



Highlights of [GAO-09-193](#), a report to the Chairman, Committee on the Budget, House of Representatives

## Why GAO Did This Study

Increasingly, the federal government relies on networks and partnerships to achieve its goals, and many of these involve nonprofit organizations. GAO was asked to assess (1) the mechanisms through which federal dollars flow to nonprofits and (2) what is known about federal dollars flowing through them to nonprofit organizations in fiscal year 2006. To address these objectives, GAO conducted a literature review of funding; analyzed data from several sources, including the Federal Procurement Data System—Next Generation (FPDS-NG) and the Federal Awards and Assistance Data System (FAADS); and analyzed nonprofit organizations' roles in 19 federal programs.

## What GAO Recommends

To ensure that accurate information on federal funding provided to nonprofit entities is available, GAO recommends that the Office of Management and Budget (OMB), which is responsible for a searchable Web site called [USAspending.gov](#) that includes federal assistance and contract awards, ensure that its funding information in [USAspending.gov](#) is categorized with a consistent definition of nonprofit organizations. OMB commented that while GAO's recommendation would likely ensure more consistent data, it could be burdensome for states tracking subaward data. As [USAspending.gov](#) is developed, GAO believes this is an opportune time to explore ways to improve reliability of subaward data.

To view the full product, including the scope and methodology, click on [GAO-09-193](#). For more information, contact Stanley J. Czerwinski at (202) 512-6806 or [czerwinskis@gao.gov](mailto:czerwinskis@gao.gov).

## NONPROFIT SECTOR

### Significant Federal Funds Reach the Sector through Various Mechanisms, but More Complete and Reliable Funding Data Are Needed

#### What GAO Found

The federal government uses a variety of funding mechanisms to achieve national priorities through partnerships with nonprofit organizations, and the relationships are sometimes complex and multidirectional. Nonprofit organizations receive federal grant and contract funds both directly and through other entities, such as states, for performing activities or providing services to particular beneficiaries. Federal funds paid to nonprofit organizations as fees for services follow a somewhat more complex path. Credit through loan and loan guarantee mechanisms facilitate nonprofit organizations' access to capital. Similarly, some tax policies result in benefits to nonprofit organizations by either reducing their costs or increasing their revenues. With direct federal grants and contracts, and with some loans and loan guarantees, federal agencies generally select the nonprofit participant, directly control the amount of funding provided, and monitor nonprofit performance. With other mechanisms, such as tax expenditures and fee-for-service programs, the federal government sets criteria for acceptable recipients but does not directly select or monitor nonprofit performance.

Due to limitations and reliability concerns with tracking systems' data, the data presently collected provide an incomplete, unreliable picture of the federal government's funds reaching the nonprofit sector through various mechanisms, although they suggest these funds were significant. No central source tracks federal funds passed through an initial recipient, such as a state, and the nonprofit status of recipients was not reliably identified in FPDS-NG or FAADS. Factors contributing to data limitations include the nonprofit status of recipients being self-reported and no consistent definition of nonprofit across data systems. The development of a system to report funding through subawards, currently underway, may enable more complete estimates of funding to the sector in the future. However, until the accuracy of nonprofit status is improved, accurately determining the extent of federal funds reaching the sector is not possible, leaving policy makers without a clear understanding of the extent of funding to, and importance of, key partners in delivering federal programs and services. Funding data sources identified the following as the approximate amounts of federal funds flowing to nonprofits in 2006 under different mechanisms, although most sources did not reliably classify nonprofit status of recipients:

- \$135 billion in fee-for-service payments under Medicare;
- \$10 billion in other types of fee-for-service payments;
- \$25 billion in grants paid directly to nonprofits;
- \$10 billion paid directly to nonprofits for contracts; and
- \$55 billion in federal funds paid to nonprofits by states from two grant programs, including Medicaid. (GAO could not assess other programs.)

In addition, approximately \$2.5 billion in loan guarantees and \$450 million in loans were issued to nonprofits, and approximately \$50 billion in federal tax revenues were foregone due to tax expenditures related to nonprofits.