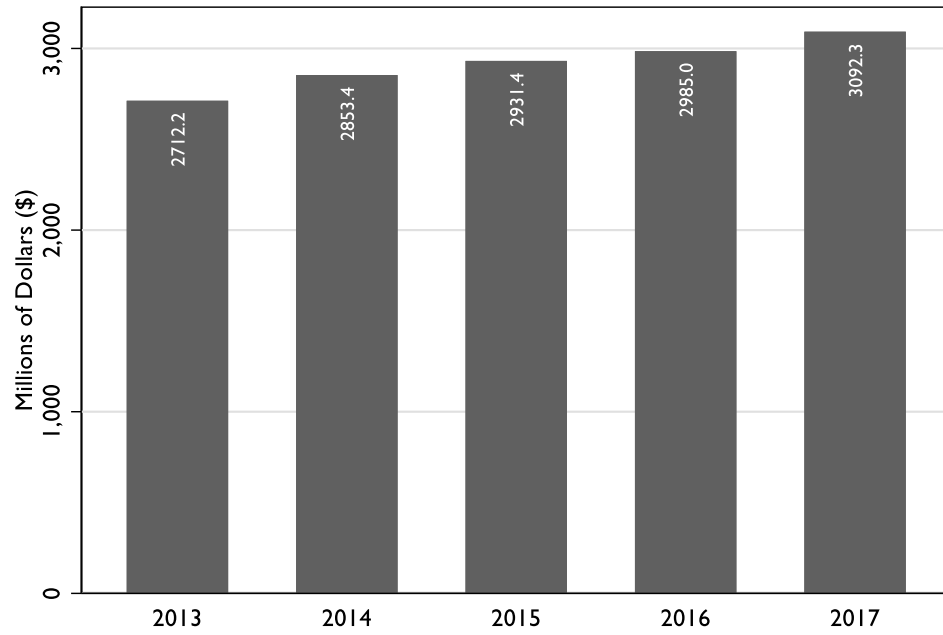


Figure 2 - Total Real Revenue by Location (2013-2017, 2017 Dollars)

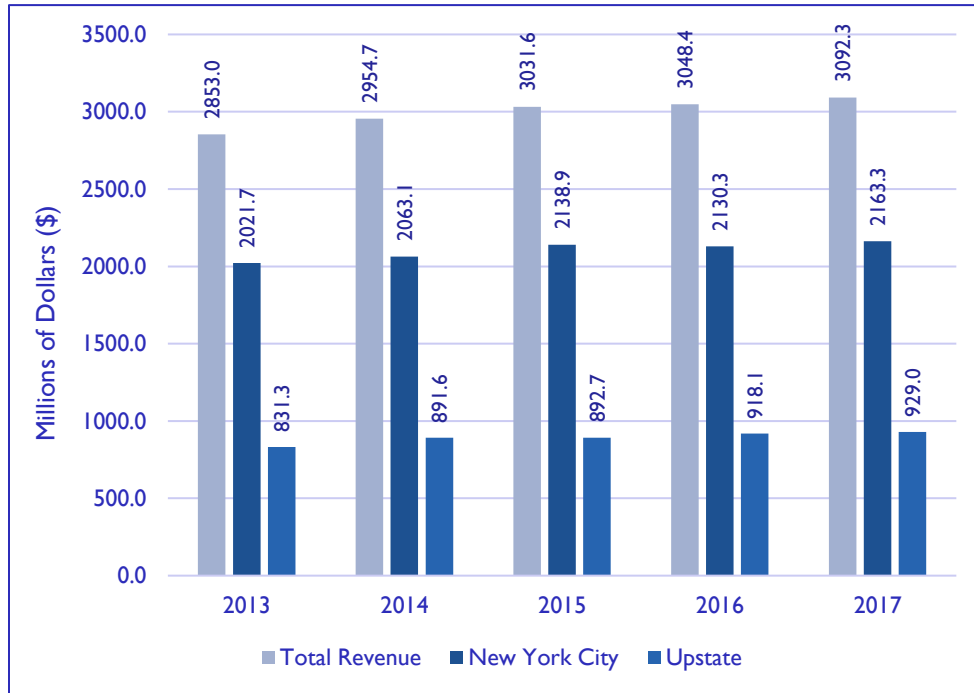
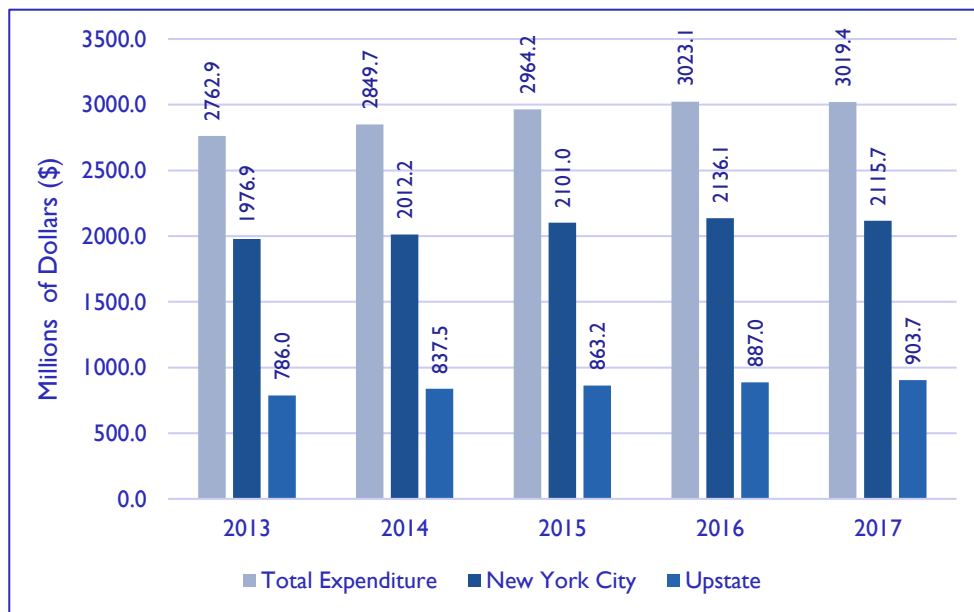


Figure 3 - Total Real Expenditure by Location (2013-2017, 2017 Dollars)



The sector in New York is highly dependent on government funds. The sector's revenue primarily comes from approximately 2,100 government grants and contracts administered by more than 25 distinct federal, state and county agencies and local school districts. Most organizations provide services beyond the requirements of government grants and contracts; most organizations raise at least some revenue through private fundraising, and a smaller number have revenue from endowments or other funds which agencies have available for investment. Overall approximately 88% of the sector is funded by government grants and contracts (Figure 4). In 2017, donations and other sources constituted 5.4% and 6.4% of total revenue respectively.

