

# Economics & the Human Services Organization

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# 22

*Goal: This module is designed to help students and agency practitioners become better versed in the role that economics play in the administration of human services organizations. It includes the basic elements of non-profit management; the concept of management as a method of practice; sources of funding and the process of fund development; the knowledge needed for financial management, as well as tools and language related to agency fiscal management.*

## A. Introduction: The Non-Profit Industry

The practice of social work in human service organizations takes place in three different settings: the public sector, the private or for-profit sector and the non-profit sector (also called the Third Sector, the Independent Sector, the Philanthropic Sector, or the Voluntary Sector). The public sector refers to the provision of services by government. In NYC, Human Resources Administration (HRA) and the Administration for Children's Service (ACS) are two well-known examples of government agencies. The private or for profit sector refers to businesses that operate human service programs while making money for owners or investors. They may also receive government subsidies or contracts.

The non-profit sector -- the focus of this unit -- refers to organizations that provide human services and are typically funded by government agencies along with private foundations or donors. Like for-profit organizations, they may offer some services on a fee for service basis. The fields of practice in this sector include a broad range of social services including health care, mental health, substance abuse, child welfare,

education, employment, homeless services and housing, legal services, arts and culture, civic and environmental advocacy, and international development and relations and others. Social work professionals are represented in all of these areas of practice. As a distinct industry, the non-profit sector has characteristics, issues, and challenges that affect the work we do and therefore, our clients.

## **Exercise: Learning About Your Industry**

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The Independent Sector is a membership organization for non-profit organizations. Its mission is: To advance the common good by leading, strengthening and mobilizing the nonprofit and philanthropic community. Their website is [www.independentsector.org](http://www.independentsector.org) Spend time exploring this website, reading about their activities and members as well as the “Key Documents.”

1. What did you learn from perusing the website that you might not have previously known about non-profit organizations?
2. Connect these larger, macro issues to the work you are doing with your clients on the micro level.
3. What direct impact can these macro issues have on your clients, on your practice, agency, or you personally?

### **B. Relevance for Human Service Practitioners**

Many non-profit organizations are dependent on government funding streams. Government funding may determine or influence the populations served, what and how services are delivered, and mandate the number of clients to be seen. Given the dependence of non-profit organizations on available governmental and philanthropic funding sources, it is important to understand the economic context in which we practice. (See ABC's of the Economy) Human service practitioners can benefit from understanding economic concepts for many reasons, including the clear influence that economic facts or analyses exert over policy matters and the many useful tools used every day in decision-making.<sup>1</sup>

The repeated reduction of government dollars to the non-profit sector during the last three decades has made non-profit agencies even more focused on accessing funding and the appropriate management of those funds. The economic downturns of the past few years have intensified the ongoing challenges faced by agency administrators who oversee the delivery of services. Specifically, accountability, data

and evidence-based deliverables have become increasingly important. The definition of accountability includes the numbers of people served by each dollar received, as well as the agency's impact on the specific social problems it is funded to address. Both government funders and philanthropists issue performance base contracts and grants and base actual funding on impact their dollars have on solving social problems and may request information and statistics on measurable results.

The **NASW Code of Ethics (NASW, 1999)** also specifies, that “social workers should be diligent stewards of the resources of their employing organizations, wisely conserving funds where appropriate and never misappropriating funds or using them for unintended purposes.”<sup>2</sup>

The economically literate human service practitioner, whether a clinician, caseworker, community worker, advocate or administrator, all help the organization achieve its goals. Economic issues play key roles in the following activities:

- Anticipating service needs of clients
- Recruitment and training of a staff to meet service needs
- Advocating for needed changes in the agency or community
- Assisting the community to access needed resources by such things as leveraging ties with area
- Fundraising and public relations efforts to support the development of services key to successful agency administration

The days of distinct lines and boundaries that defined managers alone as concerned about, and responsible for, agency finances no longer exist. In the past, a practitioner might spend his/her career in direct practice, or move from the front lines to a supervisory role, and then into agency administration. Today, agencies increasingly ask front line workers to help to develop grant proposals, to provide information for contracts, progress reports, government or foundation grants and in general, to stay informed about program budget issues. This requires the awareness and skills to report and closely monitor the numbers of services delivered, results achieved, and dollars spent. The ability to understand the link between funding, service and clients are key management skills.

