

# **Accountability Gaps Limit State Oversight of \$694 Million in Grants to Non-Profit Organizations**

A presentation to the  
Joint Legislative Program Evaluation Oversight Committee

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## Acknowledgements

Office of the State Auditor

Office of State Budget and Management

Department of Health and Human Services



# Overview

*Does current oversight provide assurance that public resources granted to non-profits are spent in the way intended by the state?*

- Policy review of oversight of state grants to non-profit organizations
- \$694 million in Fiscal Year 2007-08



# Overview

Despite recent improvements in technology and tracking,

1. Reporting requirements do not ensure accountability
2. Inconsistent agency oversight compromises accountability
3. Best practices, including performance-based contracts, can improve oversight



# Overview

Four recommendations:

1. Require performance-based contracting, monitoring plans, and improved reporting
2. Emphasize competitive grant awards
3. Increase enforcement of reporting requirements
4. Authorize agencies to withhold up to 2% of grant awards to fund oversight



# Background



# Evaluation Purpose

Does current oversight provide assurance that public resources granted to non-profits are spent in the manner intended by the state?



# Background: Data Sources

- NC Grants Information Center database
- Survey of 112 grantor agency program monitors
- Interviews
  - Grantor Agency Staff
  - Office of State Budget and Management
  - Office of the State Auditor
  - Ad hoc Grants Oversight Committee Members





