

The New Human Services Industry: Changing the World for the Profit or For the Better?

Arianne Sellers 29 January 2013

Summary

Charles Darwin once said, "It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change." In the human services industry, the for-profit sector has adapted adroitly to the current trends of budget-cutting and privatization of government services through third-party contracts. While they have been busy consolidating, the nonprofit organizations as a whole remain more fragmented and their ability to change hampered by archaic business structures and advocacy implementation.

With the dawn of the Affordable Care Act, human services organizations will see an increase in Medicaid participants and a push towards diverse, impact-based initiatives through technological advancement and collaboration. Structurally, for-profit companies have the upper hand. They have the flexibility to invest in and reduce the cost of services, while nonprofits continue to focus on their

mission—losing sight of the operative goals for efficiency and solvency. For-profits have also smartly used their corporate clout to gain political influence, using both the dollar-driven political process and engaging officials through lobbying efforts to ensure access to contract bidding and policy issues like unfettered reimbursements for government services like Medicare.

The trend towards human services corporatization may seem inevitable, but it is not. Innovative solutions for engaging the competition exist and are already producing sustainable growth in the nonprofit arena.

These sound concepts not only hold the key to nonprofit survival but also create a larger impact by addressing society's growing needs. Consolidation strategies in the nonprofit human services sector through acquisitions, affiliations and mergers are imperatives moving forward, among other business model changes, to strengthen its stability and renew its political prescience. By remaining flexible as an organizational network with a clear focus on the future market, nonprofits are primed to utilize the recent disruptive forces for inspired growth.

The salient point in the comparison of for-profit versus nonprofit human services entities often emerges as a question of quality. Previous public service privatization ventures, such as child welfare systems, have historically done little to boost service quality or innovation. In this era, can large corporate interests be expected to serve

societal needs over the demands of shareholders while also promising affordable solutions to seemingly insurmountable welfare concerns? Many of the publicly traded for-profit human services organizations specifically list criticism of privatization and operational quality as a “risk” their investors must consider. Ultimately, are the limited American tax dollars distributed through government agencies for these services, to varying degrees, producing a good return on our investment? Perhaps when equipped with the proper tools for adaptation and business savvy, the nonprofit sector can remain a more dominant force in the human services industry, setting the standard of excellence for all players. The study of a number of for-profit examples will illustrate the current trends and impacts in addition to the actual and potential consequences. While this article provides no definitive road map to a market revolution, it is intended to highlight the many complexities nonprofits face in America as they seek a competitive edge.

I. The Human Services Industry

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The human services industry umbrella encompasses a range of social and behavioral health services, such as disability programs, youth development, mental health and crisis intervention, employment and housing and child and family services. Before the 1960s, these efforts were

considered largely governmental. But through welfare state growth, it became common for nonprofit organizations to serve communities through public agency funding, like Medicaid, with legislative efforts focused on fostering this partnership. Approximately 7,000 private for-profit and nonprofit companies exist in the market today (Fee, 1).

Demand for community services has increased owing to economic hardship, but the political climate and tax revenue ensure only basic funding. Nonprofit organizations rely more heavily on government financing than do for-profits, and also tend to have a donor base that can be similarly impacted by economic conditions. Societal needs continue to rise and nonprofit organizations are spread thin, while competing for additional funding through foundations, mergers and acquisitions has become quite common, both with other nonprofit networks and increasingly with for-profit entities. Fortunately, nonprofits are somewhat shielded from for-profit acquisition because of existing transaction regulations, such as legal boundaries; that has not, however, mitigated corporate expansion. Even traditional political motives in nonprofit preference may not be safe for much longer.

II. Service Finances

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The human services industry contains an estimated 15 percent for-profit competitors, both private and publicly traded. Smart consolidation strategies include bolstering existing financial and human resources by establishing a wide variety of social and behavioral health services through a single firm, the largest of which all post revenues of over \$1 billion. Some for-profits have also creatively sidestepped state regulations imposing solely nonprofit government contracts by actually integrating nonprofits into their business model through service delivery and management services (Fee, 2). As a result, large portions of the billion-dollar revenues (and in some cases, all of it) can be traced directly back to the federal and state government coffers. Shareholders with publicly traded human services companies are advised that this dependency can be an investing "risk," with so much income tied to agency funding in the form of extensive contracts for services and reimbursement for care.

