

Describing the Feasibility of Using Public Records to Determine a  
Nonprofit Organization's Readiness to Engage in Partnerships with  
Government Entities

By

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Applied Research Project

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## **Abstract**

The purpose of this applied research project is to first describe the challenges that government entities face when assessing the readiness of nonprofit organizations to engage in government-nonprofit partnerships and second, to offer recommendations to improve how a nonprofit's readiness for government-nonprofit partnerships is determined. A comprehensive review of scholarly literature about nonprofits was used to develop a conceptual framework comprised of nine characteristics about nonprofit organizations that government entities can independently research that signal a nonprofit's readiness for government-nonprofit partnerships. Content analysis of publicly available online documents for a sample of twenty-five nonprofit organizations was used to determine the feasibility of obtaining information about these nine characteristics using only the internet. The research findings showed that it was feasible to utilize publicly available information, accessible through the internet, to determine the readiness of most nonprofit organizations for government-nonprofit partnerships. Public administrators that are interested in establishing effective partnerships with nonprofits should consider utilizing this research to improve their processes for determining a nonprofit organization's readiness to engage in partnerships with government entities.

## **About the Author**

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## **Chapter 1**

### **Introduction**

#### **Emergence of Government-Nonprofit Partnerships**

In the United States, government entities at the federal, state and local levels have had a long history of partnering with nonprofit organizations for the delivery of social services but only in the past four decades have nonprofits become the principal suppliers of government-financed social services (Frumkin 2002, 71). Beginning in the 1960s and 1970s, The U.S. nonprofit sector's role in implementing social services programs grew significantly due to the expansion of social services programs during the Great Society by the Johnson administration (Cho and Gillespie 2006, 500). President Richard Nixon also continued to support the growth of the nonprofit sector during his administration. This increased and sustained support by the federal government further strengthened the U.S. nonprofit sector's position as a significant source for the delivery of government-financed social services.

By the end of the 1970s, the U.S. nonprofit sector had become the primary channel by which government-financed social services were delivered and government entities became the largest funders of social services delivered by nonprofits (Frumkin 2002, 71). Although government funding for nonprofit organizations declined in the 1980s and 1990s due to political ideology of the Reagan and Bush administrations that pushed for reduced government involvement in supporting social services delivery, nonprofit organizations continued to be the dominant providers of social services in the U.S. (Cho and Gillespie 2006, 500). As a result, government entities have become increasingly dependent on nonprofit organizations to provide social services (Herman and Renz 2000).

Four decades of continuous growth of the U.S. nonprofit sector has resulted in an elaborate network of partnership arrangements between nonprofit organizations and federal, state and local governments, where nonprofits are delivering the majority of government-financed social services in the U.S. (Salamon, 1987). This growth has had a considerable impact on not only the number of nonprofit organizations in the U.S. but also the growth of employment and volunteerism among nonprofits and the overall economic impact of nonprofits on the U.S. economy. Specifically, In 2011, over 1.6 million nonprofit organizations registered with the Internal Revenue Service, with 1.1 million of those nonprofits classified as charitable organizations that serve the general interests of the public (Blackwood et al. 2012, 2). Regarding employment and volunteerism among nonprofits, it is estimated that 13.7 million Americans were employed by nonprofits in 2010 and 64.7 million adults volunteered for nonprofits at least once during 2011 (Roeger et al. 2012, 35). In terms of sheer economic impact, it is estimated that in 2010 nonprofits contributed \$805 billion in economic output to the U.S. economy, which accounts for over five percent (5.5%) of U.S. annual GDP (Blackwood et al. 2012, 1). It is clear that the historical growth of the U.S. nonprofit sector has made nonprofit organizations an essential part of the social services infrastructure, the national workforce, and the U.S. economy.

### **Government-Nonprofit Interdependence**

Due to the nonprofit sector's growth, government entities have become increasingly dependent on nonprofit organizations to deliver social services to people in need, making the nonprofit sector an indispensable part of the social services delivery infrastructure in the U.S. (Cho and Gillespie 2006, 493). As key players in the implementation of social services delivery, government entities and nonprofit organizations must work together in partnership to ensure the

needs of citizens are met and each participant in these partnerships has unique roles that they fulfill. It is important to understand that governments are solely obligated to meet the service needs of the public and that nonprofit organizations function as the vehicle by which government entities meet various public service needs (Cho and Gillespie 2006, 496). Nonprofit organizations have taken on this role of delivering government-financed social services because government entities lack the infrastructure and experience to effectively deliver services (Van Slyke 2006, 159). Thus, government entities are dependent on the ability of nonprofit organizations to provide services. This dependency goes both ways. Nonprofit organizations are dependent on government entities as well because most nonprofits lack the funding needed to maintain their ability to deliver services long-term (Cho and Gillespie 2006, 495). This dynamic between government and the nonprofit sector has resulted in a mutual dependence because both sectors rely on resources the other possesses to achieve a common goal that both parties cannot achieve independently (Donley 2012, 46). In nonprofit research, the dynamics of government-nonprofit partnerships is commonly explained by resource dependence theory.

Resource dependency theory focuses primarily on explaining how the exchange of power and resources impacts the formation and ongoing effectiveness of government-nonprofit partnerships (Cho and Gillespie 2006, 494). This theory tells us that organizations will seek to establish partnerships with other organizations when both entities determine that the other party has strengths and resources that they do not possess but consider vital to achieving success. In relation to government-nonprofit partnerships, government entities have not historically provided social services because they lack experience and infrastructure to do so, but to meet public service needs will make funding opportunities available to nonprofit organizations that are capable of delivering services. On the nonprofit side, nonprofit organizations have increasingly

become the providers of government-financed social services but lack reliable in-house funding sources to sustain the provision of services and thus will seek out government financing to support the delivery of services. Therefore, both government entities and nonprofit organizations that engage in partnership are mutually dependent on the other's resources to achieve their own respective goals.

Resource dependency theory offers a clear theoretical basis for understanding why government entities and nonprofit organizations engage in mutually dependent partnerships. However, resource dependency theory also offers an understanding about how resource exchange between partnering organizations can influence the power dynamics of a partnership in a negative way. For example, if a nonprofit organization's need for government funding outweighs a government entity's need to deliver services to the public, then the government entity has more power in the partnership and can more easily influence the behavior of the nonprofit organization (Cho and Gillespie 2006, 500). This type of power imbalance can result in negative consequences for the partner with less power because an organization with a power advantage may choose to abandon the mutual interests of both partnering organizations by leveraging their power for their own self-interest. This concept of power imbalance is explored extensively from many perspectives in nonprofit literature, but for the purposes of this research paper, the discussion of power imbalance explores how information exchange, or lack thereof, can negatively impact the mutual interests of partnering organizations engaged in government-nonprofit partnerships. Specifically, this research focuses on how nonprofit organizations can withhold information, as a resource, in a government-nonprofit partnership for their own self interest.

## **The Problem: Information Asymmetry**

Government entities that seek out partnerships with nonprofit organizations often know very little about potential nonprofit partners at the onset of a new partnership (Van Slyke 2006, 162). This lack of information is known as information asymmetry and is the central concept of agency theory, also known as principal-agent theory. Agency theory is a theoretical framework used in management and economics literature to describe how principals and agents interact in contractual partnerships and can be applied to government-nonprofit partnerships (Van Slyke 2006, 162). The primary focus of agency theory is on how information asymmetry between the principal and agent impacts the power dynamics between two organizations in a contractual arrangement. For the purposes of this research, principals are defined as government entities and agents are defined as nonprofit organizations. Regarding government-nonprofit partnerships, agency theory, much like resource dependency theory, explains that a government entity will choose to partner with a nonprofit organization when the government entity determines it is less costly to contract for the delivery of service than to develop the expertise and capacity to provide services in-house. The role of a nonprofit organization is to negotiate with government entities on the terms of the contractual agreement, but agency theory explains that nonprofits hold an advantage with regard to information asymmetry, exposing government entities to risk because nonprofits may choose to exploit their advantage for self-gain rather than pursue the mutual interests of both contractual parties equally (Van Slyke 2006, 162).