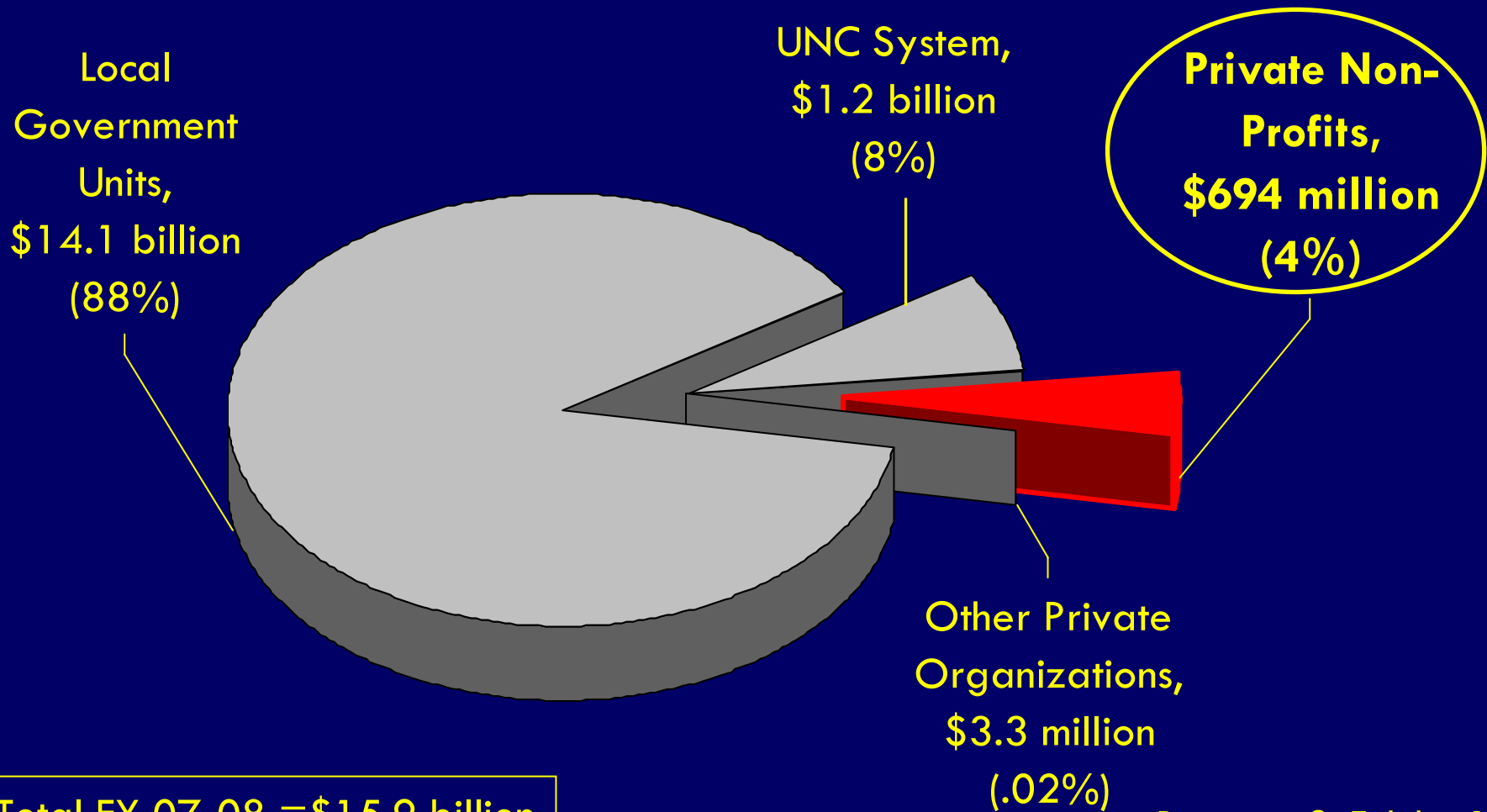
# Background: Definition

- A state grant is an agreement between the state and a private, non-profit entity to carry out a program or provide services
- State grant funds include federal funds granted through state agencies
- Not included:
  - Contracts (Division of Purchase and Contract)
  - Payments made by medical plans

Report pp 2-3



# Background: State Grants to Non-Profits



Report p 3, Exhibit 1



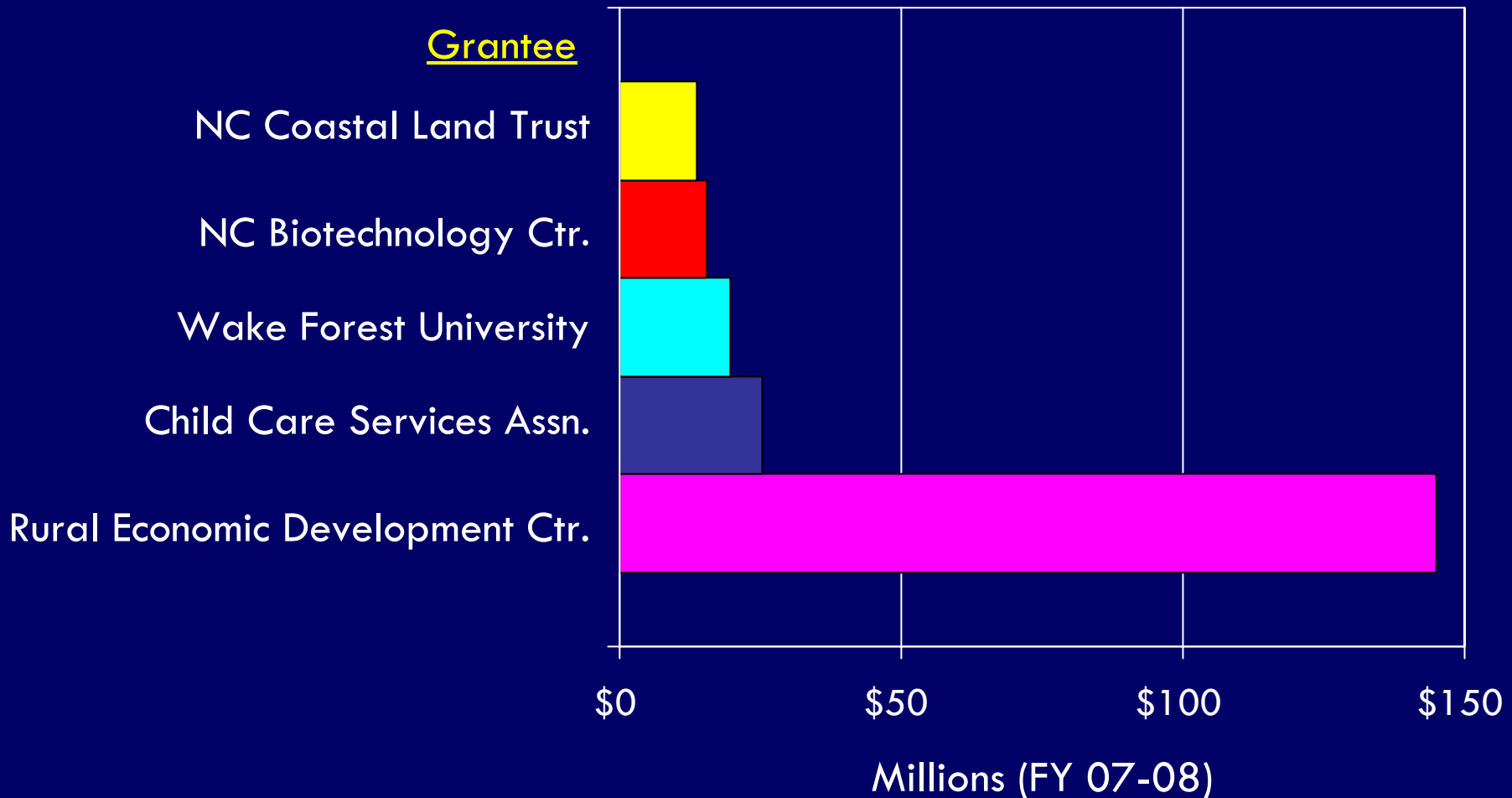
# Background: Oversight Guidelines for Grants to Non-Profits