The response to this dependence on government revenues is often to suggest revenue diversification including through private fundraising. Agencies recognize the need for a diversity of funds, including from foundation support and/or private donations. Many agencies have invested in development staff. Nevertheless, there are significant challenges inherent in establishing and financially supporting the infrastructure necessary to achieve cost-effective results. Figure 5 shows the ratio of management, general and fundraising expenses to total expenses. This indicates the share of spending devoted to agency overhead, plus fundraising. In New York State, administrative expenses are limited per Executive Order 38. The support service ratio limit was 25% until 2015, when it was lowered to 15%. As shown in Figure 5, the sector average is consistently below that limit.

Figure 4 - The Distribution of Total Revenue by Sources of Funding

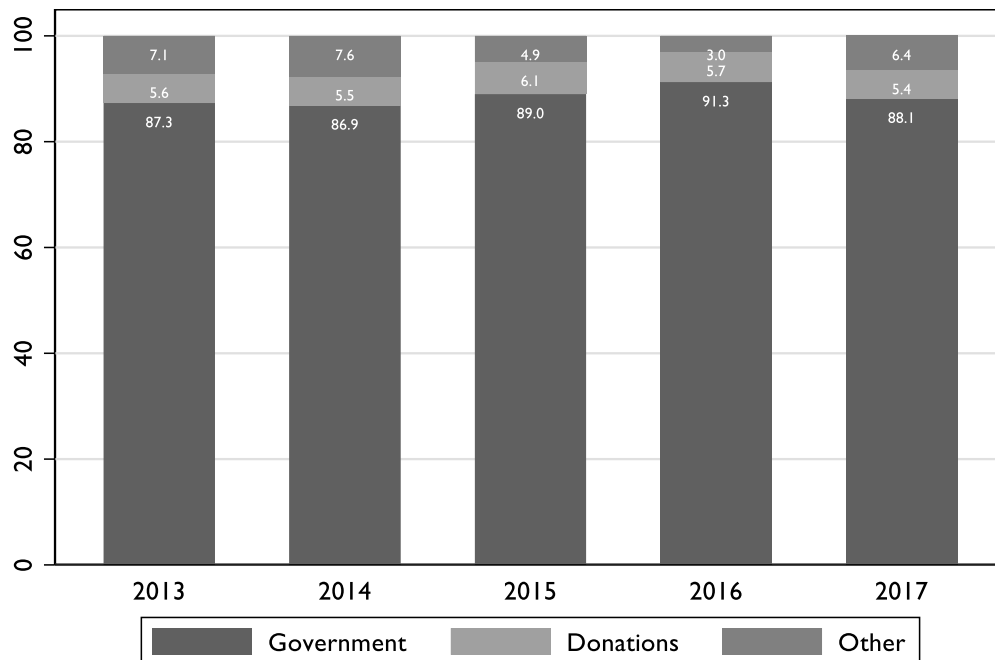
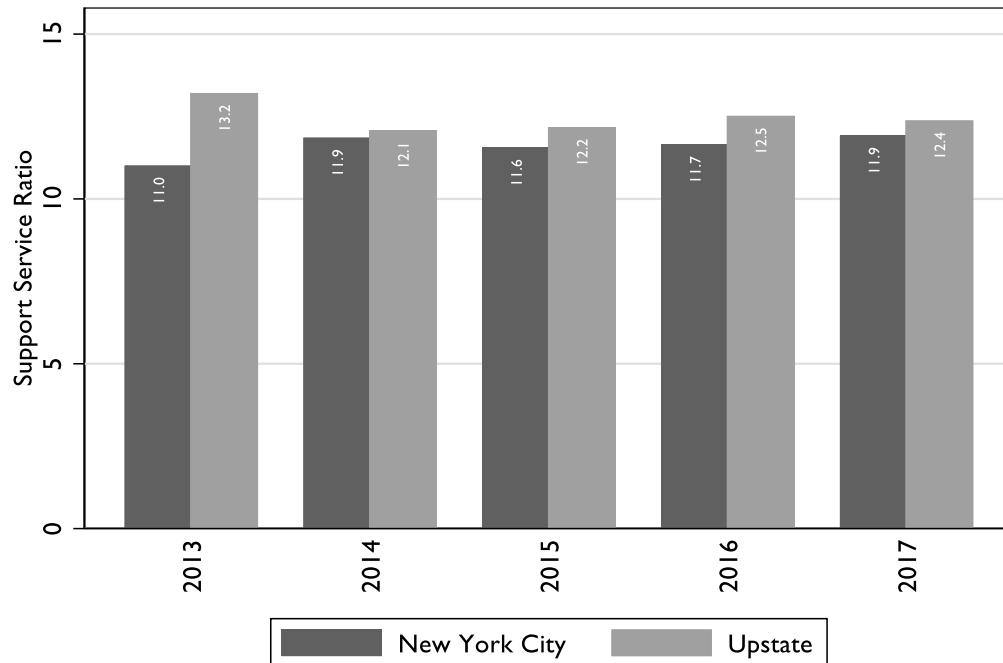


Figure 5 Management, General &amp; Fundraising Ratio



### ***The Spectrum of Services***

The main work of the child welfare sector is in foster care (foster family- and campus-based) and preventive services (services designed to keep families intact). Upstate organizations tend to do more foster care work and city organizations more preventive; however, nearly all organizations statewide provide some combination of the two. Nonprofits in the sector also provide or arrange for medical and educational child welfare services. Some agencies provide diagnostic services for courts and government agencies, and some offer specialized services for immigrant children and those involved with the juvenile justice system. Many organizations undertake some combination of child welfare and services for other populations, such as services for adults with disabilities.

This time period has also seen the initiation of services that many agencies consider consistent with their mission. In New York City, agencies have bid for and received support for universal pre-k and after-school programming. Some upstate agencies have expanded the scope of their residential programs to serve children that are part of the educational system rather than the child welfare system. In in-depth interviews, nonprofit leaders mentioned the growing challenge of working with children who are immigrants; children with autism or who are on the autism spectrum; as well as

children involved with sex trafficking and gangs. Several nonprofit leaders noted stabilization is now done in the community or with a foster family, while the most difficult-to-serve children remain in a shrinking number of residential units.

The shift towards preventive is welcome by many nonprofit leaders. In interviews, many expressed that it is best for children to be in the community whenever possible. Others noted that residential programs require overhead and capital expenditures that can take months or years to be reimbursed and that contracts for residential services are often short of what is needed to run the program. One interviewee stated, “We have lost money in residential every year for ten years.” The same nonprofit leaders expressed concerns with the shift toward preventive services, however, including that there are “kids who just cannot thrive in a foster home.” Specifically, some nonprofit leaders recognize the challenge that this change, combined with the Raise the Age policy (which uses this sector to care for children who would have otherwise been incarcerated), would transform residential services into places with exclusively the most difficult-to-serve children.