This vital government arrangement increases the need for close legislative tracking and political organizing by the for-profits to maintain the current payout structure and also to potentially gain access to more opportunities for privatization under new legislative agendas. These large for-profit firms can, and do, donate thousands of dollars to political entities like state and local parties. They contribute directly or through structures like political action committees (PACs), and super PACs (called 527s) to influence electoral and government policy outcomes.

Large corporate contributions of “soft money” have increased dramatically in the past decade (Center for Political Accountability, 2012). The IRS permits such fundraising by several tax-exempt classifications, including “social welfare” 501(c)(4) organizations, which function as partnerships to support shared policy and political interests, like those in the human services industry (IRS, 2012). In the for-profit sector, these entities have become more popular than PACs because they are purportedly “advancing broad community interests” and are therefore not subject to scrutiny by the Federal Election Commission while being shielded from the critique of shareholders and consumers (McIntire 2012, A01). A New York Times review recently reported that last year, corporate donations to these social welfare groups not only increased but also were specifically intended to impact and guide public policy on all levels of government (McIntire 2012, A01). By contrast, nonprofits, as 501(c)(3) tax-exempt organizations, cannot participate in any partisan electoral activities and are limited to some lobbying efforts only in the form of organized advocacy.

III. Pennsylvania—Corporatization of Safety Nets

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The allied prioritization of political agendas and rapid for-

profit expansion can be observed in most states, with the human services industry evolving at an unprecedented and some would argue hazardous rate. Corporate entities innovate with business structure growth and organizational strategies, ensuring streamlined acquisition of smaller human services operations and processing of government contracts. In some states, such as Pennsylvania, even the state welfare systems through which citizens receive their social security and Medicare payments have been contracted out to for-profit entities. This has led to unacceptable delays and errors in human services reimbursements and, most important, the distribution of safety-net finances that help care for our nation's most vulnerable populations. The private company Christian Financial Management is currently operating the state and federal payment process in Pennsylvania (Worden 2012, B02). With a growing list of egregious errors, this company is failing to deliver the services they have been given millions of taxpayer dollars to provide. The Pennsylvania Department of Public Welfare (DPW) has gone so far as to provide its own staff time to help manage the growing crisis.

Normally, such poor service quality would be cause for concern in any contracted business arrangement, but in the Pennsylvania state government, these errors and complaints have not caused much of an uproar. After many months of payment processing delays impacting the lives of low-income, disabled and elderly residents,

this third-party contract was awarded to a new for-profit company, Public Partnerships, LLC. One state representative commented that "what was once a well-run, smoothly operating system of home and community-based care is now chaotic and disorganized. It jeopardizes the *safety* of our vulnerable citizens" (*Erie Times-News*, 2012).

The nonprofits previously serving as essential community-based administrative assistants to the populations requiring state-funded human services have been quietly removed from the payment process as well. This operational change was ostensibly because of recent DPW funding policy changes, despite years of committed advocacy. Liberty Resources was one of these prized organizations, with disabled staff extending a hand to disabled Pennsylvania residents needing help with everything from dealing with contractors to purchasing public transit tickets. The \$13 million removed from their funding in 2011 under the new regulations that barred them from managing certain types of state-funding paperwork has resulted in significant downsizing of staff and unfortunate consequences for the hundreds of disabled and elderly requesting assistance (Rubin 2011, B01). Interestingly, this \$13 million is approximately the same amount that Liberty Resources claims it saved the state government annually by allowing these residents to live independent of nursing home facilities.

This calls into question the fiscal responsibility of human

services government contracts with private, for-profit entities. With no quality assessment in the delivery of services, these orchestrated business deals are rarely studied in the context of quality outcomes and legislatures' financial stewardship in the interest of constituents. Performance standards and government agency reports regarding quality and cost of services have become an integral part of accountability in the budget-making process, most importantly at the state level, where tax dollars are carefully allocated. Why has this demand for increased oversight not extended logically to third-party contractors in the human services sector if they, too, are charged with operating many of the most crucial safety-net programs in our country?

