Fed's strings tangle Natives' non-profits

BY PAMELA HERMAN

Regional Native non-profit corporations can be beset by cash flow problems that have caused some of them to "totter on the brink of bankruptcy for years," says a report from Rural Alaska Community Action Project (RurAL CAP). These financial problems are caused by the tangled strings attached to money from a variety of federal programs.

The report was written by Coopers and Lybrand, a firm of certified public accountants that has worked for or audited many regional non-profits. The reporters interviewed the executives, controllers, and program staff of seven of the twelve regional non-profit corporations, or RNPC's.

Identifying the main externally caused problems of the non-profits was the purpose of the study. Internally caused problems are also mentioned since different kinds of problems aggravate one another, and will have to be solved together.

Caught in the Culture Gap

The report begins by discussing the unique role of Alaska's regional non-profit corporations. Most RNPC's provide services which are vital to villages and which often cannot be provided by any other agency. Non-profits receive virtually all their funding from the government, and they must try to translate programs designed in Washington into terms that are sensible to rural Alaskan Natives. In order to do this, they must have local Native people on the staff, whether or not the staff is adequately trained when hired.

All this action on the confusing grounds between cultures is played to the tempo of a trudging, endless march of reports and reimbursement requests. One false step on that track can result in a helpless slide into fiscal disarray. Worst of all, the report shows, some funding regulations are actually impossible to obey.

Native non-profit corporations administer many programs which are designed for city governments with a tax base--"no strings" money. RNPC's, however, are "almost totally dependent on the government for their existence." Money comes from grants and contracts from many federal and state agencies. Overall administrative costs are supposed to be paid from the "indirect" account--a percentage of the total program budget--even though this amount can fluctuate wildly during the course of a single fiscal year.

Excellence Means Breaking Even

Since the non-profits have no independent source of money, they have almost no margin for error, the report emphasizes.

"Whereas a profit-making business can make up losses and mistakes out of future revenues, all of which are unrestricted, a RNPC's funds are restricted by regulations and cannot be used to rectify old mistakes, shortages and disallowances. If managed in an excellent manner, the best they are allowed to do is break even. If the general fund accumulates a reserve this amount is taken into account in negotiations for the indirect cost rate for the following year and will result in a reduction in recoverable indirect costs and a decrease in cash available for administrative expenses."

And of course, if there is a shortage in the fund, the RNPC will "be behind that amount of money for the rest of its corporate life."

Seven Problems

The report describes seven specific problems which most or all RNPC's face:

FIRST: CETA INDIRECT COSTS. Dept. of Labor regulations put a far lower ceiling on overhead costs than most other agencies allow. However, other agencies require that indirect expenses be shared proportionately by all programs. This creates a gap which city governments, for which Comprehensive Manpower and Training Act programs were originally designed, cover with tax money. RNPC's often have no real legal way to cover this deficit.

SECOND: LETTERS OF CREDIT. Many BIA programs that are contracted to RNPC's use letters of credit to reimburse program costs. Despite notoriously slow mail delivery in Alaska, regulations require the RNPC to wait till it only has three days operating cash before asking for a cash transfer. Inevitable cash shortages result.

THIRD: SLOW CLOSE-OUTS. Final payment after a program is over and has been audited can sometimes take months or even years. BIA programs, especially Johnson-O'Malley, are mentioned in the report as being slow. The 1975 JOM closeout took almost a year and a half in some cases. This can leave RNPC's with thousands of dollars in unreimbursed expenses that were perfectly legal when incurred.

FOURTH: CONFLICTING REGULATIONS. Different federal agencies require RNPC's to abide by inefficient and sometimes hopelessly contradictory regulations. CETA programs are again mentioned here as a prime source of trouble.

FIFTH: CASH vs ACCRUAL. Most programs operate on a "cash" accounting system. Not CETA, however! The work involved in translating to an "accrual" system may require the RNPC to hire extra accounting staff even though CETA pays less towards overhead costs than most other programs.

Also, the variety of reporting forms required monthly or quarterly by different agencies add

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time and effort to the job of collecting money.

SIXTH: UNSTABLE OVERHEAD. The constant fluctuation in amounts available for indirect expenses causes terrific planning woes and often adds meaningless confusion to administration. High-level executives in the RNPC's may have a new title every quarter as funds and positions are juggled. Sometimes important personnel, floor space, or other indirect items, are lost when money gets tight. Administrative costs actually should be fairly stable, and do not go up and down dramatically when programs are added or dropped, even though the indirect rate does.

A related problem is the occasional need to spend money quickly or wastefully in order to maintain program dollar levels, and consequently the indirect level. Doing so may be absolutely necessary to survival for the RNPC, but creates obvious image and morale problems for the corporation.

The report says, "a significant portion of the management's time is devoted to problems with the indirect rate." It concludes that "this system of funding the general and administrative costs of the RNCP's is cumbersome at best and financially disastrous at worst."

SEVENTH: STUBBORN AGENCIES. The Joint Funding and Simplification Act was passed to reduce time-consuming red tape, but agencies can opt out by simply stating that their programs are not related to any other programs. This is especially ironic since regulations often require RNPC's to show how they will coordinate with other programs as a criterion for funding.

Long-Term Solutions

Even if these seven specific problems are corrected as the report recommends, the underlying problems of cumbersome funding methods and lack of management experience will still need attention.

These two problems can be addressed within the coming months if they receive the time and energy they deserve, the report concludes. Model programs for the coming fiscal year (which begins in October) are suggested.

Two approaches are described and others could probably be imagined. One would involve joint funding for programs and a management fee for administration. A better long-range solution, however, might be joint-funding in a block grant, allowing the RNPC wide latitude to assign dollars to programs as needed in the region, and to plan a stable administration. Both alternatives include a three-year plan.

To deal with lack of expertise, the reporters recommend a genuine effort at providing technical assistance, either by government agencies or private contractors. Help is needed both in organizing accounting systems and in training management.

Next Step

"The next step," according to the report, "...is a conference with Region X representatives, RNPC's and RurAL CAP. This meeting could utilize this report as a basis for setting goals, priorities, work tasks, time tables and assigning responsibilities for the detailed design of problem solutions, funding mechanisms, and technical programs."