Shifting away from residential services will change the physical plant of New York’s sector as well. Most organizations in the sector that provide foster care own buildings specifically for residential purposes, and about 16% foresee a sale of land or buildings within the next five years. For some organizations, scaling back residential service may present opportunities to leverage that real estate toward improved financial stability. For many upstate organizations, however, land and buildings may have relatively limited commercial value.



## II. The Financial Situation

### Deficits

These agencies are often short of resources and tend to incur deficits, but the sector as a whole tends to have a modest positive balance. Around 30% of organizations ended the fiscal year 2017 in deficit including 22% of city and 39% of upstate

*“There's less kids in care and the kids who are in care are much more difficult children to manage.”*

organizations. However, these deficits undergo fluctuations across the years. In a given year an organization can have an operating deficit for several reasons, which illustrates the constraints within which organizations manage and plan their budgets. Organizations report that increases in compensation (even modest increases) are often delayed due to late contract registration, excessive requests for documentation, and rebilling based on late rates. While most organizations have become adept at nimbly managing such cash flow interruptions, they can push an organization into deficit depending on timing and extent of the delay. Unexpected expenses can also exceed available revenue. Approximately 25% of organizations did not break even in 2017 for a variety of reasons – including not having sufficient reserves to deal with unexpected expenses. While this represents an improvement over time (it was about 50% in 2010), it also shows that a considerable share of the sector operates on a thin margin.

### ***Walking the Tight Rope – Short-Term Resources and Liquidity***

A financially healthy organization should have at a minimum 60 days of cash in hand to deal with unanticipated emergencies. This sector is increasingly falling short on that indicator. In 2017, the upstate organizations had an average of about 20 days of cash in hand, while the city organizations averaged 23 days of cash in hand (not shown on graph). To get a granular understanding of the cash-in-hand situation, Figure 6 summarizes the distribution of days of cash in hand for 79 organizations. More than half of the organizations had less than 15 days of cash in hand, while only a quarter of the organizations had the optimal amount of cash in hand.

The problem with liquidity of these organizations is also reflected in the current ratio and quick ratio (Figure 7 and Figure 8). The current ratio is a commonly used measure of liquidity: short-term assets should be more than 2.0x current liabilities. On average, city organizations fell short of the standard in all five years of the study, and upstate organizations achieved it in only one of the years. Among the 79 organizations whose financial information was available in 2017, only 29% met the standard (down from

53% in 2010). A more stringent measure of liquidity is the quick ratio: the modified quick ratio measures cash and savings available at year end to pay current liabilities. It indicates the ability of an agency to access resources to meet obligations in a quick manner. In 2017, only about 14% of organizations met the standard for a financially healthy quick ratio, and 18% of the organizations met the standard in 2016. In 2010 about 21% of the organizations met the standard, suggesting that cash problems have persisted without improvement.

Figure 6 - The Distribution of Days of Cash in Hand in 2017 (15 Days Bins)