### C. Agency Administration

Human service workers on all levels of operations seek to deliver the most helpful and effective services to clients. Professions such as social work, consider administration a dimension of social work practice. In 2010, the Social Work Congress also cited understanding economic concepts as a leadership imperative.

## RESOURCE:

### 2010 Social Work Congress Final Report

[www.socialworkers.org/2010congress/documents/finalcongress-studentreport.pdf](http://www.socialworkers.org/2010congress/documents/finalcongress-studentreport.pdf)

The following list of leadership standards was developed by the [National Network for Social Work Managers](#) and details the competencies of practice for social work administration. These competencies apply to human service organizational practice, whether conducted by a social worker or managers from other educational backgrounds.

The areas of competency include Advocacy, Collaboration, Communication and Interpersonal Relationships, Culturally Responsive Management Practices, Ethics, Evaluation, Governance, Human Resource Management and Development, Information Technology, Leadership, Planning, Program Development and Organizational Management, Public/Community Relations and Marketing and Public Policy.<sup>3</sup>

Two areas of financial competency that specifically address the development of skills relative to the relationship of funding to administrative practice are:

1. Financial Development. Knowledge and understanding about proposal and contract development; the ability to identify and access resources from diverse private and public funding sources.
2. Financial Management. Knowledge and understanding of effective systems and procedures for managing agency resources; the ability to develop and use budgets, as well as other financial data and reports to guide agency operations.<sup>4</sup>

## D. How are Human Service Organizations Funded?

The ability to identify and access resources from diverse private and public funding sources is critical for human service organization management. The Foundation Center is a national nonprofit organization with the mission to “strengthen the social sector by advancing knowledge about philanthropy in the US and around the work.”<sup>5</sup>

Non-profit human services organizations generally receive funding from the following sources:

**1. Government Funding.** Government funding, also referred to as public financing, derives from federal, state or local taxes and the allocation of these dollars by Congress, state and local legislatures. Government funded programs such as Medicare and Medicaid are examples of federally mandated entitlement programs that provide the major source of reimbursement streams for many behavioral health organizations, hospitals and clinics. Other government programs fund income supports, social services, and child care. (See Unit 16; Public Benefits)

Organizations can access these funds in a variety of ways. The best-known access route is the Request for Proposal (RFP). Once a city, state or federal government creates and funds a program, they allocate a specified amount of dollars and initiate a competitive process that allows human service organizations to apply for funding. Agencies submit formal proposals and program-specific budgets, following the guidelines provided by the government agency issuing the RFP. The government awards grants or contracts to a select number of agencies based on specific criteria and ratings by a committee composed of professionals with expertise in the area. Foundations also issue RFP's based on their mission and funding priorities.

**2. Discretionary Funding.** Government officials can influence the distribution of public funds known as discretionary spending. Unlike items pre-set by law discretionary funding decision are made during the annual budget making process and subject to standard budget politics. At the Federal level this includes social service and defense spending among many other items. In addition individual lawmakers often designate funds for special project known as "earmarks." Sometimes derogatorily referred to as "pork barrel" money (i.e. such as the infamous Alaskan "bridge to nowhere"), they often pay for important services. Many nonprofits work hard through advocacy and lobbying efforts to obtain this kind of funding, especially at the local level.

**RESOURCE:**

A Bridge (Way) Too Far: A controversial Alaska project highlights the pork-barrel politics of transportation funding by Congress from US News.

[www.usnews.com/usnews/news/articles/050808/8highway.htm](http://www.usnews.com/usnews/news/articles/050808/8highway.htm)

**3. Private Funding.** A for-profit corporation may use profits earned to establish a corporate foundation or a private charitable foundation. Charitable and corporate foundations award grants through this legally established mechanism. Individuals, families or groups can establish a charitable foundation and support it through personal wealth that often results in a substantial tax-deduction. These foundations must publicly declare their purpose, report on their financial activities and distribute five percent of their fair market assets each year. Human service organizations can access these funds through a competitive application process.

The for-profit sector represents another source of funding for human service organizations, especially if they operate a community relations department. For example, a multinational bank may have a Community Relations unit in its New York City headquarters with funds to be used to support community activities thereby enhancing their corporate profile. The bank may be a sponsor of a non-profit youth athletic team or it may buy a table or two at a non-profit's fundraising dinner. These funds are separate from any foundation the for-profit corporation may also have established. They are most often accessed by the development of a personal relationship fostered by the Executive Director of the human service organization with the corporate representatives.