- State guidelines
  - N.C. General Statute § 143C-6-23(d)
  - NC Administrative Code Title 9, Subchapter 03M
- Federal guidelines apply only to funds from federal sources
  - Federal Office of Management and Budget Circulars A-133 and A-122

Report pp 3-5



# Background: Top Five Non-Profit Grantees, Fiscal Year 2007-08



Total \$219.1 million (32% of grants to non-profits)

Report p 13



# Can We Say More Than “All is Well”?



# Findings



# Focus of Central Findings

1. Reporting requirements set in administrative rules
2. Agency oversight
3. Best practices, including performance-based contracts



**Finding 1.**  
**State Reporting Requirements Do  
Not Ensure Accountability**





# State Reporting Requirements

- All grantees required to:
  - Certify funds were used for intended purpose
  - Submit description of activities and accomplishments
- \$500,000 threshold brings differences in reporting

Report p 13



# State Reporting Requirements

- \$500,000 or less
  - Award-level reporting required
  - No audit required
- Over \$500,000
  - No grant-level reporting required
  - Audit required

Report pp 8-9



# State Reporting Requirements and Distribution of Non-Profit Grant Funds

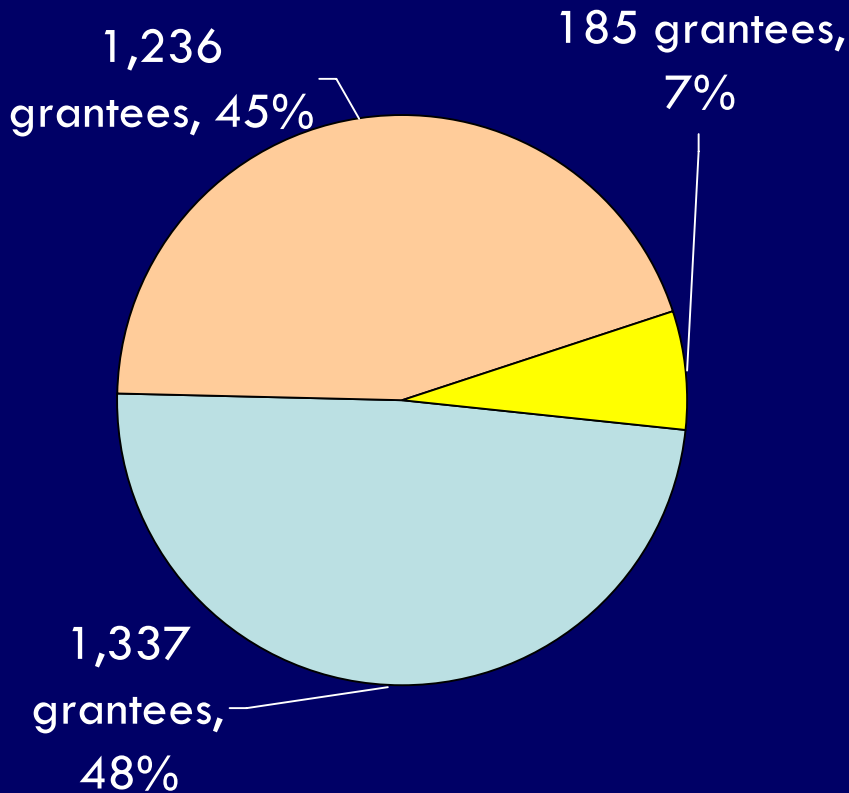
- Most (93%) of non-profit grantees received a total of \$500,000 or less in state funds
  - Award-level financial reporting required
  - No audit required
- But most (79%) of grant funds were awarded to non-profits that received over \$500,000
  - No grant-level financial reporting required
  - Audit required