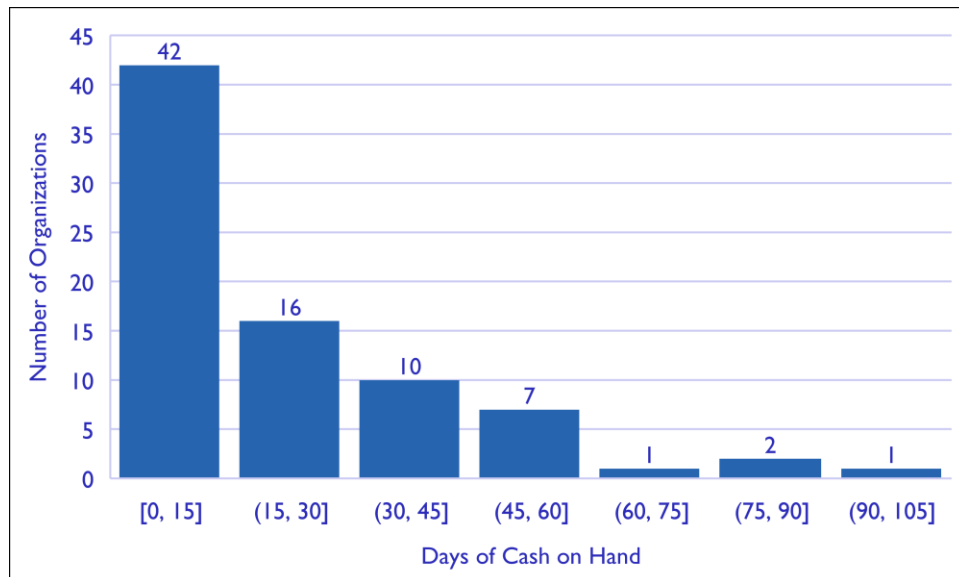


Figure 7 - Current Ratio for City and Upstate Organizations, 2013-2017

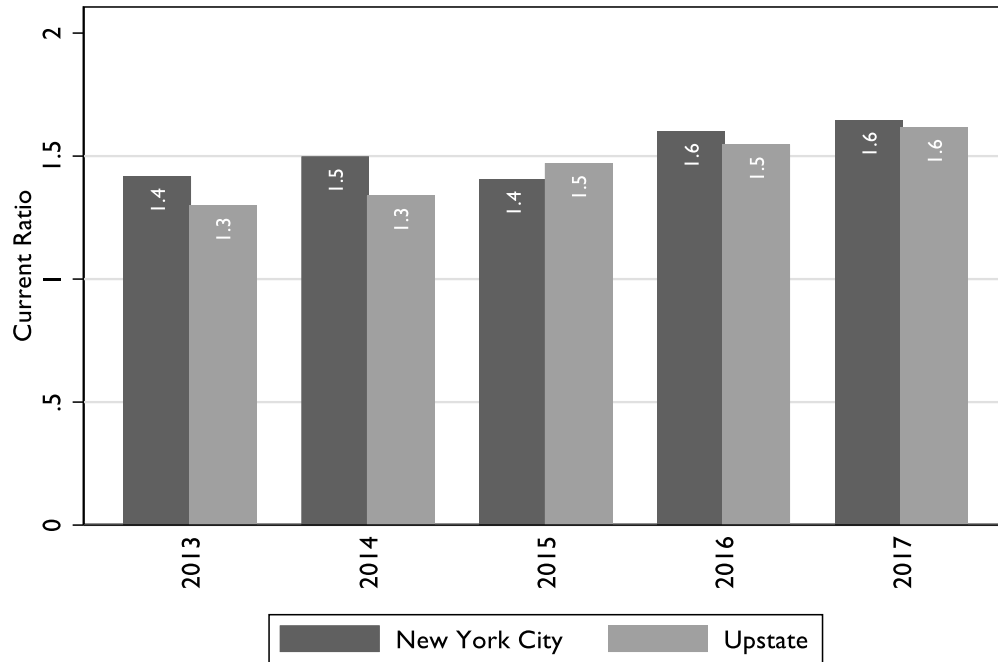
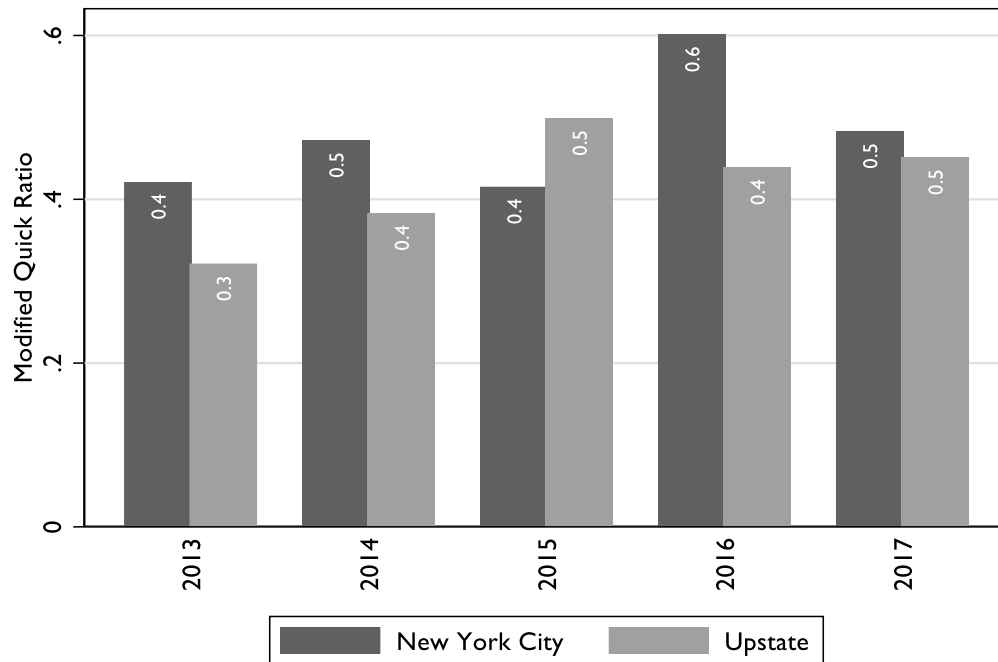


Figure 8 - Modified Quick Ratio for City and Upstate Organizations, 2013-2017



Among reasons for cash problems are high accounts receivable from government agencies and lengthy collection periods (See Figure 9 and Figure 10). In 2017, half of the organizations reported that their oldest accounts for reimbursement-based contracts are more than 100 days old; for 27%, the oldest account is 365 days or older. On average, upstate organizations collect reimbursement in 54 days and city organizations in 73 days. Half of upstate organizations have an average collection period between 41 and 60 days, and 50% of city organizations have an average collection period between 54 and 86 days (see Figure 10). This issue came up in interviews with nonprofit leaders. They noted that government agencies recognize the problem; government agencies are reportedly working on, and in some cases have taken steps to improve, the problem of late reimbursements. The problem has been noted for some years, however, and the data does not necessarily indicate an improvement (see Figure 9).

Figure 9 - Average Collection Period by Agency Location, 2013-2017

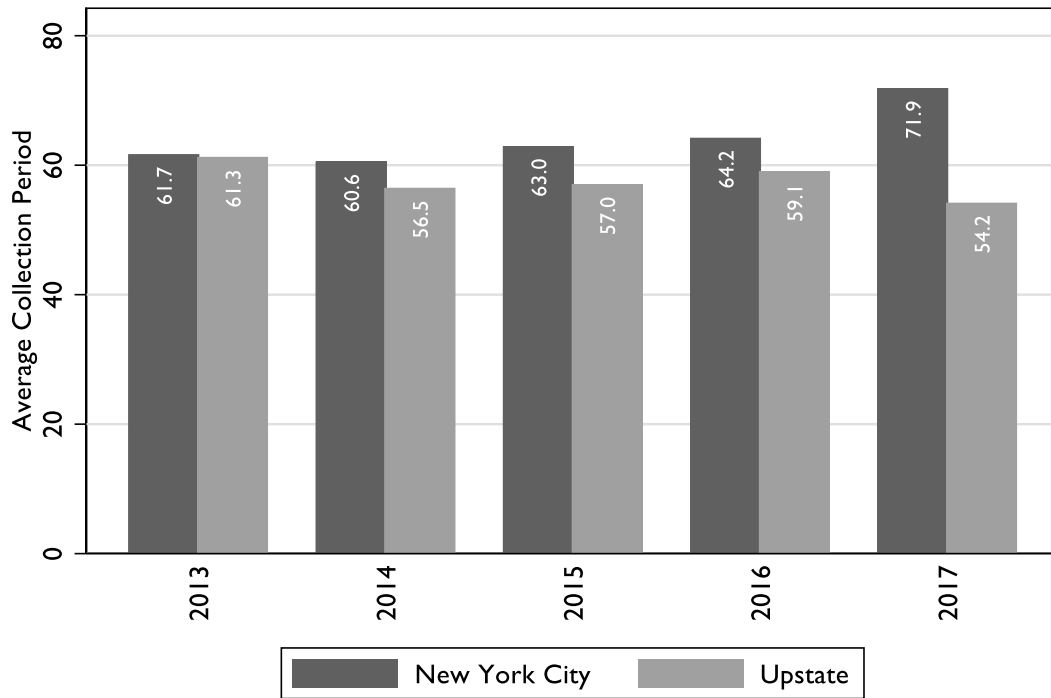


Figure 10 - Collection Period in 2017 by Agency Location

Collection Period in Days	New York City	Upstate
Average	73	54
25th percentile	54	41
75th percentile	86	60

The liquidity and cash flow challenges observed in organizations' financial statements are reinforced by their CFO's and CEO's responses to the surveys and interviews. As in many other sectors where government contracts with nonprofit service providers, child welfare organizations are faced with insufficient funding for quality programming, growing costs, expanding mandates and complex, often unpredictable or slow government agencies that provide nearly all the funding.

In the surveys, about half of organizations report experiencing cash flow issues (where disbursements exceed inflows) twice a year or more often. Approximately 25% report experiencing cash flow issues more than once a quarter. Forty-one percent always anticipate having a deficit in programmatic operations before including depreciation or unrestricted income from fundraising. An additional 31% anticipate such deficits sometimes, but not every year.

All organizations face the challenge of complying with complex rate setting methodologies. The New York State Office of Children and Family Services (OCFS) funds foster care (residential and family) based on a Maximum State Approved Rate (MSAR). Funding allocation decisions agencies make in their MSAR submissions have long-lasting impact since expenditure patterns in a given fiscal year will determine rates that are in effect two fiscal years later. Agencies also have to complete the Consolidated Fiscal Reporting System (CFRS). The CFRS is a parallel reporting requirement used by all other state human service agencies to determine rates. It is used to set Medicaid rates for children in foster care, and agencies that provide educational, mental health and developmental disability services derive their rates from the same system. The complexity of the systems contributes to the difficulties in planning and implementation. As noted by some nonprofit leaders, the only "saving grace" of the MSAR and CFRS is that their implementation becomes embedded in the work of the organizations and provides some degree of predictability.