**4. Individual Donors.** In the United States our society's underlying values and beliefs are readily apparent in our willingness to give charity as individuals. Over three-quarters of Americans make charitable donations annually. Charitable donations is a broad category of giving including donations made to religious organizations in addition to non-profits and civic organizations.<sup>6</sup>

**RESOURCE:**

How Much to Give from the Network for Good including a giving calculator.

[www.networkforgood.org/donate/calculator/](http://www.networkforgood.org/donate/calculator/)

The Center on Philanthropy at Indiana University has been researching charitable giving by individuals since 1956. Giving USA reports that some 75 million households across the nation donate to some kind of charitable organization. Human service organizations develop financial goals and fundraising plans to reach out to this giving segment via surface mail and email campaigns; special events such as golf outings, dinners, luncheons, as well as concerts, theater, literature readings; and regular communications with supporters through email blasts, newsletters, and social media such as Twitter and Facebook. A major task of the organization's executive, senior staff and board members includes the

cultivation of friends/donors who will contribute to the agency, help to promote the organization, and broaden its donor base.

Large donations or endowments from individuals may or may not be restricted in some way. Agencies generally prefer unrestricted funds as this gives them the greatest flexibility. When funds are restricted, the donor stipulates conditions under which the money can be used. The stipulation may target a specific program or an agency function such as a scholarship fund that only uses interest earned on the money invested when aiding students.

**5. Earned Income.** Non-profit human service organizations are allowed by law to earn a limited amount of income and still retain their non-profit status. One of the most widely accepted resources for earned income in the non-profit sector is fee-for-service. This is most commonly found in mental health services, legal services, home health care and child care programs.

Some organizations have established separate entities such as thrift shops or separate for-profit corporations that add to their funds. Others develop technical tools and provide technical assistance or market the tools to other non-profits seeking help with designing databases or managing contracts. Larger organizations with well-established Departments such as Human Resources, Development, Finance and Information Technology, may be able to establish consulting contracts to assist other agencies lacking those capacities. Earned income represents an enticing idea but entrepreneurship can be a slippery slope. Any human service organization engaging in developing this area must have excellent resources for legal advice in tax and labor law as well as in risk management.

## E. How are Finances Managed in Human Service Organization?

Knowing how to secure and manage organizational resources represents an arena of professional competence. Although human service agencies have financial specialists to provide the detailed expertise, financially literate human service workers can become essential partners in this process to ensure that client needs are served by a well-managed agency.

**Here are some useful terms:**

***Fund Development*** or ***Development*** is a department whose major function in the organization is fund raising.

**Finance** or a **Fiscal Department** supervises the economic activity of the organization once it raises its funds.

**Accounting** is the overall system that captures, measures, and reports on the financial activity of an organization.

**Bookkeeping** is a key component of accounting, records and tracks basic financial information.

**Fiscal year** is a year that includes twelve months of financial activity. While a calendar year is from January to December, a fiscal year may begin in October (federal government), April (NYS) or July (New York City) or coincide with the start of the school year.

The **Budget** is a planning tool that reflects how an agency's resources will be used to fulfill its mission, priorities, goals and objectives. Budgets based on anticipated income supporting anticipated expenses to provide services typically cover a fiscal year. They also become a management tool used to organize, target, monitor and assess the impact of resources on agency's objectives along with financial statements, accounting and bookkeeping.

The budget process involves five steps:

1. Preparation
2. Approval (by the board and often with a finance committee of fiscal experts)
3. Implementation
4. Monitoring
5. Forecasting

## Types of Budgets

**Line item** is an item-by-item list of annual income (revenue) and expenses by category for the entire agency. Each category explicitly represents the amount of dollars authorized for each expense.

**Program budget** is revenue and expenditures categorized by program; line items are broken down and grouped under specific programs, departments or units.

**Budgets for proposals** are designed to work with a set amount of money provided by a funder. They capture the program that is described in detail grant proposal in financial terms.

The budget making process can be thought of as a plan for achieving goals as well as projecting income and expenses. It begins with the Executive Director (ED), sometimes called Chief Executive Officer (CEO), the Chief Financial Officer (CFO), and relevant board members who outline the broad parameters that reflect where they want the organization to be financially at the end of the fiscal year (i.e., how much spending will increase/ decrease, banking issues, fundraising targets, etc). Based on these parameters the relevant agency staff then estimates their income and expenses for the next fiscal year and develop appropriate budgets.