Because of this information asymmetry, government entities are in the position of having to choose to partner with nonprofit organizations while possessing little to no information about their readiness to deliver services in a way that serves the mutual interest of both parties. Nonprofit literature explains that information asymmetry can be overcome by the terms of the

contractual relationship (Van Slyke 2006, 166), but this approach only addresses how to manage relationship dynamics after a partnership has been established and does not provide guidance for government entities to avoid partnering with nonprofits that lack the organizational readiness to comply with the terms of a partnership. Simply put, government entities are unable to avoid troubled government-nonprofit partnerships if they are blind to information about a prospective nonprofit partner that would be a reason for concern. This information asymmetry enables potentially self-interested nonprofit organizations to withhold information that would otherwise signal to government funders that a nonprofit organization lacks the organizational readiness to comply with the terms of government initiated partnerships for the delivery of services. An example of the negative consequences of information asymmetry in government-nonprofit partnerships is reviewed in the next section.

### **Consequences of Deception**

Government entities can find themselves the victims of nonprofit fraud when they fail to do their due diligence in assessing the readiness of potential nonprofit partners to engage in government-nonprofit partnerships. The consequences of this fraud can mean the loss of significant taxpayer dollars that would otherwise be used to fund the delivery of services to clients, citizens and constituents that government entities are obligated to serve. A representative example of these consequences is illustrated through the story of Family Connections, a local nonprofit organization that was based in Austin, Texas.

In April of 2010, Austin-based nonprofit Family Connections was forced to close its doors due to financial problems resulting from suspected misconduct of its executive director (Ball and Desheimer 2010). The former executive director faced criminal charges for providing

fraudulent audits to state government funders for 6 years, including Travis County Health and Human Services, the Texas Department of Family and Protective Services, and the Texas Department of State Health Services. Family Connections, which provided social services to 32,000 people annually, was also found to be hundreds of thousands of dollars in debt to the Internal Revenue Service and creditors due to stolen or mismanaged money. By the time the executive director's deception was fully known, she could not be found by investigators and was believed to have left the country. An investigation by local media on the closure of Family Connections revealed that the former executive director had a criminal past that was not researched by the nonprofit and that the board of directors was blind to the nonprofit's financial problems due to lack of oversight. Both of these are believe to be contributing factors that led to the shuttering of Family Connections, and prompted the City of Austin to change how it manages contractual relationships with nonprofit organizations (Ball 2011).

In this case, multiple government agencies entered into contractual arrangements worth millions of dollars for the delivery of social services to tens of thousands of service recipients, but were unaware of critical information about the organization's finances and the criminal past of the executive director. This is representative of the type of information asymmetry to which government entities are susceptible because this information likely would have influenced these agencies' decision to partner with Family Connections. However, the fault here lies with all parties involved. First, the former executive director of Family Connection knowingly withheld information about her criminal past and the veracity of data included in financial reports and audits. Second, the board of directors unknowingly contributed to this deception through poor oversight of the organization's operations and finances. Third, government entities failed to

properly evaluate the nonprofit organization and its key staff before engaging in and continuing the contractual partnership.

The example involving Family Connections illustrates how a nonprofit organization's withholding of information, combined with government's lack of research, can result in a government entities being defrauded of tax payer dollars and the public being denied services. When both of these failings occur, government entities are left without critical information to make good judgments about which nonprofit organizations are ready to engage in government-nonprofit partnerships. If government entities are expected to ensure that quality services are delivered to the public, then citizens must demand that governments take a proactive approach to thoroughly evaluating nonprofit partners and also ensure that government entities are equipped with the right tools to address information asymmetry where it exists between government entities and nonprofit organizations.

### **Proposed Solution**

Government entities should be proactive in addressing the problems presented by information asymmetry by conducting thorough evaluations of prospective nonprofit partners to ensure they have a minimum level of readiness to provide government-financed services. This can be achieved by government entities seeking out publicly available information about potential nonprofit partners that indicate a nonprofit has the organizational preparedness to engage in government-nonprofit partnerships. Unfortunately, government entities currently lack guidance on how to properly assess a nonprofit organization's readiness for government-nonprofit partnerships. Therefore, the proposed solution to this problem is to offer government

entities a methodology to guide a comprehensive assessment of a nonprofit organization's readiness to engage in partnerships with government entities.

The proposed solution can be accomplished through achieving three objectives. The first objective is to help government entities understand what characteristics about a nonprofit organization are important for assessing partnership readiness. The second objective is to help direct government entities to reliable sources of publicly available information about these characteristics. The third objective is to establish that it is feasible to use publicly available records to obtain information that indicates a nonprofit organization's readiness for government-nonprofit partnerships. This final objective is critical for this proposed solution because it acknowledges that government agencies may have to rely on publicly available information because of limited time and resources and they may not have the capacity to engage in costly research to determine the partnership readiness of potential nonprofit partners.

### **Research Purpose**

The purpose of this research is to describe the extent that publicly available online records can be used to determine a nonprofit organization's readiness to engage in partnerships with government entities. This research relies on existing scholarly literature on nonprofit organizations to identify the following nine indicators of a nonprofit organization's readiness to engage in partnerships with government entities: leadership, human resources, services, revenue diversification, surplus margin, debt ratio, asset misappropriation, corruption, and fraudulent financial statements. These nine indicators are aligned under the following three categories in order to better manage the discussion and analysis of the nine indicators: organizational capacity, financial stability and fraud (Shields 1998, 214). These categories and the nine indicators serve

as the foundation for the conceptual framework that is introduced and discussed in chapter 2.

This conceptual framework is the basis for this study's research purpose to assess the feasibility of using publicly available records to determine a nonprofit organization's readiness to engage in partnerships with government entities.

## **Chapter 2**

### **Literature Review**

#### **Chapter Purpose**

This chapter examines scholarly literature for the purpose of developing a conceptual framework that identifies and categorizes indicators of a nonprofit organization's readiness for government-nonprofit partnerships. This is achieved through first identifying nine key indicators of a nonprofit's readiness to engage in partnership with government entities and second, aligning these nine indicators under three broad categories of nonprofit partnership readiness. The product of this chapter is a conceptual framework that can be used to understand what the key indicators are of a nonprofit organization's readiness to engage in partnerships with government entities.

#### **Conceptual Framework**

The conceptual framework for this study is presented in Table 2.1 and serves as the foundation for how the narrative is presented in this chapter. This table allows for concepts that are relevant to this research to be clearly outlined and explained (Shields and Tajalli 2006, 320). The conceptual framework introduces and organizes indicators important for assessing a nonprofit organization's readiness to partner with government entities. Research of scholarly literature on nonprofit organizations was done to identify organizational characteristics of nonprofits that are indicators of organizational success. The objective of this conceptual framework is to establish a theoretical basis for designing and operationalizing a research methodology for evaluating the feasibility of using publicly available online records to determine the readiness of nonprofit organizations to engage in government-nonprofit partnerships.

<b>Table 2.1: Conceptual Framework</b>	
<b>Descriptive Categories</b>	<b>Scholarly Support</b>
<i>Organizational Capacity</i>	Madeville (2007); De Vita and Flemming (2001); Krashinkshy (1990); Eisinger (2002); De Vita and Capitani (1998)
Leadership	Frederickson and London (2000); Green and Griesinger (1996); Herman and Renz (1999); Herman and Renz (2000); Brown (2005); Schuh and Leviton (2005)
Human Resources	De Vita and Flemming (2001); Tuckman and Chang (1991); Schuh and Leviton (2005); Bryan (2011); Eisinger 2002; Sowa, Selden and Sandfort (2004); Kim and Lee (2007)
Services	Lampkin et al. (2001); Sawhill and Williamson (2001); De Vita and Flemming (2001); Plantz, Greenway and Hendricks (1997); Cho and Gillespie (2006); Van Slyke (2006)
<i>Financial Stability</i>	Tuckman and Chang (1991) ; Trussel (2002)
Revenue Diversification	Carroll and Stater (2008); Wenli, Denison and Butler (2008); Trussel (2002); Chang and Tuckman (1994); Frumkin and Keating (2003)
Surplus Margin	Trussel (2002); Greenlee and Trussel (2000); Tuckman and Chang (1991); Ramirez (2011); Chang and Tuckman (1994)
Debt Ratio	Trussel (2002); Bowman (2002); Tuckman and Chang (1991); Calabrese (2012)
<i>Fraud</i>	Greenlee, Fisher, Gordon and Keating (2007); Prakash and Gugerty (2010)
Asset Misappropriation	Greenlee, Fisher, Gordon and Keating (2007); Enjolras (2009)
Corruption	Greenlee, Fisher, Gordon and Keating (2007); Prakash and Gugerty (2010); Rothschild (2012)
Fraudulent Statements	Greenlee, Fisher, Gordon and Keating (2007); Krishnan, Yetman and Yetman (2006); Frumkin and Keating (2003)

## **Organizational Capacity**

The term organizational capacity can have many definitions, but in this study it is defined as "the attributes that help or enable an organization to fulfill its mission" (Eisinger 2002). These attributes are the variables that influence a nonprofit's performance and allows nonprofit organizations to become more stable, improve on areas of weakness, adapt to environmental changes, and spend less time seeking resources (Mandeville 2007, 282). Organizational capacity is relevant in this study because government entities are relying increasingly on the nonprofit sector to deliver social services (De Vita and Capitani 1998). In addition, organizational capacity is particularly important for government-funded nonprofit organizations because they are often required to follow sophisticated regulatory and compliance standards (Krashinsky, 1990). Therefore, government entities should ensure that the nonprofit organizations with which they partner have the attributes to be successful. For the purposes of this study, the three attributes of organizational capacity that nonprofit organizations must possess are organizational leadership, human resources, and services (De Vita and Flemming 2001). These three elements of organizational capacity are described below.