On the survey, the great majority of organizations reported that the billing process is often slowed by government agencies. In the interviews, nonprofit leaders spoke about the issue of rebilling. Many organizations have these contracts that use a two-year lag: the rates that determine how much the organization will be paid are based on costs filed and services provided two years prior, often regardless of what changes may have occurred in the interim. If an organization has an unusual expense one year, it is reflected in the rates for that organization two years later. Organizations are effectively penalized for spending within their rates. If they under-spend, some public agencies will reclaim funds and/or decrease future rates (even though, as one nonprofit leader said, "nothing drops in cost over time"). Many CFO's described significant in-house expertise in calculating future rates and tracking spending. While all CFO's noted that lagged rates required fiscal vigilance, some said that they were acceptable

when they were predictable: “It is a terrible system, but you can depend on it.” There are government agencies, however, that use multiple rates (prospective, interim, and reconciled), which can be more difficult to project.

In addition to anticipated lags, rates are often delayed. The problem of rebilling due to late rates is especially severe upstate: 91% of upstate organizations report it is an issue, compared with 75% in New York City. One CFO said that there have been times when they have been operating for 11 months and still do not have rates for the year.

CFO’s also spoke about the problem of late contract registration. Organizations are expected to begin accepting referrals and serving children under contracts that are signed but not yet registered in the online system used for billing. The delay is often two or three months and can be as long as six months. As one CFO said, “You can’t even bill if [the contract] is not in [the system], so how do you get the money to even pay people?”

### ***Managing Resource Shortfalls and Rising Costs***

In the context of the challenges outlined above, organizations are often forced to borrow resources and incur debt. Amongst all the organizations for which data was available in 2016 and 2017, 46% met the standard threshold debt ratio, i.e., less than 50% of assets. In the previous report in 2012, 41% of organizations met the 50% threshold, suggesting that the debt situation has improved marginally, but still is far from ideal. The sector as a whole continued to have debt ratios higher than 50% across most years (Figure 11). The progress in the debt situation appears to be slightly better among the upstate organizations than for city organizations.

*55 percent of the nonprofit organizations do not report resources available to cover cash flow interruptions, other than borrowed funds which incur interest.*

Most organizations (55%) do not have resources available to cover cash flow interruptions, other than borrowed funds which incur interest. As noted in the 2012 report, publicly funded contracts do not allow nonprofit organizations to reserve portions of their contracts for future use as rainy-day funds or operating reserves. A total of 38 out of the 69 organizations in the study (55%) had no endowment or other invested funds, or did not report on whether they had those resources. For those organizations that have accounts they can access – such as endowments, reserves or other privately-



*Only 7 organizations report an endowment or investment worth more than \$5 million in 2017.*

fundraised investments – nearly all are small: 36% have below \$5 million (Figure 12). In other words, 90% of these nonprofits have little hope of generating significant income from their own resource holdings.

Figure 11 - Debt-Ratio of Child Welfare Nonprofits in New York State, 2013-2017

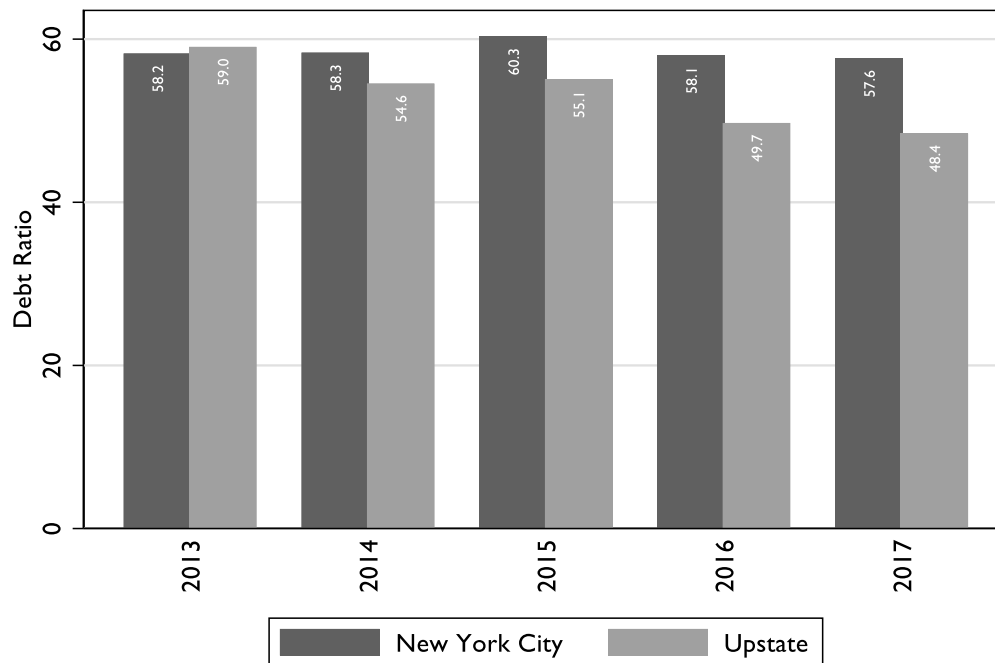
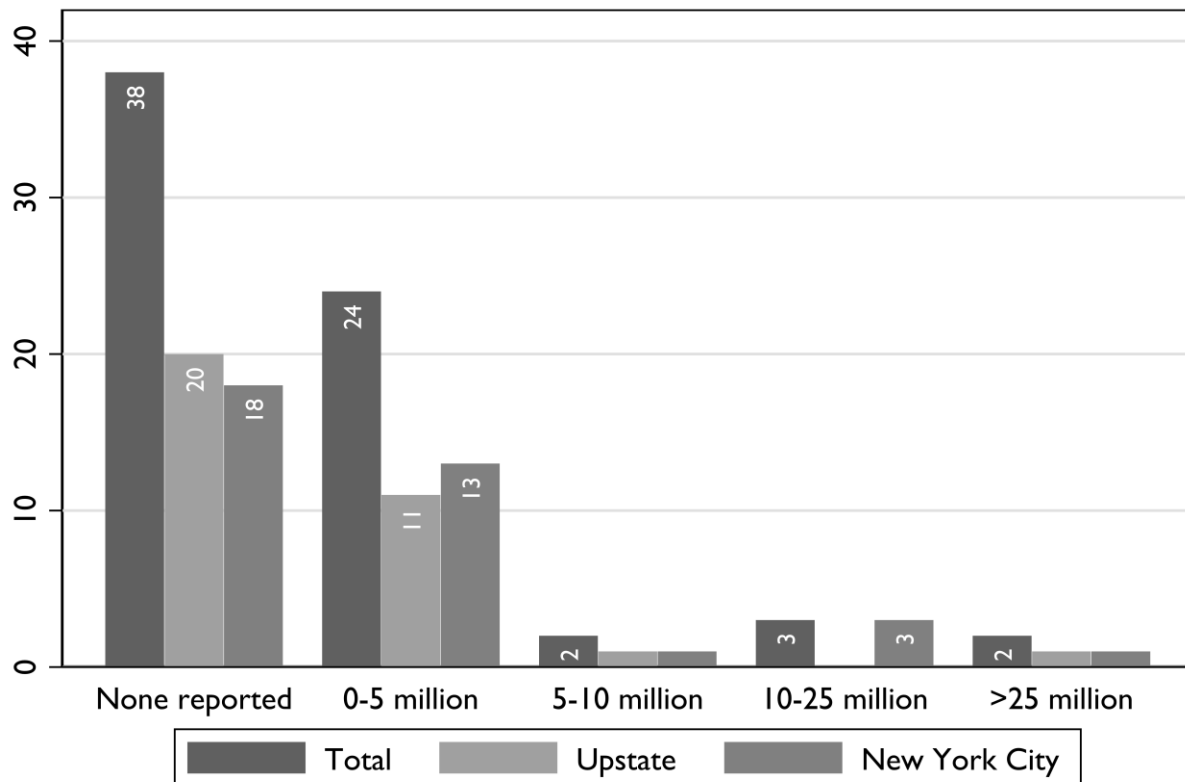