IV. Let's Make a Deal

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Further examination of the political relationships between some of the most powerful human services corporations and elected officials provides some causal insight into the predominant lack of transparency and accountability in state governments. In the case of Public Partnerships, LLC, they are simply one component in an innovative business operation called Public Consulting Group (PCG), which provides a vast array of contracted services generating almost \$10 million annually (Hoovers 2012). Operating with 40 offices throughout the US, Canada, the

UK and Poland, it delivers “consultancy services” to public-sector education, health and human services and other state and municipal clients. PCG boasts of extensive collaborative experience in all 50 states, cutting costs and supposedly excess spending of state funds by conducting performance auditing for governments and related entities (PCG 2012). The company also offers contracted consultation for their business management expertise, and technological support to enact all (their) recommended efficiency changes.

PCG recognizes that the convenience for government is undeniably appealing—allowing officials to deftly “cut waste” in revenue expenditures while simultaneously offering contracted services to purportedly streamline these very same programs. It’s not clear how often their own audit assessments drive their acquisition of operational contracts through state-client relationships, but the mere function of spending state dollars to investigate the use of state dollars disconcerting. The hiring by Maine’s Department of Human Services (DHS) of PCG to audit Medicaid vendors resulted in reportedly “excessive penalties” for small businesses because of basic procedural confusions—fines totaling millions that would return to the public coffers. Meanwhile, PCG profited from its established “contingency contract” with Maine DHS, receiving approximately 25 percent of each penalty dollar paid to the state (Nemitz 2002, B01). In 2013, this same company will obtain control over the

Medicaid payment process in the state of Pennsylvania.

As this competition for third-party contracting intensifies, the need for constant legislative analysis and political strategizing has become an integral part of the for-profit business structure in the human services industry. And it shows—PCG was defeated by Health Management Systems (HMS) in a 2001 Florida contracting bid to oversee the state's Medicaid program (Fineout 2001, B05). HMS had hired the former campaign manager for the state's governor, Jeb Bush, for the sole purpose of securing that \$2.14 million arrangement.

V. For-Profit Power Moves

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Today, the establishment of government relationships is even mentioned in all of the top human services companies' annual reports, otherwise known as "10-Ks." Such reports are required by the U.S. Securities and Exchange Commission, but are also intended to provide shareholders and investors with detailed information regarding the companies' business practices and financial histories. With so much of their income tied to Medicare and Medicaid funds, and growth strategies dependent upon securing third-party contracts with state agencies, this comes as no surprise.

Universal Health Services (UHS) is one of the largest

hospital companies in the US, with net revenue totaling almost \$8 billion last year—\$100 million each of which came from Medicaid reimbursements in states like Pennsylvania, Texas and Virginia. They own and operate subsidiaries' facilities across the country and in Puerto Rico, many of which have previously been nonprofit and community care organizations. Through management services, UHS also secures contracts with government agencies to operate "freestanding" behavioral health care facilities, as well as units within third-party owned medical and surgical hospitals (Hoovers 2012, 4).

The Arizona-based Providence Service Corporation is similarly recognized as a billion-dollar company in the human services industry, offering nonprofit management in addition to government-contracted social services and transportation services. With operation arrangements in 40 US states and British Columbia, Providence prides itself on renewing contracts to facilitate human services such as substance abuse treatment programs, foster care, correctional facilities and home-based counseling, as well as transportation services for the disabled, hospital patients and other non-emergency customers (Hoovers 2012b, p. 4). Much of their income is dependent upon Medicaid dollars, with some state payer contracts lasting as long as three to five years.