### **Leadership**

Nonprofit leadership is a critical element of organizational capacity (De Vita and Flemming 2001, 18). Nonprofit organizations must possess leadership because it provides nonprofits direction for achieving goals (Frederickson and London 2000). In the nonprofit sector, the board of directors can be the most important source of leadership because of the strong correlation between organizational effectiveness and board effectiveness (Herman and Renz 1999, 114). As organizational leaders, nonprofit boards are expected to meet the needs of their

clients by advocating services and helping garner needed resources to improve the delivery of services (Green and Griesinger 1996, 382). In addition, nonprofit boards are both morally responsible for serving community interests and legally responsible for the conduct of the organization (Herman and Renz 2000, 147). Therefore, nonprofit boards are a critical element for understanding the strength of a nonprofit organization's leadership.

The effectiveness of a nonprofit organization's board is an important indicator of leadership (Schuh and Leviton 2005) because organizational effectiveness is strongly linked to effective board governance (Brown 2005, 317). Thus, information about a nonprofit's board can provide insight into what makes a board effective. Specifically, information about the activities of a nonprofit organization's board, such as evaluating board performance, defining duties of the board, and providing training for new board members, can be helpful in understanding what makes nonprofit boards effective (Herman and Renz 1999, 113). Therefore, nonprofit organizations demonstrate their organizational leadership through regular board engagement in various types of activities that are aimed at strengthening an organization's effectiveness.

It should be noted that specific activities by a nonprofit organization's board of directors have not been empirically proven to be the best indicators of organizational leadership because an accurate understanding of the mechanisms that make nonprofit boards effective has been difficult to determine (Brown 2005, 317). This is because the criteria for defining and measuring board effectiveness are lacking, making an empirical assessment of board performance a challenge for researchers. However, due to the lack of empirically proven criteria for determining board effectiveness, this study focuses on board practices and policies as indicators of organizational leadership.

## Human Resources

Another important indicator of organizational capacity is a nonprofit organization's human resources because it represents an organization's capability to meet objectives through the use of paid and unpaid labor (De Vita and Flemming 2001, 19). Nonprofit employees are considered by some researchers to be the most important human resource a nonprofit possesses because employees play a critical role in converting organizational resources into tangible services (Sowa et al. 2004, 715). When employees are managed effectively by a nonprofit, the nonprofit can expect better administered programs and services. Thus, the importance that human resources plays in helping nonprofit organizations achieve organizational goals makes this an essential indicator of organizational capacity.

According to De Vita and Flemming (2000, 19), nonprofits are more effective in achieving organizational goals when they have the necessary human resources, but there is no clear consensus in nonprofit literature on how exactly human resources can be used to measure organizational effectiveness (Sowa et al. 2004, 712). This makes the task of determining how information about a nonprofit organization's human resources can be used to demonstrate organizational effectiveness difficult. However, research does show that high employee turnover within nonprofit organizations presents various management challenges, including difficulty with recruiting new staff, training existing staff, and maintaining effectiveness in services delivery (Kim and Lee 2007, 227). Therefore, staff turnover is a viable metric to assess how human resources impact a nonprofit organization's effectiveness. This, in addition to the fact that nonprofit organizations with paid staff have a higher likelihood of organizational success (Eisinger 2002, 132), makes human resources an important indicator of a nonprofit's organizational capacity (Schuh and Leviton 2005, 172).

Government entities should not assume that prospective nonprofit partners have the human resource to be effective. It is prudent for government entities to carefully assess the human resource of a prospective nonprofit partner in order to make an informed judgment on the readiness of a nonprofit organization to engage in partnership with government entities. Thus, it would be useful for government entities to be able to rely on publicly available information about a nonprofit's human resources to determine a nonprofit organization's readiness to engage in government-nonprofit partnerships.

### Services

The services that nonprofit organizations provide to their clients are another essential indicator of organizational capacity because services represent the outputs a nonprofit organization produces and is capable of producing (Lampkin et al. 2001, 782). The types of services that nonprofit organizations can provide vary widely and can include recreational activities, educational classes, food distribution, and community awareness events, and can be used to demonstrate organizational effectiveness (De Vita and Flemming 2001, 22). The consensus among nonprofit researchers is that services, and any resulting outputs, produced by nonprofit organizations are essential to understanding the effectiveness of nonprofits because assessing these services is a critical first step to understanding how programs are being administered and how they can be improved (Plantz et al. 1997, 29). Thus, nonprofit services are an important indicator of organizational capacity.

Government entities have become the primary funders of nonprofit-delivered social services and expect that their nonprofit partners will effectively administer the services they finance (Cho and Gillespie 2006, 494). A nonprofit's past performance in delivering services is

an important indicator of how they can be expected to perform in the future (Van Slyke 2006, 174). Accordingly, a nonprofit's record of meeting performance measure is critical to showing government entities that they can and have successfully met service delivery objectives (Lampkin et al 2001, 790). Nonprofits that are the most effective at demonstrating success in delivering services define measurable, mission-oriented goals and gauge success against the achievement of those goals (Sawhill and Williamson 2001, 383). Therefore, information about a nonprofit organization's past performance in goal achievement can be an important indicator of organizational capacity because it demonstrates a nonprofit organization's capability of delivering services.

Government entities are reliant on nonprofit organizations to record and report information about their service accomplishments in order to gain understanding on a nonprofit's capabilities. It would be useful if government entities could obtain this information from publicly available online sources so that they can assess whether a prospective nonprofit partner is ready to engage in government-nonprofit partnerships.

### **Financial Stability**

Financial stability is an important consideration when government entities evaluate the readiness of nonprofit organizations to engage in government-nonprofit partnerships. A nonprofit's financial stability can depend on donor giving, revenue diversification, cash reserves and other factors (Tuckman and Chang 1991, 445). Much of the scholarly literature on a nonprofit's financial stability frames this issue by examining a nonprofit organization's financial vulnerability. Specifically, financial vulnerability indicates a nonprofit organization's ability to absorb financial shocks without immediately cutting back on services. Nonprofits that are not

financially vulnerable will likely not immediately cut back its services if they experience a sudden financial shock (Greenlee and Trussel 2000, 200)

The issue of financial vulnerability among nonprofit organizations is particularly important in the context of government-nonprofit partnerships because of the negative impact that financial shocks can have on a nonprofit's ability to provide services. Government entities need to be confident that their nonprofit partners are capable of fulfilling service delivery commitments even when financial shocks occur. When financially unstable nonprofits are unable to fulfill commitments due to sudden financial shocks, the communities that nonprofits serve may go without needed services and that may damage the credibility of government entities because they cannot fulfill their obligation to provide services (Greenlee et al. 2007, 677). Thus, a nonprofit organization's financial stability is essential to understanding an organization's readiness to engage in partnerships with government entities. For the purposes of this study, a nonprofit's financial stability is determined by its revenue diversification, surplus margin, and debt ratio (Trussel 2002, 20). These three indicators have been proven to be statistically significant gauges of a nonprofit's financial vulnerability and can be used by government entities to assess a nonprofit organization's readiness to engage in government-nonprofit partnerships.

### Revenue Diversification

Revenue diversification is a well-accepted principal of finance and has been widely embraced in the nonprofit community (Wenli et al. 2008, 53). The original concept of revenue diversification originated with Modern Portfolio Theory and states that investors will select long-term investments that minimize risk and variability while maximizing expected returns (Carroll and Stater 2008, 949). With respect to nonprofit organizations, this concept has been repurposed

as a revenue generation strategy to minimize volatility through selecting multiple revenue sources of relatively equal size. Diversification minimizes revenue volatility by ensuring that the loss of one revenue source does not financially cripple a nonprofit organization.