Report pp 8-9

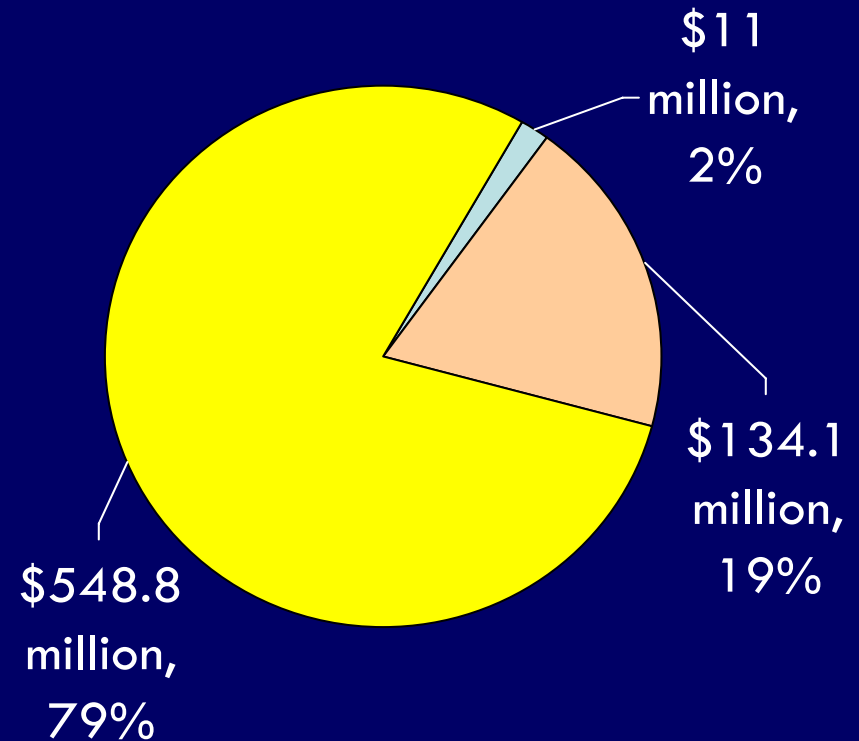


# Distribution of Non-Profit Grant Funds

Number of Grantees (2,758)



Grant Funds (\$694 million)



■ Less than \$25,000 ■ \$25,000 - \$500,000 ■ More than \$500,000

Report p 9



# State Reporting Requirements Do Not Ensure Accountability

- **Reporting forms** capture financial information
  - But do not adequately capture program performance
  - Cannot answer: *“To what end?”*
- **Reporting deadlines** imperil timely reporting
  - Time lag of up to 21 months is possible
- **Enforcement** of reporting requirements is inconsistent across agencies

Report pp 10-12



**Finding 2.**  
**Inconsistent Agency Oversight**  
**Compromises Accountability**



# Inconsistent Agency Oversight

- Quality of oversight varies across agencies
- Some flexibility in agency practices is needed, but too much imperils accountability
- The North Carolina Department of Health and Human Services requires staff to develop monitoring plans

Report pp 12-14



**Finding 3.**  
**Adopting Best Practices  
Can Improve Oversight**





# Features of Best Practices

- Monitoring plans
- Competitive awards
- Payment by reimbursement
- Performance-based grant contracts