Monitoring involves the monthly, quarterly and /or annual review of regularly generated reports including interim financial statements that help with quality assurance, and to confirm that all expenses have been captured and appropriately charged to the relevant program or department. The staff responsible for keeping track of program or department expenses will review these reports against their own records (receipts, expense reports) and make corrections as needed.

**Financial statements** (monthly or quarterly), present the actual data, the real income and expenses in order to compare the reality to the projected amounts of the budget as a plan. Financial statements for a not-for-profit may be issued for any period but at minimum, prepared annually. The financial statements are generally set out in a columnar fashion with the following headings:

1. Budgeted revenues for the (period)
2. Actual revenues for the (period)
3. Variance from budget to actual
4. Budgeted expenses for the (period)
5. Actual expenses for the (period)
6. Variance from budgeted to actual

Looking at these columns and comparing the projected to the actual for both income and expenses, we ask these questions:

1. Do expenses match income?
2. Is the budget over or under spent? Oftentimes variance reports are generated that focus on items that pose a problem due to over spending or under spending and staff is expected to explain the variance.
3. Do we need to adjust the budget or change our spending pattern? This is forecasting, what are the trends, what are the long-range budget implications of the short-term actions?

**Annual reports** are presented to the public including funders, policymakers and concerned citizens. They describe the agency's work, plans, structure, accomplishments, and provide information about the agency's financial condition.

**Annual reports** often include an audited financial statement and are generally available online.

**Audits** are periodically conducted by an independent accountant who examines an agency's financial reports, and supporting documentation to ensure fiscal accountability. They inform the agency's Board of Directors (its governing body) that the organization's financial statements accurately reflect its financial position. In recent years the legal responsibility of human service agency board members for the accuracy of financial reports has increased.

At the close of an audit, the auditors issue a **management letter** that includes suggestions for improving reporting and fiscal integrity. Such suggestions may address (1) administrative controls, i.e. do agency procedures enhance organizational efficiency and effectiveness or (2) internal accounting, i.e. are the organization's assets being used for the purposes intended or are cash and assets protected. Organizations take these suggestions seriously and follow-up with recommended changes.

As corporations with non-profit status conferred by the Internal Revenue Service, human service organizations must annually file a **990 form**. This represents a tax return form for an organization that does not need to pay taxes. The wealth of important information regarding the activities and finances of the organization becomes available to the wider public.

## F. Management Dilemmas and Challenges

The nation's problematic financial health means that financial austerity will continue to profoundly affect social welfare programs. Since the 1980s, human service agencies have been asked to do more with less, and this is likely to continue. Reduced funding affects practice conditions. The impact on staff includes lay-offs, job restructuring, larger caseloads, minimal or no salary increases, cuts and/or increased staff contributions to health and other benefits, and elimination of staff development funds and ability to adhere to agency mission. The impact on clients includes overworked and stressed workers, waiting lists, fewer programs, and higher fees-for-service. When agencies need to restructure or reorganize, funding is not generally available to support this planning process.

These management challenges pose ethical and moral dilemmas for agency managers who face hard and unpopular options. For social work managers, The Code of Ethics applies to management as well as casework practice. The National Network for Social Work Managers also addresses this in its ethics practice standards:

- Commitment to meeting the needs of clients within the purview of the services offered by the organization
- Commitment to the work and the organization that transcends personal desires
- Loyalty to the mission of the organization
- Commitment to social justice values

## **Case Example One: Change of Agency Practice**

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Priscilla is an MSW who works as a case manager and clinician providing services to a large caseload of homeless individuals. Her agency, a local Settlement House with strong roots in the community, has long considered the homeless in the neighborhood to be their responsibility. With the establishment of government services for this population, her agency received a City contract as part of a citywide homeless services coalition.

After more than 10 years of supporting mental health treatment that had effectively stabilized homeless individuals who suffer from mental illness and/or substance abuse, the federal government established a new standard of best practices. Known as Housing First the new law identified housing rather than mental health stability as the primary need.

Priscilla's executive director informed the staff that this change would dramatically change agency services. At the same time, the City identified the agency as the lead agency for this new approach that would both raise its profile and lead to additional contract funds. Priscilla and most of her MSW colleagues were upset and confused. They asked themselves: Should they just accept this change? What did City bureaucrats know about homeless people? Why did their executive just see the benefits for the agency and forget what's good for the clients?

## **For Discussion:**

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Consider this case example and put yourself in the position of the executive director.