Research on revenue diversification among nonprofit organizations suggests that increased diversification may be linked to reduced levels of financial distress (Frumkin and Keating 2011, 153). It is suggested that diversification limits the instability that accompanies the reliance on any one funding source (Carroll and Stater 2008, 964). Accordingly, nonprofit organizations with diversified revenue are able to endure periods of financial distress due to a lost revenue source by relying on multiple, alternate revenue sources (Greenlee and Trussel 2000, 200). Thus, nonprofit organizations with multiple revenue sources of roughly equal size are better able to absorb financial shocks due to the sudden depletion or unavailability of a revenue source. Furthermore, it is argued that greater diversification reduces the likelihood that a nonprofit will cut programs and services when a financial shock occurs (Greenlee and Trussel 2000, 200). Thus, nonprofits with diversified revenue are more capable of maintaining services over time.

Nonprofit researchers have used the Revenue Concentration Index (RCI) to measure revenue diversification in organizations (Frumkin and Keating 2011, 155). RCI is calculated by using the number of revenue sources and the degree to which total revenue is dispersed across all sources (Chang and Tuckman 1994, 276). If a nonprofit's revenue sources equal 1, then the RCI will be 1. This is the highest possible RCI value (277). Nonprofits with a high RCI are more vulnerable to financial difficulties because they rely on few revenue sources (Trussel 2002). A nonprofit's RCI will decrease as the number of revenue sources declines and the amount of each source becomes more equal. Nonprofit organizations with a low RCI have multiple revenue

sources and may be better able to cope with financial shocks when one revenue source is depleted. Therefore, information about a nonprofit organization's revenue diversification can be an important indicator of financial stability because it signals a nonprofit organization's ability to absorb financial shocks without immediately cutting back services.

Government entities would only need to know specific information needed to calculate a nonprofit organization's RCI to assess their financial stability. Therefore, it would be useful if government entities could obtain this information from publicly available online information in order to assess a prospective nonprofit partner's readiness to engage in government-nonprofit partnerships.

### Surplus Margins

Surplus margin is a nonprofit organization's revenue minus its expenses, divided by total revenue (Tuckman and Chang 1991, 453). Surplus margin is calculated using two values. The first value is revenue received during a budget year, which generally includes investment revenue, sales, membership dues, program services, grants and gifts (Greenlee and Trussel 2000, 200). The second value is total expenses, which includes operating costs for administering the nonprofit's programs and services. A positive surplus margin means a nonprofit organization has unspent revenue. A high surplus margin means the nonprofit has more unspent revenue in relation to total revenue received. Conversely, a negative surplus margin means a nonprofit organization has no excess revenue.

The accumulation of excess revenue over expenses is important to the survival and growth of nonprofits (Change and Tuckman 1994, 286). Research on this topic suggests that nonprofits with a high surplus margin are less vulnerable to financial difficulties than

organizations with a low surplus margin and thus are more financially stable (Trussel 2002, 20). A high surplus margin enables a nonprofit to utilize excess revenue to fund operations without having to cut services in the event that future revenue declines (Tuckman and Chang 1991, 453). A low surplus margin means that a nonprofit organization does not have excess revenue to address revenue shortfalls and may be forced to cut program services if revenue declines. In addition, nonprofits with a negative surplus margin are more likely to already be in the process of reducing services. Therefore, the amount of excess revenue a nonprofit organization has in relation to total revenue received is an indication of a nonprofit's ability to maintain services should a financial shock occur. This puts nonprofit organizations in the position of having to decide how much revenue to keep on-hand as a buffer in order to maintain financial stability when financial problems occur (Ramirez 2011, 654). Therefore, information about a nonprofit organization's surplus margin is an important indicator of financial stability because it signals a nonprofit organization's ability to absorb financial shocks without immediately cutting back services.

Government entities can easily calculate a nonprofit organization's surplus margin, and thus determine its financial stability, using information about the nonprofit's total revenue and total expenses. Therefore, it would be useful if government entities could obtain this information from publicly available online sources for the purpose of determining a nonprofit organization's readiness to engage in partnerships with government entities.

## Debt Ratio

Debt ratio is a nonprofit organization's total liabilities divided by total assets, and measures the amount of borrowing a nonprofit does to finance its programs and services (Trussel

2002, 20). A nonprofit's total liabilities are its assets that are financed through debt (Calabrese 2011, 304). A nonprofit's total assets are the accumulation over time of excess revenue over expenses (300). The debt ratio provides a measure of how much a nonprofit organization borrows to finance its operations in relation to the amount of revenue used.

Research shows that nonprofit organizations with too much debt are at higher risk of financial insolvency and bankruptcy (Bowman 2002, 293). It is suggested that nonprofits that borrow to fund operations will likely do so only after traditional funding sources are unavailable to support the administration of programs and the delivery of services. Therefore, nonprofits that cannot finance their operations using total assets or revenue alone look to borrowing as a viable method of financing programs and services. The debt ratio provides a measure of the extent that a nonprofit organization finances their operations using borrowed dollars. Research suggests that this method of financing, as indicated by the debt ratio, signals a nonprofit's financial vulnerability (Trussel 2002, 20). Accordingly, nonprofits with a high debt ratio are more susceptible to financial problems and thus more likely to cut programs and services when financial shocks occur (Tuckman and Chang 1991, 445). Therefore, a nonprofit organization's debt ratio is an important indicator of financial stability because it signals a nonprofit organization's ability to continue providing services should a financial shock occur.

Government entities that have access to information about a nonprofit organization's total liabilities and total assets can calculate a nonprofit organization's debt ratio to determine its financial stability. Therefore, it would be useful if government entities could obtain data needed to determine a nonprofit organization's debt ratio using publicly available online information for the purpose of determining a nonprofit's readiness to engage in partnerships with government entities.

## **Fraud**

Nonprofit fraud is the deliberate misuse of resources by an employee or volunteer for personal gain and is an important consideration when government entities evaluate the readiness of nonprofit organizations to engage in government-nonprofit partnerships (Greenlee et al., 2007, 687). Government entities should not assume that nonprofit organizations are incapable of fraudulent activities because fraud among nonprofit organizations has been on the rise in the United States (Greenlee et al., 2007, 679). Government entities that seek to engage in partnerships with nonprofit organizations should be concerned about the growing potential for fraud in the nonprofit sector for two reasons. First, fraud committed by nonprofit organizations can impact the reputation of not only the nonprofit that engaged in the fraudulent activity but also the entire nonprofit community (Prakash and Gugerty 2010, 23). Second, government funding that is lost due to nonprofit fraud is difficult to recover and cannot be used to provide needed services (Greenlee et al., 2007 677). These reasons make the issue of fraud an important indicator that government entities should consider when assessing the readiness of nonprofit organizations to engage in partnerships with government entities.

## **Asset Misappropriation**

Asset misappropriation is when a nonprofit organization's assets are stolen or misused (Greenlee et al. 2007, 684). This type of fraud is commonly perpetrated by leaders, staff or volunteers within a nonprofit organization (686). Asset misappropriation can occur after assets have been received, before or after assets are actually recorded, or when expenses that do not exist are paid by the nonprofit organization. Nearly all reported incidents of asset

misappropriation involve cash and can include fraudulent billing, expense reimbursement, register disbursements, payroll manipulation and check tampering.

Research shows that asset misappropriation is the most significant fraud-related problem in the nonprofit sector (Greenlee et al. 2007, 686). Approximately 97% of all reported fraud is attributed to asset misappropriation. The median loss from asset misappropriation is \$100,000. In cases where nonprofit organizations paid cash for falsified expenses, otherwise known as fraudulent disbursements, the median loss was higher at \$145,000. Furthermore, the median loss was highest at \$350,000 for incidents of register disbursement fraud, which is the practice of falsifying register entries without documentation. These incidents of asset misappropriation indicate that nonprofits are susceptible to significant fraud-related losses in both dollars and services that members of the public would have otherwise received. Although there is no clear answer why asset misappropriation is a significant issue in the nonprofit sector, it has been suggested that insufficient governance is a contributing factor (Enjolras 2009, 779). Regardless of the cause, any incident of asset misappropriation is considered a sign that a nonprofit is not effective in preventing fraud and thus may not be ready to engage in partnerships with government entities.