Figure 12 - Number of Organizations by Endowment, Reserves, and Investments



As the cost of health care increases, expenses outpace revenue for nonprofits relying on government contracts using insufficient fringe and overhead rates. Nearly half (45%) of organizations report that government contracts do not cover all health care, pension, and other fringe benefit costs. One interviewee said the cost of medical “doubled in one year.” Two others called the growth in medical expenses “astronomical.”

In addition to hidden costs imposed by contract delays, rate delays, and skyrocketing costs of healthcare, there are additional costs not covered by government contracts. As one nonprofit leader said, “Government doesn’t fund 100% of what it takes to run a good program. They just don’t. They expect you to put in some money.” Depending on the contract, uncovered expenses may include staff salary or fringe enhancements to retain talent; interest on a letter of credit, loans and mortgages; depreciation; ‘bad debt’ (often incurred when a child’s private insurance requires a copay); administrative overhead in excess of about 15%; and staff development expenses. Another nonprofit

leader said, “They don’t fund 100% of what I would do for my child” and listed the following: funds to bring a foster child along on a family vacation, fines and tickets that the child may incur, and funeral expenses if a child dies in excess of the small amount provided by the government. One organization spoke about the “onerous” administrative expenses of a specific, relatively small contract. They estimated that it cost about \$20,000 in administrative time for every \$80,000 in funds they were able to draw down.

Upstate organizations face an added challenge of working with considerably more distinct government agencies than city organizations. Some of those contracting relationships function well. Several upstate nonprofit leaders spoke highly of their work

*“Government doesn’t fund 100% of what it takes to run a good program. They just don’t.*

*They expect you to put in some money.”*

with local school districts, calling them “true partners” who “respect” the nature of their work. Some of the upstate county social services departments, however, are relatively small and use outdated technology. For example, several upstate nonprofit leaders noted there are counties that still use “green bars,” the old dot-matrix paper with green stripes, for billing. At the end of the month, the nonprofits receive a stack of paper via mail. Nonprofit fiscal staff manually check it over so that it matches with their records, and only then can the organization bill the government agency. More than one leader remarked that it is “insane” and “beyond belief” that this is not yet automated, given that the organizations are increasingly required to track expenses and program service delivery for complex State evaluation systems.

Just as nonprofits have adopted innovative methods to adapt to dysfunctional administrative procedures and insufficient or unreliable revenue streams, so have some government agencies. For example, when contracts are not registered in a reasonable amount of time, New York City’s Administration for Children’s Services will often advance funds to organizations so they can begin providing services. Consistently, when asked how they handle cash flow issues, 61% of organizations said they seek assistance from government funders.

When faced with cash flow dilemmas, nearly all organizations (94%) cut expenses, despite the potential repercussions on future government funding as noted above. Other responses include drawing on lines of credit (73%) and extending payables to vendors (67%). In interviews, nonprofit leaders describe increasingly granular accounting, planned deficits, and cutting back on everything from copy paper to staff space.

### III. Challenges for the Future

#### Opportunity Costs

In addition to the cash flow issues already discussed, agencies have staffing and management challenges relating to high turnover, especially of front-line staff, specifically to deal with new populations from juvenile justice and young offenders who enter the system as a result of implementing “Raise the Age” and “Close to Home.” Also, implementation of Medicaid Managed Care creates more complex reimbursement processes.

There are tremendous opportunity costs associated with the need for CEO’s and CFO’s to focus on day-to-day financial issues and the implementation of new mandated programs. Organization leaders count innovation, expansion and operational efficiencies among the opportunity costs imposed by contracting dysfunction and the array of issues associated with implementation of mandated programs. One CFO summarized the issue, “We wouldn’t be working 60 or 70 hours a week if we didn’t spend all our time rebilling and reapplying due to late payments and managing among all the government agencies’ different un-linked systems. The same information gets duplicated four or five times depending on which agency is getting the report. We’re always pulling information for different reasons. There’s a lot of overtime that we don’t get paid for. You never feel like you’re caught up. It’s a constant time crunch.” Another echoes the sentiments of his colleagues when he decries the opportunity costs, stating that if administrative staff were not “wearing so many different hats” there would be more time for development (including for raising capital for repairs and renovations), innovative and more detailed reporting to better understand potential efficiencies, and improved program tracking and management.

*“There’s a lot of overtime that we don’t get paid for. You never feel like you’re caught up. It’s a constant time crunch.”*

Several interviewees described administrative staff taking on multiple roles to save costs. Someone in fiscal might, for example, also work in operations, programs, or information technology. Nonprofit leaders describe facing chronic deficits with little will to cut programs, resulting in eliminating administration positions via attrition. The jobs, however, still need to be done.

One casualty is innovation. Governments contract with the private sector in part because non-governmental organizations are presumably more innovative. Many of the CFO’s and CEO’s interviewed described innovations they had implemented that saved resources while improving services for children. For example, one organization described a therapeutic crisis respite program. It avoids expensive inpatient psychiatric care and allows children in crisis to simply have the time and space they

need to prepare for placement. The counselors and program directors agree that the program is working very well. It was initially funded with a one-year grant which was then extended to 3 years, but it is not an integrated part of government contracting. The organization wants to make the program sustainable but the CEO has met barriers. He notes that the State does not “talk the same way we do” about child welfare, and states that there is insufficient time and staff resources available to research the program well enough to justify its expenditure and demonstrate its savings potential.