Report pp 15-19



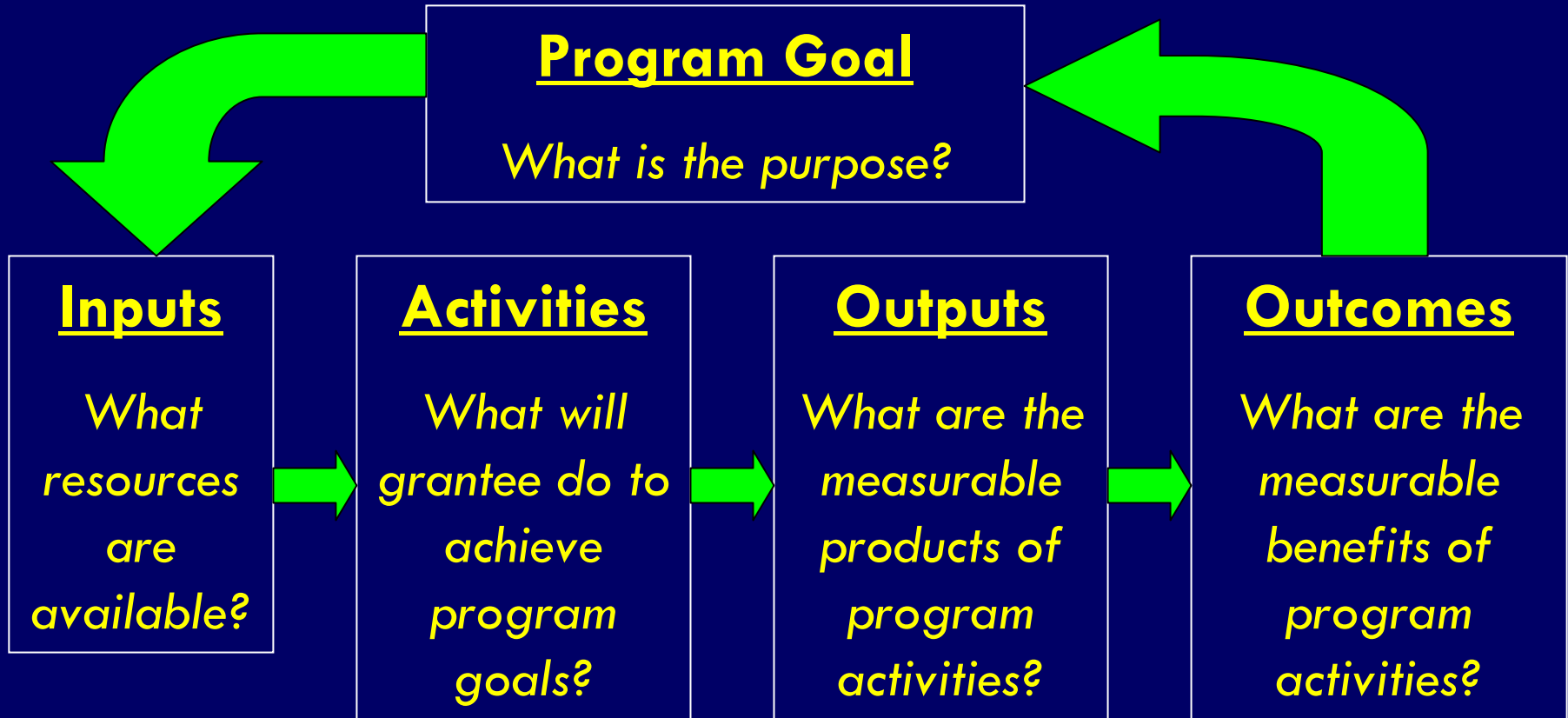
# Adopting Best Practices Can Improve Oversight

- Performance-based contracting
  - Performance benchmarks stated in contracts
  - Reporting and monitoring in terms of benchmarks
  - Adopted by the NC Department of Health and Human Services
- Performance measurement framework
  - Increased focus on performance as well as financial reporting compliance

Report pp 15-19



# Performance Measurement Framework



Report p 16, Exhibit 9



# Recommendations



# Recommendation 1.

## Revise N.C. Gen. Stat. § 143C-6-23(d)

Direct changes to Administrative Rules to:

- Require performance-based contracts
- Direct agencies to file monitoring plans
- Align reporting with the state fiscal year end and reduce time lag
- Require program performance measures

Report pp 23-25



## Recommendation 2. Emphasize Competitive Awards

- Less frequent use of earmarks
- Increase likelihood of funding the best grantee for the task
- When earmarks are used, provide more direction for agencies to assess performance



# Recommendation 3. Increase Enforcement of Reporting Requirements

- Direct the State Controller to electronically stop payments to noncompliant grantees
- May not apply to grant funds from federal sources

Report p 26



# Recommendation 4. Authorize Agencies to Withhold Funds for Oversight

- At their discretion, agencies may withhold up to 2% of grant funds
  - 1.5% for agency monitoring
  - 0.5% transferred to the Office of State Budget and Management for statewide oversight
- Not likely to apply to grants from federal sources

Report pp 26-27





# Summary

- Gaps remain despite recent progress on oversight of \$694 million in state grants to non-profits
- Statutes and rules should be changed to strengthen accountability and focus on performance



# Report Available Online

[www.ncleg.net/PED/Reports/Topics/Intergovernmental.html](http://www.ncleg.net/PED/Reports/Topics/Intergovernmental.html)

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