



Highlights of [GAO-07-1084T](#), a testimony before the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

The nonprofit sector is an important means through which public services are delivered and national goals addressed. The federal government increasingly relies on networks, often involving nonprofits that address many issues—health care, education, and human services, for example. Because nonprofit organizations play a key role as partners with the federal government, there is a need to better understand the sector.

This testimony (1) provides a picture of the nonprofit sector—its size, composition, and role in the economy; (2) discusses how and why the federal government partners with the sector; and (3) identifies issues related to the sector as a federal partner that need to be better understood.

GAO's preliminary work on this topic focused on the intersection of nonprofit organizations and the federal government, including trends, the use of federal funding, and emerging issues. GAO interviewed key experts from relevant associations and academia, reviewed related research, and hosted roundtable discussions with key researchers and practitioners in the nonprofit area.

www.gao.gov/cgi-bin/getrpt?GAO-07-1084T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Stanley J. Czerwinski at (202) 512-6806 or Czerwinski@gao.gov.

NONPROFIT SECTOR

Increasing Numbers and Key Role in Delivering Federal Services

What GAO Found

U.S. nonprofit organizations have a significant role both in the economy as a whole and as providers of services. While the majority of nonprofit organizations have relatively small operating budgets, together their impact is large. For example, researchers estimate that the sector's spending in recent years was roughly 11 to 12 percent of the nation's gross domestic product and, in 2002, the sector had over 9.6 million employees, about 9 percent of the civilian workforce. Further, the sector has grown; the number of charitable organizations reporting almost tripled over the last two decades.

The federal government increasingly partners with nonprofit organizations as they bring many strengths to these partnerships, such as flexibility to respond to needs and access to those needing services. These organizations receive significant funds from government sources to provide services. Researchers have attempted to quantify these funds. For example, one estimate is that the federal government spent about \$317 billion on nonprofit organizations in fiscal year 2004. However, the lack of data makes measuring federal funds to nonprofit organizations difficult. Many funds come through indirect routes, such as through state and local government, adding to the difficulty of determining funding and measuring performance. Although IRS is generally responsible for overseeing the tax-exempt status of these organizations, there is less focus at the federal level on the comprehensive role of nonprofits in providing services using federal funds.

Our preliminary look at how the federal government interacts with the nonprofit sector indicates that several policy issues have emerged; examples follow.

- **Coordination and collaboration**—the increasing importance of collaboration between all levels of the government and nonprofit organizations.
- **Internal governance issues**—the need to strengthen internal governance of nonprofit organizations.
- **Capacity**—the need to improve smaller nonprofit organizations' capacity to address weaknesses in finances, administration, and human capital.
- **Nonprofit sector data**—the need for improved data on the sector's size, financial status, and funds from federal sources.
- **Administrative and reporting requirements**—the many requirements to be accountable, which while important and necessary, require information in different formats and with increasing complexity.
- **Fiscal challenges for nonprofits**—the instability of some nonprofits' financial position.

At the request of the Congress, we are beginning work to examine these issues further.