Government entities can use information about incidents of asset misappropriation to assess the extent that a nonprofit organization is successful at preventing fraud. Therefore, it would be useful if government entities could use publicly available online information to obtain data about a nonprofit organization's involvement in asset misappropriate to determine a nonprofit's readiness to engage in partnerships with government entities.

## Corruption

Corruption is when a nonprofit organization's leadership, employees or volunteers use their influence or position within the organization inappropriately to impact an economic transaction (Greenlee et al. 2007, 684). Perpetrators of corruption act to benefit one's self at the expense of the nonprofit organization (686). Specific incidents of corruption can include bribes, rewards, extortion and conflicts of interest. With respect to fraud, any incident of corruption, or lack thereof, can signal a nonprofit organization's susceptibility to incidents of fraud.

High profile incidents of corruption in the United States involving well known organizations, such as the United Way and the Red Cross, have drawn recent attention to the issue of nonprofit accountability (Prakash and Gugerty 2010, 23). However these isolated incidents are only a fraction of the estimated \$40 billion lost to fraud in the nonprofit sector in 2007 and research shows that 20% of all reported cases of fraud involve corruption (686). The median loss from all reported incidents of corruption was \$189,400. Corruption involving conflicts of interest, which occurs when one participant in a fraudulent transition is not independent, was the most prevalent form of corruption and had a median loss of \$200,000 per incident. Bribery, which occurs when assets change hands to aid in fraud, was the second-most common type of corruption and had a higher median loss per incident of \$269,000. The median loss for extortion, which occurs when assets are obtained by the use or threat of force, was the lowest for all types of corruption at \$100,000. These types of corruption-related fraud deprive the nonprofit sector of millions of dollars that would otherwise be used to provide services to the public (Greenlee et al., 2007 677). The prevalence of this type of fraud contradicts the supposition that nonprofits are representatives of civic virtue and are therefore incorruptible (Rothschild 2013, 2). The reported incidents of fraud and their associated losses suggest that

corruption is a significant problem in the nonprofit sector. Therefore, a nonprofit organization's involvement in an incident of corruption is an indication that a nonprofit is not preventing fraud, and thus is not ready for partnership with government entities.

As the research suggests, corruption is a significant problem in the nonprofit community and can be costly for both nonprofits and recipients of services. When assessing if a nonprofit is ready for a government-nonprofit partnership, government entities could use incidents of corruption as a benchmark to determine whether a nonprofit is ready for partnership. Thus, it would be beneficial if government entities could use publicly available records to obtain information about a nonprofit's involvement in incidents of corruption to determine the readiness of a nonprofit organization to engage in government-nonprofit partnerships.

#### Fraudulent Financial Statements

Financial statement fraud occurs when nonprofit organizations falsify financial statements deliberately (Greenlee et al. 2007, 677). Specific incidents of financial statement fraud include overstating revenue, understating liabilities or expenses, recognizing revenue or expenses in the wrong period, reporting assets at either less or more than the actual value, and failing to disclose significant financial information (687).

General concerns have been growing regarding the quality of nonprofit financial reporting (Krishnan et al. 2006, 400). Research on this topic shows that among all the types of fraud, fraudulent financial statement fraud was the least prevalent, but was among the costliest to the nonprofit sector. A study on this particular type of fraud showed there were three cases reported to fraud examiners that varied in economic loss and the type of financial statement fraud committed (Greenlee et al. 2007, 677). The two reported incidents involving lack of disclosures

and inappropriate asset valuation resulted in a loss of \$100,000 each incident. However, overstating revenue was the remaining reported incident of financial statement fraud and resulted in a loss of \$10 million. Although the incidents of financial statement fraud were much lower than other types of fraud reported, the few reported incidents resulted in a significant median loss relative to other types of fraud. The magnitude of this problem seems to align with the growing concern about the inadequacy of existing reporting and oversight mechanisms regarding financial statements of nonprofit organizations (Keating and Frumkin 2003, 3). Therefore, a nonprofit organization's involvement in an incident of financial statement fraud is an indication that a nonprofit is not effectively preventing fraud, and thus is not ready for government-nonprofit partnerships.

Government entities can use information about incidents of financial statement fraud to assess the extent that nonprofit organizations are capable of preventing fraud. Therefore, it would be useful if government entities could obtain this information from publicly available online information in order to assess a nonprofit organization's readiness to engage in partnerships with government entities.

## **Conclusion**

This literature review highlights the numerous challenges that government entities face when attempting to identify nonprofit organizations that are ready to engage in government-nonprofit partnerships. Government entities must recognize that not all nonprofit organizations are ready to partner with government and should pay attention to the nine indicators of a nonprofit organization's partnership readiness. The introduction and discussion of these nine

indicators provides government entities a framework for assessing a nonprofit organization's readiness to engage in partnerships with government entities.

## **Chapter 3**

### **Research Methods**

#### **Chapter Purpose**

The purpose of this chapter is to explain the methodology used to assess the feasibility of using public online records to determine a nonprofit organization's readiness to engage in government-nonprofit partnerships. This is done by accomplishing four objectives. First, this chapter introduces content analysis as the primary research method in this study and provides the rationale for why content analysis was appropriate. Second, it describes the sample used in this research and details how the sample was chosen. Third, this chapter discusses how the results of the content analysis were coded. Finally, it explains how the conceptual framework introduced in chapter two was used as the basis for operationalizing a comprehensive research methodology for assessing the feasibility of using publicly available online records to determine a nonprofit's partnership readiness.

#### **Research Method**

##### **Content Analysis**

This study uses content analysis of publicly available online records about nonprofit organizations as the primary research method. Content analysis was the most appropriate research method for this study because it allowed the researcher to gather existing information about nonprofit organizations from "recorded human communications" (Babbie 1989, 333). The specific units of analysis for the content analysis in this study were records or documents that were accessible online and contained specific information about the nine indicators of a

nonprofit's readiness to partner with government entities. The content analysis involved an examination of various online information resources that contained information about nonprofit organizations. The primary method of research was done using an internet search engine because this method of inquiry represents the most readily available resource that the general public can use to search for information about nonprofit organizations. Any documents that were found online that contained information about nonprofit organizations were analyzed for specific information about the nine indicators of a nonprofit's readiness for government-nonprofit partners that were introduced in the conceptual framework chapter.

There were a number of reasons that content analysis was used as the primary means to investigate the feasibility of using public records to assess a nonprofit's readiness to partner with government entities. First, content analysis is well suited for this study because of "its economy in terms of both time and money" (Babbie 1989, 344). Relying on publicly available online information about nonprofit organizations allows the researcher to avoid costly and time intensive methods of inquiry such as interviews or surveys. This is an advantage that speaks to a central purpose of the study, which is to offer a simple and replicable methodology for researching a nonprofit organization's readiness to engage in partnerships with government entities. Second, content analysis has the advantage of being easy to duplicate because the results rely on data that are already available in public records. Third, unlike interviews or surveys, this method of inquiry allows the researcher to obtain information without having an effect on the subject of the research (Babbie 1989, 344). Thus, information about nonprofit organizations can be obtained impartially and independently because the data being sought is limited to existing records and does not require the collection of new data directly from nonprofit organizations.

## **Sample**

The content analysis in this study was of publicly available online records containing data about a nonprofit's readiness to partner with government entities, but a sample of nonprofit organizations was needed to guide the content analysis. Therefore, a sample of nonprofit organizations that were already engaged in a partnership with a government entity was selected. Specifically, a sample of twenty five nonprofit organizations was chosen, using systematic sampling, from the one-hundred ninety total nonprofit organizations that were listed as "Community Partners" with the Texas Health and Human Services Commission (HHSC). Once the sample of nonprofit organizations was chosen, content analysis was performed on online records and documents about each nonprofit in the sample to assess if publicly available online records could be used to determine their readiness for government-nonprofit partnerships. To ensure the anonymity of the nonprofit organizations selected for the sample, any information about the nonprofit organizations will remain confidential.

It is important to acknowledge that the nonprofit organizations that were selected for the sample in this research were not meant to be representative of the total diversity of organizations in the nonprofit sector. The nonprofits in this sample were chosen specifically to be representative of types of nonprofit organizations that would seek to engage in partnerships with government entities because of their existing partnership with a government entity. Therefore, for the purposes of this research, results of the content analysis for the nonprofits in the sample can be generalized and applied to other nonprofit organizations that seek to engage in partnerships with government entities.