Nonprofit leaders discussed how the hyper-vigilant reporting necessary to maintain or grow rates – that is, carefully tracking spending because expenditures in one year inform rates they can use two years later – prevents fiscal staff from planning for the future or supporting innovation. Consistent with the therapeutic respite example above, one leader noted that they are unable to spend the time necessary to accurately calculate unit costs for each program (e.g., costs per child, costs per service). The organization’s leader feels these same barriers are preventing them from adequately preparing for the transition to Medicaid Managed Care discussed below.

Most nonprofits (79%) turn to private resources to make up for the above-noted shortfalls. Privately-raised funds are used to offset deficits in government support: organizations report that much of their net revenue from private fundraising is used to cover expected deficits in a given year, and nearly all organizations that raise private monies use them to bridge deficits. These funds, however, are scarce and also needed for program enhancements, staff retention, and unexpected capital expenses.

### ***Medicaid Managed Care***

Based on State mandate, the sector is in the process of shifting from per-diem billing to a Medicaid Managed Care funding structure for the provision of health and mental health services. With per-diem contracts, nonprofits are reimbursed according to fixed rates, making billing relatively straightforward and predictable. With Medicaid Managed Care, nonprofits will negotiate with managed care companies for reimbursement. Different services may be reimbursed at different rates, depending on both the nonprofit and the managed care company. (During a transitional period, organizations will be paid based on “residual rates.”) Nearly all (96%) organizations anticipate that the Medicaid Managed Care transition will have some effect on their operations. Forty-one percent anticipate making, or are already making, major changes, and anticipate major challenges. Some organizations feel prepared for these challenges. They have staff with experience in similarly-structured programs. Some have brought on consultants or hired staff specifically to manage the transition. Other nonprofit leaders expressed financial, human resources, and programmatic concerns. It is anticipated that rates and payments under Medicaid Managed Care will be less predictable. Obtaining reimbursement is expected to be more time-

consuming for fiscal and program staff, further exacerbating the barriers to planning and innovation. CFO's are concerned that fiscal staff may experience a learning curve before they can effectively negotiate with managed care companies or prepare the type of quantitative justifications for rates that those companies expect.

### ***Recruitment and Retention***

Recruitment and retention emerged as major issues for the surveyed and interviewed CFO's and CEO's. As nonprofits often are unable to offer competitive wages or benefits, or wage increases over time commensurate with other sectors, and as they cut back on benefits even as their work becomes increasingly difficult with changing populations and policies, they are facing significant staffing challenges. In interviews, CFO's and CEO's describe losing talented staff to larger organizations; hospitals; schools; and the local county, City, or State government agencies. One noted that there are "less regulated, better paying jobs out there." Some government agencies, such as the Administration for Children's Services, have improved staff-to-client ratios to address burnout. Overall, however, private nonprofit leaders are reporting losing residential counselors quickly to burnout, and losing therapists, social workers, and others to better paying positions. Even maintenance workers turn over due to low pay. One CFO noted that maintenance workers can earn the same amount working at McDonalds -- plus they get food. Many CFO's and CEO's attribute high turnover to increasingly difficult-to-serve children as well as uncompetitive wages and benefits.

It takes time, often around two or three months, to complete background checks and train frontline staff. Nonprofit leaders report that staff who find more lucrative opportunities elsewhere may not last very long past training. One CFO noted that her organization was effectively functioning as a training facility for the county, where her would-be employees have accepted better-paying positions. Several organizations report turnover rates of frontline staff around 40%, while others estimated the rate as much lower, but still identified turnover as a major problem. This is despite organizations' significant efforts to address the problem: about 78% of organizations have selectively increased salaries for staff members at risk of turnover,

even when funds were not available for other employees; 63% have provided tuition reimbursement; 55% flexible scheduling; and 51% other non-cash benefits.

Several nonprofit leaders noted that they have staff working in otherwise identical jobs, but under lines funded at different rates by different government agencies. Some nonprofit leaders have used privately raised monies to equalize wages; as one respondent put it, "otherwise one program is going to

cannibalize another.” Many others noted unequal pay for equal work as a problem they wish they could solve but lack the available resources.

The changing policy landscape presents problems for retention as well. As organizations prepare to transition from per diem to Medicaid Managed Care, and as residential and family foster care services are shrinking, organizations are pursuing new licenses for various types of clinical work. These will require some staffing changes. Whenever there is a major change, nonprofit leaders report that frontline staff turnover increases.

Recruitment and retention challenges may not appear on the balance sheet, but they create pressures that have very real consequences. When programs are missing case workers, counselors, and advocates, program directors must fill in: the children must be served regardless of staffing issues. This can result in less time spent planning programs and managing staff, which in turn can compromise the working environment for both incoming and seasoned staff.

### ***Relationship with Government Agencies***

While many nonprofit leaders recognize that government agencies are operating within their own constraints and mandates that may unintentionally obstruct the nonprofits’ fiscal and program processes, they also perceive an insensitivity on the part of government agencies. In short, nonprofit leaders feel that their organizations are expected to care for children 100% of the time, and that government assumes slowing payments or providing insufficient or unpredictable payments for those services will not result in a loss of service provision. In interviews, many CFO’s expressed that the perception is correct: their fiscal departments will take every necessary step to pay mission-driven frontline staff who are morally obligated to care for children. Fiscal directors and boards are left absorbing tremendous risk, including borrowing to support payroll while payments are delayed. In return, government agencies comfortably rely on the nonprofits and absorb no risk of leaving children without care.

At least one CFO has re-positioned her organization in response. She spoke about her approach to new programs and contracts, saying, “We’re not doing something if we’re not getting paid for it.” She said they cannot simply be mission driven any longer; they’d rather reject contracts with difficult agencies and reject programs with unpredictable or low rates. In her words, they would rather be smaller than “struggling for dollars.” Overall, 84% of organizations have, at least once in the past, decided against bidding on a contract because it did not cover the cost of running the program. Twenty percent have been awarded contracts and then rejected them for the same reason.



Relatedly, there is a double standard when it comes to efficiency and overhead. Specifically, nonprofit organizations are held to a standard of low administrative and especially low overhead costs for fundraising. Government funders, on the other hand, are not, and often require considerable unreimbursed administrative time and effort. One CFO's experience exemplifies the double standard. He described hiring a grant writer and an additional review service to ensure high scores on federal grant applications. He said that grant applications can ask for "details for \$300 of clothing. They want to know are we going to buy socks, shoes ... but odds are it will vary upon need." Another CFO noted that while some government agencies like New York City's Administration for Children's Services are admirably deploying small, gap-filling funding streams for specific expenses, these are rarely provided with any administrative overhead. The task of tracking and administering these much-needed smaller contract add-ons are expected to be accomplished by already-overburdened fiscal and program staff. Government contracts could likewise be held to a standard of requiring similarly low administration-to-program ratios.