The pursuit of acquisitions also maintains steady industry consolidation and the growth of these large corporations, but frequent business integration processes carry inherit

risks. As a legal and financial buffer, UHS describes in its annual report how it has maintained an “advisory” position within the established Universal Health Realty Income Trust. UHS then collects an advisory fee, and is able to retain investment from leasing and renting their facilities to the subsidiaries (UHS 2011, 33). This protects them from lawsuits, and from fiscal responsibilities like bond-issuing, because such matters are handled by the Trust. A legal separation of assets is particularly useful as the company seeks acquisitions and rapid growth in their new behavioral health services. In 2011, a UHS-owned facility, Two Rivers Hospital in Missouri, lost Medicare and Medicaid funding because of U.S. Department of Health and Human Services violations including two patient suicides (Bavley 2011). Similarly, in 2011 a subsidiary of Providence Service Corporation that contracted with Washington, DC, called Family Preservation Services allegedly defrauded the Medicaid program and the DC Department of Health Care Finance through a scheme of cutting corners in the diagnostic and care operations and tampering with reimbursement documents (Anderson 2011, A01).

According to Providence’s annual report, their business growth depends on acquisitions of existing service organizations, and the contracts that fuel their purchasing power. How did they secure state deals in places like Michigan, Missouri, New York, Wisconsin and Texas in 2011–2012? By tracking state legislation and funding

trends to analyze potential effects on their business, and by prioritizing contract bids in states with "favorable funding opportunities." Their 10-K also explains that Providence "recognize(s) the value of maintaining government relationships in securing contracts," and cites "government employee union interactions" as a threat to their expansion (Providence 2011, 21).

Government contracting is so pivotal to Providence's corporate progress that shareholders will even seek involvement. Reporter Jaime Castillo described in a 2006 *San Antonio Express-News* article how he had received several inquiries from financial houses and a market research firm about Providence Service Corporation's bid in the state's privatization of Child Protective Services. Castillo says, "Judging by the interest level of the callers, it seems that some investors think there's some serious money to be made in Texas" (2006, B01). Facing competition from a local nonprofit with area lawmaker support, Providence declared their bid to be the most efficient choice despite a 7 percent annual profit margin, compared with a 2.5 profit margin for the nonprofit organization. The decision-making process became contentious and politically infused, with allegations from the nonprofit leadership that Providence's chairman and CEO had claimed inside government knowledge of the bid rankings.

Also concerned with state regulatory actions, the Universal Health Services 10-K expresses the company's

opposition to “new or expanded conversion legislation and the increased review of not-for-profit hospital conversions,” because this proposed governmental transparency with the public and required approval from attorneys general in acquisitions could “limit (their) ability to grow.” (UHS 2011, 26) UHS had to maintain legislative clout, a business tool successfully used in the past.

Former Republican presidential candidate Rick Santorum previously served on the board of Universal Health Services, earning \$395,000 in director’s fees and stock options. The company was his second highest campaign donor in the 2012 election. As a Pennsylvania Congressman, Santorum championed spending millions of federal dollars for hospitals in Puerto Rico—a UHS stronghold (McIntire 2012, A01). According to campaign finance records, the company was also a top donor for other prominent congressional candidates, such as Pat Toomey, Arlen Specter and James C. Greenwood. UHS utilizes the common IRS PAC designation as one method of donation, operating the Universal Health Services Inc. Employees’ Good Government Fund PAC (Center for Responsive Politics 2012). Headquartered in Pennsylvania, the company has a vested interest in federal election outcomes, as their list of top-recipient candidates indicates.

Like UHS, Providence Service Corporation actively fosters relationships with key governmental contacts, through political campaigns and policy advocacy. The company’s

founder, Fletcher Jay McCusker, stated in a 2007 Wall Street online magazine interview that with relatively little competition from local nonprofits, Providence's expansion is facilitated by the organization's growing reputation as a common human services provider, because "the more (they) do, the more credible (they) become with the state procurement people" (Paterson 2007, A18), Electoral strategizing is such an important part of the company's operations that the policy is detailed in their 2010 Compliance and Ethics Program and Employee Code of Conduct document: "Should the Company solicit contributions from employees or individuals associated with the Company for allowable political contributions, such as to corporate or trade associations, such solicitation shall make clear that no one will benefit or be prejudiced as a result of a decision to contribute or not contribute, and that any political contribution is not tax deductible" (Providence19). Investment in lobbying is simply a business expense; \$60,000 was spent in 2012 to impact Medicare and Medicaid policy decisions (Center for Responsive Politics 2012).