## **Coding**

The results of the content analysis in this research were coded in order to organize the data for examination and interpretation. Specifically, coding was conducted for each of the nine indicators of a nonprofit's partnership readiness to show if the content analysis revealed that information about these indicators was publicly available online. For the purpose of coding, information about each of the nine indicators was considered to be publicly available online by meeting three criteria. First, information must be directly related to one of the nine indicators of a nonprofit's partnership readiness. Second, information must be accessible through the internet. Third, information must be available free of charge. Information that met all three of these criteria was considered to be publicly available online and the results were coded as one (1). Information that did not meet these criteria was not considered to be publicly available online and the results were coded as zero (0).

In addition, the three broad categories of partnership readiness, including organizational capacity, financial stability, and fraud, were also coded based on the results of the content analysis for the nine indicators. Specifically, information about each of the three categories was considered to be publicly available and thus coded as one (1) if information was found to be publicly available for at least one of the indicators that fell under the respective category. For example, the category of organizational capacity encompasses a nonprofit's leadership, human resources, and services as indicators of a nonprofit organization's readiness for government-nonprofit partnerships. If information was found to be publicly available about a nonprofit's leadership but information was not available about its human resources or services, the coding for the category of organizational capacity would be one (1). Alternately, if information was found to not be publicly available for all three indicators of organizational capacity, the result for

that category would be coded as zero (0). The details of this coding for each of the nine indicators and the three broad categories are outlined in Table 3.1.

### **Operationalization of the Conceptual Framework**

The conceptual framework in this study defines descriptive categories for nine key indicators that a nonprofit organization is ready to engage in partnerships with government entities. These indicators serve as the basis for the research methodology operationalized for this study. Table 3.1 outlines the operationalization of the conceptual framework. The first column lists the descriptive categories of the content analysis, which is comprised of the nine key indicators of a nonprofit organization's partnership readiness and the three categories under which the nine indicators were aligned. These descriptive categories guided content analysis of online information resources for the nonprofits in the sample. The second column lists the data source used for the content analysis. The third column lists the specific data elements that were supported as viable indicators of a nonprofit's partnership readiness by scholarly literature in the conceptual framework chapter. The final column lists the coding for each of the descriptive categories. The operationalization table links the research methodology back to each indicator of a nonprofit organization's readiness to engage in partnerships with government entities. For example, according to scholarly literature, revenue diversification is a key indicator of a nonprofit's financial stability (Frumkin and Keating 2011, 153). In order to determine a nonprofit's revenue diversification, the internet was searched for information about a nonprofit organization's sources of revenue, amount per source, and total revenue. This structured approach offers the researcher a methodology for identifying information about indicators of a nonprofit organization's readiness to engage in government-nonprofit partnerships.

**Table 3.1: Operationalization of the Conceptual Framework**

<b>Descriptive Categories</b>	<b>Data Source</b>	<b>Measure</b>	<b>Coding</b>
<b>Organizational Capacity</b>	<b>Internet Search</b>	<b>Is information publicly available online about any of the three indicators of “organizational capacity”?</b>	<b>0 – No 1 – Yes</b>
Leadership	Internet Search	Is information publicly available online about the board of directors?	0 – No 1 – Yes
Human Resources	Internet Search	Is information publicly available online about paid staff?	0 – No 1 – Yes
Services	Internet Search	Is information publicly available online about services provided?	0 – No 1 – Yes
<b>Financial Stability</b>	<b>Internet Search</b>	<b>Is information publicly available online about any of the three indicators of “financial stability”?</b>	<b>0 – No 1 – Yes</b>
Revenue Diversification	Internet Search	Is information publicly available online about revenue sources, amount per source, and total revenue?	0 – No 1 – Yes
Surplus Margin	Internet Search	Is information publicly available online about total revenue and total expenses?	0 – No 1 – Yes
Debt Ratio	Internet Search	Is information publicly available online about total liabilities and total assets?	0 – No 1 – Yes
<b>Fraud</b>	<b>Internet Search</b>	<b>Is information publicly available online about any of the three indicators of “fraud”?</b>	<b>0 – No 1 – Yes</b>
Asset Misappropriation	Internet Search	Is information publicly available online about incidents of asset misappropriation?	0 – No 1 – Yes
Corruption	Internet Search	Is information publicly available online about incidents of corruption?	0 – No 1 – Yes
Fraudulent Financial Statements	Internet Search	Is information publicly available online about incidents of financial statements fraud?	0 – No 1 – Yes

## **Chapter Summary**

In summary, the operationalization of the conceptual framework was used to guide content analysis of publicly available online records about the twenty five nonprofits in the research sample. Publicly available online information pertaining to the nine indicators of a nonprofit organization's readiness to engage in partnerships with government entities was sought. The presence of this information, or lack thereof, was used as the basis for determining the feasibility of using publicly available information to determine a nonprofit's readiness to engage in government-nonprofit partnerships.

## Chapter 4

### Findings

#### Chapter Purpose

The purpose of this chapter is to summarize and discuss the findings of the content analysis and describe the extent that information about nonprofit organizations is publicly available online and can be used to determine a nonprofit's readiness for government-nonprofit partnerships. The overall findings of the content analysis are summarized in Table 4.1.

<b>Table 4.1: Operationalization of the Conceptual Framework</b>			
<b>Descriptive Categories</b>	<b>Information Publicly Available</b>	<b>Information Not Publicly Available</b>	<b>Total N=25</b>
<b>Organizational Capacity</b>	<b>25 (100%)</b>	<b>0</b>	<b>25</b>
Leadership	24 (96%)	1 (4%)	25
Human Resources	22 (88%)	3 (12%)	25
Services	25 (100%)	0	25
<b>Financial Stability</b>	<b>23 (92%)</b>	<b>2 (8%)</b>	<b>25</b>
Revenue Diversification	22 (88%)	3 (12%)	25
Surplus Margin	23 (92%)	2 (8%)	25
Debt Ratio	22 (88%)	3 (12%)	25
<b>Fraud</b>	<b>22 (88%)</b>	<b>3 (12%)</b>	<b>25</b>
Asset Misappropriation	0	25	25
Corruption	0	25	25
Fraudulent Financial Statements	0	25	25

## **Organizational Capacity**

Information about a nonprofit's organizational capacity, including specific information about a nonprofit organization's leadership, human resources, and services is readily available online for most nonprofit organizations. The results of an internet search for each nonprofit in the sample revealed that information about each nonprofit's leadership, human resources, and services was available through either IRS Form 990 or a nonprofit organization's website for the vast majority (88%) of the nonprofits in the sample. Nonprofit websites contained information about the three indicators of organizational capacity for eighty percent of the nonprofits in the sample, whereas IRS Form 990 contained information for the three indicators of organizational capacity for just fewer than seventy percent of the nonprofits in the sample.

Based on these findings, information about a nonprofit's organizational capacity can be obtained through publicly available online information. This information could be used by government entities to determine if a nonprofit has the overall organizational capacity, including leadership, human resources, and services, to be considered ready to engage in partnerships with government entities.

## **Leadership**

Information about a nonprofit organization's leadership, including specific information about a nonprofit's board of directors, is readily available online for most nonprofit organizations. The findings of this study showed that information about a nonprofit's board members and board policies was publicly available online through IRS Form 990 or a nonprofit's website for the vast majority (96%) of the nonprofits in the sample. Specifically, information about a nonprofit organization's board of directors and governing policies was available in IRS

form 990, Part VI, Governance, Management, and Disclosure, for nearly ninety percent of the nonprofits in the sample. In addition, the name and title of each member of a nonprofit's board of directors was available on a nonprofit's website for just over ninety percent of the nonprofits in the sample.

Based on these findings, information about a nonprofit's board of directors can be obtained through publicly available online information. Furthermore, information about a nonprofit organization's board of directors could be used by government entities to determine if a nonprofit's board has implemented policies that indicate the organization's readiness to engage in partnerships with government entities.

## Human Resources

Information about a nonprofit's human resources, including specific information about a nonprofit organization's paid staff, is readily available online for most nonprofit organizations. This study found that information about a nonprofit's paid staff was publicly available online through IRS Form 990 or a nonprofit's website for the vast majority (88%) of the nonprofits in the sample. Information about a nonprofit's paid staff, including the name and title of key staff, was available on a nonprofit's website for eighty percent of the organizations in the sample. Additional information about a nonprofit's paid staff, including the name, title, average hours worked, position, and compensation of key staff was available in IRS Form 990, Part VII, for nearly seventy percent of the nonprofits in the sample. Furthermore, the average number of years that an IRS Form 990 was available for nonprofits in the sample was 9 years, with no nonprofit having less than 5 years of IRS Forms 990 publicly available online.