## METHODOLOGY

Most of the 100+ nonprofit organizations in New York involved in child welfare have provided data for this report. Unless otherwise noted, the primary longitudinal analysis includes those 69 organizations with complete audited financial statement data for fiscal years 2013 through 2017. Although financial information for all organizations was not available for all five years since 2013, a total of 80 and 79 organizations provided data for FY2016 and FY2017, respectively. The cross-sectional trends for 2016 and 2017 report estimates from all available organizations, while longitudinal trends rely on the consistent sample of 69 organizations.

It is also important to note that several child welfare agencies merged, underwent structural changes or ceased operations in the years following the 2012 report. Therefore, the universe of organizations in the present study is not directly comparable to the 2012 report. However both the 2012 and this current report include data for the vast share of providers in this field.

In total, 51 organizations completed the hour-long phone survey and 43 completed the online survey. Researchers spoke with 9 of the respondents, in person or on the phone, through long-form interviews on a broad variety of topics, for approximately 90 minutes each. The quotes in this report are from those interviews unless otherwise attributed. All respondents were guaranteed confidentiality via a process of informed consent. The Baruch College Institutional Review Board approved the study.

## MANAGEMENT ADDENDUM

The following summary highlights the results of surveys and interviews with CFO's and CEO's of COFCCA member agencies pertaining to financial management and governance practices.

### ***Board Oversight***

Boards of COFCCA member agencies are actively engaged in oversight of the financial affairs of their agencies.

- COFCCA agency leaders estimate that 30% of the time at board meetings is devoted to financial matters, on average
- More direct oversight is usually delegated to the Finance Committee for operational matters and the Audit Committee for compliance and financial statement matters
- Oversight and direction for investable funds (endowment and funds available for investment) is usually delegated to the Finance Committee
- Finance Committees receive regular reports from staff dealing with monitoring spending and the assessment of interim financial statements

### ***Due Diligence and Transparency***

- COFCCA member agencies responded to the enactment of the Non-Profit Revitalization Act by reviewing by-laws and making changes where required, particularly with regard to provisions related to conflict of interest and whistleblower policies
- Many agencies responded to the FEGS bankruptcy by reviewing internal policies and procedures and reporting results to boards and appropriate committees

### ***Financial Reporting***

- Most agencies adopt rigorous standards for financial reporting
- Books are usually closed within 30 days of the end of the month
- Financial reports are shared and discussed with executive and senior programmatic managers as well as regularly shared with the appropriate board committee

### ***Cash Flow***

- Cash flow is an ever-present concern for most agencies
- Most have cash flow models which allow them to project the availability and need for cash and to determine how to deal with receivables and accessing cash from reserves or lines of credit

- Cash flow matters are regularly shared with senior management as well as the appropriate board committees

### ***Involvement in Planning***

CFO's are perceived as being important members of senior management and involved when agencies engage in strategic planning.

## AUTHOR BIOGRAPHIES

***The Baruch College Center for Nonprofit Strategy and Management*** (CNSM) is a globally-recognized leader in analyzing the evolving role of nonprofit organizations in our society, politics, and the economy. Through community engagement, teaching, and research, it examines how nonprofit organizations intersect with government, business, philanthropy, and communities to help solve today's most pressing policy issues. CNSM's New York City location promotes active engagement with the nation's most complex nonprofit sector, and secures internship and placement opportunities with many nonprofit organizations.

***The Council of Family and Child Caring Agencies*** (COFCCA) is the principal representative for nearly all the not-for-profit organizations providing foster care, adoption, family preservation, juvenile justice and special education services in New York State. COFCCA is comprised of over 100 member organizations, ranging in size from small community based programs to the nation's largest multi-services agencies — all of which share the mission of serving children and families. COFCCA works with its members and government to ensure quality services for our most vulnerable children — children who have suffered abuse and abandonment and children at-risk.

***Rahul Pathak*** is an Assistant Professor at the Austin W. Marxe School of Public and International Affairs at the Baruch College, City University of New York. Before joining CUNY, he worked for the Fiscal Research Center and Center for State and Local Finance at the Georgia State University, Atlanta. Rahul's principal research interests lie at the intersection of public finance and social policy. He is particularly interested in the functioning of the subnational governments and institutional reforms to promote an equitable and efficient provision of public goods. He also works on social policy and international development topics as they relate to public finance. His research has appeared in journals such as *Public Administration Review*, *Regional Science and Urban Economics*, *State and Local Government Review*, and *State Tax Notes*. He received his Ph.D. in Public Policy from the Andrew Young School of Policy Studies (AYSPS) at Georgia State University, Atlanta and holds a Master's degree in Development Studies from the Tata Institute of Social Sciences, Mumbai. At Baruch, he teaches courses related to public finance and budgeting. He is also the recipient of the AYSPP Dean's Award for Excellence in Teaching Public Policy.

***Alexis Perrotta*** is a Lecturer Doctoral Schedule at the Austin W. Marxe School of Public and International Affairs, Baruch College, City University of New York. Ms. Perrotta earned a doctorate in Urban Planning from the Columbia University Graduate School of Architecture, Planning and Preservation. She has a Master's degree in Public Administration from the Columbia University School of International and Public Affairs and a Bachelor of Arts from Wheaton College. Ms. Perrotta has over

10 years of professional experience in affordable housing development, homelessness advocacy, and city- and state-level policy analysis in the fields of congestion pricing, transportation finance, housing, and property taxes. She is a founding board member of Housing Plus, a nonprofit organization providing residential alternatives to incarceration for women in New York City. At Baruch, she teaches research methods, community development and transportation policy.

**James A. (Jack) Krauskopf** came to Baruch College in 2004 as Distinguished Lecturer and Director, Center for Nonprofit Strategy and Management. His teaching and research included public and nonprofit management, human services administration, and emergency preparedness. He was Chief Program Officer for the 9/11 United Services Group, formed in 2001 to coordinate social services organizations assisting people affected by the September 11 World Trade Center attack. He was Commissioner of the New York City Human Resources Administration, Deputy Secretary of the Wisconsin Department of Health and Social Services, Deputy and Acting Director of the Cleveland Department of Human Resources and Economic Development, and Director of the Rutgers University-based Office of Newark Studies reporting to the Mayor. At The New School for Social Research, he was Dean of the Robert J. Milano Graduate School of Management and Urban Policy, Senior Vice President for Administration and Finance, and faculty member in urban policy. He was President of the Corporation for Supportive Housing and senior fellow at the Aspen Institute in New York working on human services policy. He has taught at Princeton University's Woodrow Wilson School, the University of Wisconsin, and Rutgers Law School; and is on the boards of the Center for Urban Community Services, United Neighborhood Houses, Citizens' Committee for Children, Cultural Institutions Retirement System, and Brotherhood-Sister Sol.