VI. "Money Talks, Nobody Walks"

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Government agencies and nonprofit organizations frequently use performance management practices as a part of their operational structure, focusing on their

mission and goals in an efficient benchmarked analysis for progress. By contrast, for-profits' internal quality controls are driven by financial growth and expansion. Quality controls are dictated externally only in the form of dollars and, at most, the customer response to services that is inherently tied back to profit as a part of consumer behavior. But if government's critical human services are provided by a for-profit entity, citizen "satisfaction" is irrelevant because company income is most often guaranteed by multiyear contracts. When a bidding process is built on budget cuts and political opportunism, the nonprofit sector is hard-pressed to compete.

Community members and government watchdogs in regions of expanding for-profit human services have expressed concerns. Commenting on the 2007 Providence Service Corporation's business acquisitions, a British Columbia-based newspaper columnist observed:

The purchase of WCG marks Providence's first foray into work programs for people with disabilities, but its other offerings run the gamut: probation services; domestic-abuse counselling; foster care; parole supervision; child and youth behavioural programs. Florida's entire child-protection system is now run by Providence, under a contract the company touts to potential investors as "economically insulated."

In the topsy-turvy world of profiting from human misery, worsening economic conditions are actually "market

drivers" for companies like Providence. There's a financial interest in maintaining poverty and suffering.

With all the social problems the U.S. is experiencing, that means there's nowhere to go but up. The emerging industry that Providence defines has the potential to thrive in times of economic downturn.

And if two years in a row of "double-digit returns" aren't enough to convince wary investors of that, Providence offers a grim array of statistics to verify the growing dependency on its services. More than 40 million Americans now living in poverty. Almost five million adults released every year on parole. Two million children needing protective care. Half a million kids in foster care. High-school dropout rates at 33 per cent and rising.

The company adds that it is "further driving revenue growth by expanding into select geographic markets, including Canada."

We're a prime market, as it turns out -- lots of "liberal benefits" for job training and government interest in offloading the provision of social services.

Do we want to go in this direction? Is there even time to ascertain that before all is lost? (A18)

These questions are rarely asked by anyone—including the public officials representing the taxpayers. It is unfortunate that in some states without adequate

oversight, the consequences have been (and will continue to be) felt for the duration of these multiyear contracts, mostly among vulnerable populations such as foster children and persons with mental disabilities.

If we use the similarly privatized healthcare system in the US as a comparison of financial influence on policy making, then we can reasonably predict annual lobbying and campaign donation totals to grow at a healthy clip. The US healthcare system has already experienced this for-profit takeover in the form of public and nonprofit hospital acquisitions. Some of the corporation titles are even the same, as they have expanded to include human services in their vast network of providers. As the universal healthcare initiative gained traction over the years, concern over privatization's impact on quality and efficiency under profit-driven management influence has grown to demands for drastic reform from various public interest and medical professional groups.

While human services are only loosely correlated to the medical industry with respect to serving the needs of citizens, they share the very same theoretical contradictions of for-profit takeover: the core mission of medical care, and of social services, contrasts with that of market principles (Relman 2007, 2668). For example, nonprofits helped tackle the beginning stages of the AIDS crisis when the disease was largely unknown and a growing threat. They innovated with prototypes, while the for-profit community studied the phenomenon with a

market-based lens, preferring to not risk their investment with such uncertainty. In the human services industry, for-profit privatized prison health services like those at Rikers Island in New York have successfully reduced the cost per inmate at the expense of providing adequate care. They even failed to meet Department of Health standards for basic care procedures like HIV screening and sexually transmitted disease treatment (Shalev 2009, 993).

VII. Mission Failure & Rebirth

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At the heart of the nonprofit sector's lack of competitive edge in the human services industry lies a fundamental difference in operational philosophy. The publicly held and private for-profit structure is a Wall Street-responsive entity with bottom-line concerns, constantly aiming to reduce operational costs to ensure maximum revenue. Tom McLaughlin, a nonprofit consultant and author, describes the mission-based nonprofit business consideration of corporate structure as detached from a nonprofit's identity. This includes the various "trappings of corporate structure," and any common administrative instruments like software or management processes. He states: "People do not feel positively about an organization because they have a fondness for its corporate structure" (McLaughlin 2010, 14). While the nonprofit human services sector has evolved in several

stages, like the 90s growth of mental health programs, many experts like McLaughlin agree that the industry is again ripe for restructuring. It is apparent that the for-profit sector has the economic strength to continue experimenting and innovating ways to corner the market. However, through similar business structure and political influence, these developments can inspire the new nonprofit design too.