Based on these findings, information about a nonprofit's paid staff can be obtained for multiple years through publicly available online information. This information could be used by government entities to calculate a nonprofit organization's staff turnover rate and thus determine a nonprofit organization's readiness to partner with government entities if the staff turnover rate is sufficiently low.

### Services

Information about a nonprofit organization's services, including specific information about the types of services that a nonprofit organization provides, is readily available online for most nonprofit organizations. The findings of this study showed that information about the services a nonprofit organization provided was publicly available online via IRS Form 990 or a nonprofit's website for all of the nonprofits in the sample. Specifically, a listing and description of the services or programs a nonprofit organization provided was available on a nonprofit's website for over ninety five percent of the organizations in the sample. In addition, information about a nonprofit's services and service accomplishments were available through IRS Form 990, Part III, for just less than ninety percent of the nonprofit's in the sample. Among the 22 nonprofit organizations where IRS Form 990 contained information about a nonprofit's services, the majority (59%) percent reported only one program service, whereas four in ten of the remaining nonprofits reported at least three program services.

Based on these findings, information about a nonprofit's services can be obtained through publicly available online information. Furthermore, this information could be used by government entities to determine that a nonprofit has the requisite experience need in services delivery to be considered ready for government-nonprofit partnerships.

## **Financial Stability**

Information about a nonprofit organization's financial stability, including specific information about a nonprofit's revenue diversification, surplus margin and debt ratio, is readily available online for most nonprofit organizations. The findings of this study showed that information about the financial stability of nonprofit organizations was available through an internet search. The results of an internet search revealed that information needed to determine a nonprofit organization's revenue diversification, surplus margin, and debt ratio was available through IRS Form 990 for the vast majority (88%) of the nonprofits in the sample. In addition, IRS Form 990 was the only online resource found to contain the information needed to determine all three indicators of a nonprofit's financial stability.

Based on these findings, information about a nonprofit's financial stability can be obtained for most nonprofits through publicly available online information. This information could be used by government entities to determine a nonprofit organization's overall financial stability, as measured by revenue diversification, surplus margin, and debt ratio, to be considered ready to engage in partnerships with government entities.

## **Revenue Diversification**

Information that is needed to calculate a nonprofit organization's revenue diversification, including the number of a nonprofit's revenue sources and the nonprofit's cumulative revenue, is readily available online. This study found that information about a nonprofit's revenue sources and total cumulative revenue was publicly available online through IRS Form 990, Part VIII, for the vast majority (88%) of the nonprofits in the sample. No other publicly available online

resource was found to contain specific information about a nonprofit's revenue sources and cumulative revenue for the nonprofits in the sample.

Based on these findings, information about a nonprofit's revenue diversification can be obtained through publicly available online information. Furthermore, government entities could use this information to calculate a nonprofit organization's revenue diversification and then determine whether a nonprofit has sufficiently diversified revenue to be considered financially stable and thus be ready to engage in partnerships with government entities.

### Surplus Margin

Information that is needed to calculate a nonprofit organization's surplus margin, including the nonprofit's total revenue and total expenses, is readily available online for most nonprofits. The findings of this study showed that a nonprofit's total revenue and total expenses were publicly available through either IRS Form 990 or a financial audit or annual report located on a nonprofit organization's website for the overwhelming majority (92%) of the nonprofits in the sample. IRS Form 990, Part VIII and Part IX contained a nonprofit's total revenue and total expenses for just under ninety percent of the nonprofits in the sample, whereas a nonprofit's total revenue and total expenses were available through an annual report or financial audit on a nonprofit's website for just twelve percent of the nonprofits in the sample.

Based on these findings, information needed to determine a nonprofit organization's surplus margin is attainable through publicly available online information. Furthermore, government entities could use this information to calculate a nonprofit organization's surplus margin and then assess whether the surplus margin is high enough to indicate a nonprofit has the financial stability to engage in partnerships with government entities.

## Debt Ratio

Information that is needed to calculate a nonprofit organization's debt ratio, including the nonprofit's total liabilities and total assets, is readily available online for most nonprofits. This research found that information needed to calculate a nonprofit organization's debt ratio was publicly available online through IRS Form 990, Part X, for just fewer than ninety percent of the nonprofits in the sample. No other publicly available online resource was found to contain information about a nonprofit's total liabilities and assets for the nonprofits in the sample.

Based on these findings, information needed to determine a nonprofit organization's debt ratio can be obtained through publicly available online information. This information could be used by government entities to calculate a nonprofit organization's debt ratio and then assess whether a nonprofit's debt ratio is sufficiently low to be considered financially stable enough to engage in government-nonprofit partnerships.

## Fraud

Information about whether a nonprofit organization was involved in an incident of fraud is readily available online for most nonprofit organizations. The findings of this study revealed that information about whether a nonprofit organization was involved in an incident of fraud was available through IRS Form 990 for the vast majority (88%) of the nonprofits in the sample. Specifically, Question 5 of Part VI of IRS Form 990 requires nonprofits to disclose knowledge of any significant diversion of assets, including any unapproved transfer or use of the nonprofit's assets other than for authorized purposes. Nonprofit organizations are only required to disclose information if the diversion of assets exceeds \$250,000 or is greater than five percent of a nonprofit organization's gross receipts or total assets. For example, a nonprofit organization

would still be required to disclose a diversion of assets that was less than \$250,000 if the diversion exceeded five percent of a nonprofit organization's gross receipts or total assets. The answer to this question on IRS Form 990 is an indication of a nonprofit organization's potential involvement in fraud (Stephens and Flaherty 2013). None of the nonprofit organizations in the sample for which IRS Form 990 was available answered yes to this question. No other publicly available online resource was found to contain specific information about a nonprofit organization's involvement in an incident of fraud.

Based on these findings, information about whether a nonprofit organization was involved in any incident of fraud can be determined through publicly available online information. Furthermore, government entities could use this information to determine that a nonprofit organization has successfully avoided fraud and thus is ready to engage in government-nonprofit partnerships.

However, information about a nonprofit organization's involvement in specific types of fraud discussed in the conceptual framework, including asset misappropriation, corruption, and falsified financial statements, was not readily available online. The findings of this study showed that information about a nonprofit organization's involvement in the specific types of fraud defined in the conceptual framework was not publicly available for any of the nonprofits in the sample. A combination of internet searches and various screenings through relevant regulatory lists at the federal and state levels yielded no data about the involvement of the sample nonprofits in specific types of fraud.

Based on these findings, information about a nonprofit's involvement in specific types of fraud may not be detailed through publicly available online information. Therefore, government entities cannot rely on publicly available information about a nonprofit organization's

involvement in specific types of fraud to determine a nonprofit's readiness to engage in government-nonprofit partnerships.

However, it should be acknowledged that the lack of findings for the nonprofits in the sample regarding the three types of fraud discussed in the conceptual framework may only reflect that the nonprofits in the sample have not committed incidents of asset misappropriation, corruption or financial statement fraud. This is a plausible explanation for the results of the content analysis. Therefore, before these findings are accepted as representative of the extent that information about nonprofit fraud is available for all nonprofit organizations, additional research with a larger sample of nonprofits may be warranted to verify the results.

#### Asset Misappropriation

Information about a nonprofit organization's involvement in incidents of asset misappropriation, including specific information about incidents where a nonprofit organization's assets were stolen or misused, is not readily available online. This study found that information about the nonprofit's involvement in the theft or misuse of organizational assets was not available for any of the nonprofit organizations in the sample. The content analysis included an internet search about each nonprofit and consisted of a review of the first two pages of search results in Google Search and the first page of search results in Google News. In addition, a search for each nonprofit was performed using various publicly available regulatory lists, including the System of Award Management (SAM) list maintained by the Federal Government's General Services Administration (GSA), the List of Excluded Individuals/Entities maintained by the Texas Health and Human Services Commission's Office of the Inspector

General (OIG), and the Debarred Vendors List maintained by the Texas Comptroller of Public Accounts.

Based on these findings, information about a nonprofit's involvement in asset misappropriation is limited through publicly available online information. Therefore, government entities may not have the specific information needed to determine whether a nonprofit organization has successfully avoided being involved in incidents of asset misappropriation and is ready for government-nonprofit partnerships.