1. How would you present this change to your staff?
2. How would you address their concerns while educating them about the macro political and economic issues?
3. As the change is mandated by the funder, how might you help the staff develop ownership?

## Case Example Two: Managing Staff in a Time of Limited Services

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Jennifer is a clinical social worker at a multi-service community organization, which caters to an underserved population in Manhattan. At times of high volume, she is assigned to complete intake assessments for individuals who walk in without an appointment. Today, a 20 year old male, Mr. M, arrived stating that he is being abused by his older sister with whom he lives. This sister has threatened his life numerous times and he feels he is in imminent danger. During the assessment, it is revealed that Mr. M has been molested repeatedly in the past by two different family acquaintances and is showing symptoms of post-traumatic stress disorder. Jennifer provides him with options to secure safety. But as most services for domestic violence are created for women, he has very few options to choose from that seem appropriate. For example, a men's shelter where he would share sleeping space with large numbers of men felt threatening. Jennifer is concerned as Mr. M is severely depressed and hopeless and needs to be in therapy immediately. However, her agency has a 3-month waiting list, as do the other agencies to which she attempts to refer him. Being concerned for his wellbeing, Jennifer adds him to her already filled caseload without discussing it with her supervisor.

### For Discussion:

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1. Although Jennifer is acting out of concern for the client, as Jennifer's supervisor, how would you respond to her decision? Can you imagine any negative implications her actions may have?
2. As a manager concerned with resource allocation and staff supervising how might Jennifer's decision impact on the agency as a whole?

## Case Example Three: Ethics and the Search for Funding

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Margarita is a program director of a small domestic violence program for an agency that serves immigrants. Many of the clients in her program are undocumented. Federal funds for domestic violence may not be used for services to undocumented individuals. NYC and state funds may. However, given the costs of the program, local and state funds are not sufficient to cover the costs. As such, Margarita must work with the Development Department to find additional foundation dollars to keep her program staff and to be able to serve an increasing number of clients who need services.

In a meeting with the Development Department, Margarita learns that major alcohol cooperation had established a foundation with a major focus on domestic violence. The Development Department had read the foundation's requirements and believes Margarita's program is a perfect fit and they could write a compelling proposal. Margarita is very troubled. She does not want to pursue this opportunity since she feels strongly that alcohol abuse plays a role in so many social problems including domestic violence. The Director of the Development Department is impatient with her hesitation and expressed reservations and states, "If you're going to expect us to find foundation money with any difficult history, you won't find any funding. Where do you think foundation money comes from?" Without additional finding Margarita's program will be faced with decreasing her staff and ultimately limiting the number of clients her program can serve.

## For Discussion:

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1. Considering this case example, what are your thoughts about responding to this funding opportunity?
2. How does a manager make peace with compromising personal values when face with the need to support a program and therefore serve clients.

## Case Example Four: The Neediest Cases

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Every year the New York Times features weekly segments on New York's Neediest Cases during the holiday season. This endeavor can be seen as having a fundraising purpose, insofar as funds collected in response to this appeal are then distributed by the NY Times to local non-profit agencies to support services for clients. The stories and photos illustrate the kinds of suffering and deprivation that surround us in this city. For fundraising purposes the more vividly painful and difficult the cases, the likelier people are to make contributions. Simultaneously, the publicity is also an opportunity to highlight the agency's work.

Greg is a caseworker in an agency that serves at-risk children and families with the goal of keeping them together. His client-families, many of whom live in extreme poverty, suffer from a wide array of social problems that include substance abuse and domestic violence. His supervisor has asked him to choose a client from his caseload that the agency can submit as a possible feature for the Times' Neediest Cases. Greg is not comfortable with this and has serious reservations. His supervisor has explained the importance of this potential opportunity and that the

funds are needed to help the agency continue to serve their clients. But Greg is thinking that for the first time, he may need to help his supervisor there is something he simply is ethically unable to do.

## For Discussion:

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1. Does this situation raise ethical questions for you? If so, what questions?
2. If you were in Greg's position how would you respond?
3. If you were the manager in this situation, what considerations might you have?

### Supplemental Agency Exercises:

*Additional exercises that illustrate concepts and charts related to agency practice are in Unit 22a.*

#### RESOURCE:

Independent Sector

[www.independentsector.org](http://www.independentsector.org)

National Network for Social Work Managers

<https://socialworkmanager.org/>

White House

[www.whitehouse.gov/](http://www.whitehouse.gov/)

## NOTES

### UNIT TWENTY-TWO

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