First and foremost, the trends of network building and business consolidation strategies (i.e., mergers, acquisitions) within the nonprofit community must be expedited, facilitating the larger adaptation strategies. Common concerns are always based in maintaining the mission and reputation of individual nonprofit organizations. With the alliance of competing or redundant services, the network can get back to those goals through shared delivery of high-quality human services and measurable impact (Disruptive Forces 2011, 11). Also, this cooperative system will simplify mobilization strategies for legislative advocacy and political influence. With shared resource databases of known donors and advocates for the various human services nonprofit entities, the sector can enable more grassroots organizing and citizen lobbying of government officials in the traditional 501(c)(3) tax-exempt model. The creation of "social welfare" 501(c)(4) groups in the nonprofit arena is growing in popularity, and can be quite useful for the nonprofit sector because it allows more flexibility in

political influence and policymaking with the added benefit of primarily anonymous donation policies. Established social welfare initiatives can then also be financially supported by outside organizations that share the same policy-shaping goals, such as labor unions.

The next nonprofit sector evolution must include careful consideration of operational procedures and financial models, with innovative integration of market responsive strategies. In the human services industry, there is a growing government preference for multiyear contracts, often in the form of "risk-based contracting." This requires not only healthy financials but also streamlined processing of support services like accounting and management. Because such an arrangement requires significant capital, it is again pertinent for nonprofits to seek consolidation strategies within the sector to help combine funding sources and reduce competition amongst nonprofits with the same mission-based services. Some industry analysts also recommend that nonprofits integrate a for-profit subsidiary role into their business structure to help ensure fiscal solvency (Fee 5). Even within networks of providers with no formal business relationship, partnerships among diverse services should be encouraged to help reciprocate the shared goals of high-quality, impactful social and behavioral health services. Technology advancements in all aspects of the human services business model can be expected to push nonprofit adaptation and expenditures as well, while also fostering

innovation in the delivery of programs.

In addition, maintaining localized influence and public integration will be a priority within the nonprofit sector. This creates a sense of ownership by residents, supporters and the community members who utilize the human services, leading to donations, advocacy support and legislative engagement. Although for-profit acquisition strategies often include the expansion of regional service delivery by way of calculated local market introductions and subsequent expansion, the nonprofit entities can rely on the organically altruistic sentiment their organization structure generates.

One example of political and financial prowess in the nonprofit world is AARP (formerly the American Association of Retired Persons). While AARP is not in the human services industry, many of their successful strategies reflect the recommended changes for nonprofits of all sectors, such as the diversified business structure beyond the charitable organization itself. The AARP model specifically contains a 501(c)(4) arm for lobbying and a for-profit corporation that licenses the organization's brand name for use by other business entities. Impressively, this nonprofit group was actually the third most "prolific" lobbying organization in 2008 and continues to grow in membership and strength (Carney 2010, 2). Despite their lack of direct human services involvement, AARP has had held significant policymaking power on the same issues that impact the industry, such

as healthcare reform.

VII. Conclusion

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While we may study the many strategies by which the nonprofit sector of the human services industry can sharpen its competitive edge, perhaps the most critical fact in this examination is that the number of Americans who require social and behavioral health services is growing. In some areas, this need is increasing at a staggering rate. Every individual who receives quality care, whether it be in the form of an HIV screening or a free tutoring program for a mentally disabled child, is one step closer to contributing to our society in a positive way. Humans are, after all, social creatures who value community collaboration in caring for one another, and nonprofits exemplify this very mission. Government tax dollars may be in short supply, but human services programs should not be the first on the budget chopping block; nor should the neediest people in our society be further denigrated by programs operated from Wall Street rather than being grounded in social impact performance measurements. Prepared with the adaptive tools, the nonprofit world will continue to identify the future needs of our citizens and to develop solutions while for-profits will be reviewing the financial risk involved.

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