### Corruption

Information about a nonprofit organization's involvement in incidents of corruption, including situations where a nonprofit's leadership, employees, or volunteers used their influence or position within the organization to inappropriately impact an economic transaction, is not readily available online. This study found that information pertaining to the involvement of a nonprofit's leaders, employees, or volunteers in bribes, financial rewards, extortion, and conflicts of interest was not available for any of the nonprofit organizations in the sample. Content analysis was performed using the internet to identify content or news media about a nonprofit's involvement in acts of corruption. This included a review of the first two pages of search results about each nonprofit in Google Search and the first page of search results in Google News. In addition, the GSA's System of Award Management, HHSC's OIG List of Excluded Individuals/Entities, and the Texas Comptroller's Debarred Vendors List were searched.

Based on these findings, information about a nonprofit organization's involvement in corruption is limited through publicly available online information. Consequently, government entities may not have enough specific information to determine whether a nonprofit organization

has successfully avoided being involved in incidents of corruption and is thus ready for government-nonprofit partnerships.

### Fraudulent Financial Statements

Information that is needed to determine if a nonprofit organization's has been involved in incidents of fraudulent financial statements is not readily available online. This study found that information about a nonprofit's involvement in overstating revenue, understating liabilities or expenses, reporting revenue or expenses in the wrong period, inaccurately reporting the value of assets, and failing to disclose financial information was not available for any of the nonprofit organizations in the sample. The content analysis regarding fraudulent financial statements consisted of a review of the first two pages of search results in Google Search and the first page of search results in Google News for each nonprofit in the sample. In addition, the GSA's System of Award Management, HHSC's OIG List of Excluded Individuals/Entities, and the Texas Comptroller's Debarred Vendors List were searched.

Based on these findings, information about a nonprofit's involvement in fraudulent financial statements is limited through publicly available online information. Therefore, government entities may not have the information that is necessary to conclude if a nonprofit organization has successfully avoided fraudulent financial statements and is thus ready for government-nonprofit partnerships.

## **Chapter 5**

### **Conclusions and Recommendations**

#### **Chapter Purpose**

This chapter concludes this applied research project by summarizing the research approach, finding, and offering final recommendations for public administrators and policymakers.

#### **Research Summary**

This study sought to first identify key indicators of a nonprofit's readiness to engage in partnerships with government entities and second, describe the feasibility of using publicly available online records to determine a nonprofit's readiness for partnerships with government entities. In the conceptual framework chapter of this study, the following nine key indicators of a nonprofit's readiness to engage in partnerships with government entities were identified: leadership, human resources, services, revenue diversification, surplus margin, debt ratio, asset misappropriation, corruption, and fraudulent financial statements. These nine indicators were aligned under the following three categories: organizational capacity, financial stability, and fraud. After these three categories and the nine indicators were introduced and supported by relevant literature, they were operationalized to guide the process of inquiry in this research. The operationalization of the conceptual framework called for publicly available online records to be searched for information about the key indicators of a nonprofit's readiness to engage in partnerships with government entities.

## **Summary of Findings**

The overall findings of this research revealed that it is feasible to utilize publicly available online information to determine the readiness of most nonprofit organizations to engage in partnerships with government entities. For each nonprofit organization in the sample, an internet search was performed using the nonprofit's name to identify online resources that contained specific information about each of the nine indicators introduced in the conceptual framework chapter of this research. Content analysis was performed on each online resource and the findings showed that a nonprofit organization's website and an electronic copy of a nonprofit's IRS Form 990 were the primary sources of information that were both readily available online and contained needed information to determine a nonprofit's readiness to engage in government-nonprofit partnerships. In addition, the total time that was needed to identify information resources, conduct content analysis, and code the results took between ten and twenty minutes for each nonprofit organization in the sample. This suggests that the effort required on the part of government entities to assess a nonprofit organization's readiness for government-nonprofit partnerships is quite low and highly feasible. This further strengthens the applicability of this approach for evaluating a nonprofit's partnership readiness.

Finally, it should be noted that details of the content analysis of publicly available online records showed that information pertaining to some of the nine indicators may not be entirely complete. The overall content analysis revealed that information about a nonprofit organization's readiness to engage in partnerships with government entities was publicly available online for the following six indicators: leadership, human resources, services, revenue diversification, surplus margin, and debt ratio. However, publicly available information that was found for the following three indicators was not comprehensive enough to meet the specific information

sought: asset misappropriation, corruption, and fraudulent financial statements. Specifically, all nonprofits in the sample for which an IRS Form 990 was publicly available indicated on the form that they were unaware of a significant diversion of their organization's assets, providing an indication that the nonprofits were not involved in incidents of fraud. However, it was unclear that if the answer had been yes, whether the disclosure provided by a nonprofit, as required by the Internal Revenue Service, would offer enough contextual information to enable a government entity to reach a definitive conclusion as to the type of fraud committed. This calls into question whether publicly available online information can be used to determine if a nonprofit has been involved in specific types of fraud, but ultimately does not discount the overall feasibility of using publicly available online information to determine if a nonprofit has been involved in fraud. Thus, the overall conclusion is that it is feasible to utilize publicly available online information to determine the readiness of most nonprofit organizations to engage in partnerships with government entities.

## **Recommendations**

### **Standardized Screening Procedures**

Public administrators at federal, state, and local levels should minimize the risk of engaging in troubled government-nonprofit partnerships by implementing internal screening procedures to evaluate a potential nonprofit partner's readiness to engage in partnerships with government entities. Because of the low cost in time and resources, the recommended screening procedures that government entities adopt should involve the use of publicly available online records to evaluate a nonprofit's partnership readiness based on the nine indicators discussed in this research. While this research showed that publicly available online information about

incidents of fraud for the nonprofits in the sample was limited in specificity, the possibility still exists that fraud-related information about other nonprofits is publicly available through online records. Therefore, to ensure the thoroughness of screenings, it is recommended that public administrators search publicly available online records for information about any potential nonprofit partner's involvement in fraud.

Screenings of potential nonprofit partners that are implemented by public administrators should be initiated before a new partnership arrangement is established, including periods where government entities formal request proposals from nonprofit vendors for the delivery of services, in order to avoid troubled government-nonprofit partnerships before they begin. In addition, public administrators should further mitigate the risk of troubled government-nonprofit partnerships by evaluating the readiness of existing nonprofit partners on a periodic basis, including but not limited to contract renewal periods, to ensure any decline in an existing nonprofit partner's readiness for government-nonprofit partnerships is identified before government and the public it serves are negatively impacted. If public administrators are successful in implementing initial and periodic screenings that assess a nonprofit's readiness to engage in partnerships with government entities, they will have avoided the disruptive impact of failed government-nonprofit partnerships that cost government taxpayer dollars and deprive the public of services.

#### Expanded Disclosure Requirements

Federal policy makers should take further steps to improve the availability of public information about a nonprofit's involvement in fraud. While the Internal Revenue Service took steps in 2008 to start capturing information about nonprofit fraud by requiring nonprofits to

disclose information about the diversion of assets on IRS Form 990, the thoroughness and specificity of the information provided by nonprofits was found to be lacking (Stephens and Flaherty 2013). Unfortunately, the Internal Revenue Service currently does not review disclosures about the diversion of assets and does not enforce penalties for incomplete information. In addition, a large number of U.S. nonprofits are not required to disclose the diversion of assets because many are not required to file IRS Form 990 and those that are required to file the form are only required to report the diversion of assets that are greater than \$250,000 or are at least five percent of a nonprofit's gross receipts or total assets. Therefore, a number of fraud-related activities involving nonprofits are potentially going undisclosed due to current reporting requirements.

To address these issues, federal policymakers should mandate that the Internal Revenue Service implement a number of changes to reporting requirements for nonprofits in order to ensure more information that is of higher quality is publicly available regarding specific incidents of fraud involving nonprofits. To improve the thoroughness and specificity of fraud disclosures on IRS Form 990, the Internal Revenue Service should be required to begin enforcing penalties, such as revoking a nonprofit's tax-exempt status, if fraud disclosures fail to meet information requirements mandated by current standards. In addition, to increase the number of fraud disclosures reported on IRS Form 990, the Internal Revenue Service should require all nonprofits that file IRS Form 990 to disclose the diversion of assets regardless of the amount involved. Finally, to potentially further increase the number of fraud disclosures by nonprofits, the Internal Revenue Service should require all nonprofit organizations that have tax exempt status to file IRS Form 990. This would potentially add 700,000 additional IRS Forms 990 that are filed annually, offering government entities potentially more information about

incidents of fraud involving nonprofits. If federal policymakers are successful in mandating the Internal Revenue Service to expand disclosure requirements for nonprofits, government entities will have greater access to the information they need to determine a nonprofit organization's readiness to engage in partnerships with government entities.

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