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# NONPROFIT SECTOR

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



GAO

Accountability \* Integrity \* Reliability



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.

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## Abbreviations

ACF	Administration for Children and Families
APPS	Automated Plan Payment System
CCR	Central Contractor Registration
CMS	Centers for Medicare & Medicaid Services
DHS	Department of Homeland Security
DOD	Department of Defense
DOE	Department of Energy
DOL	Department of Labor
Education	Department of Education
ETA	Employment and Training Administration
FAADS	Federal Assistance Award Data System
FFATA	Federal Funding Accountability and Transparency Act of 2006
FNS	Food and Nutrition Service
FPDS-NG	Federal Procurement Data System—Next Generation
FSA	Office of Federal Student Aid
GSA	General Services Administration
HHS	Department of Health and Human Services
HPMS	Health Plan Management System
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
NIH	National Institutes of Health
OMB	Office of Management and Budget
POS	Provider of Service
SCHIP	State Children’s Health Insurance Program
Treasury	Department of the Treasury
USDA	Department of Agriculture

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United States Government Accountability Office  
Washington, DC 20548

February 26, 2009

The Honorable John M. Spratt, Jr.  
Chairman  
Committee on the Budget  
House of Representatives

Dear Mr. Chairman:

Increasingly, the federal government relies on networks and partnerships to achieve its goals, and many of these involve nonprofit organizations. These organizations are involved in a wide array of missions including healthcare, education, poverty alleviation, and economic development, and their missions can align with or complement the objectives of federal programs. Federal and nonprofit entities often partner with one another as they work toward the same or similar goals. The relationships are sometimes categorized and analyzed according to the various policy issues they address, but another useful analysis involves the funding relationships, particularly as they vary across different federal funding tools used to accomplish agencies' missions. These tools dictate how the relationships between federal agencies and nonprofit organizations operate, the roles that these entities and others (including other levels of government) play, and the degree of control, oversight, and influence that exists between the federal government and nonprofit organizations.

To examine the extent and structure of the partnering between the federal government and the nonprofit sector, you asked us to focus on the funding relationships between the two sectors. Therefore, our objectives in this report are to provide information on (1) the mechanisms through which federal dollars flow to nonprofit organizations (which we define as those entities that are federally tax-exempt), and how federal involvement varies across them, and (2) what is known about federal dollars flowing through these mechanisms to nonprofit organizations in fiscal year 2006 (the most recent year for which we could obtain data from all sources).<sup>1</sup>

To better understand how funds to nonprofit organizations are tracked and how mechanisms operate, we reviewed 19 federal programs selected to provide information on a variety of direct and indirect mechanisms and

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<sup>1</sup>Except where otherwise noted, we use 2006 to refer to the federal 2006 fiscal year.

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services across a variety of policy areas and sectors, and to include some of the more highly funded programs involving nonprofit organizations. The information obtained from this review is not generalizable to all programs involving nonprofit organizations. Our steps included reviewing previous related GAO reports and meeting with program officials. For each program, we analyzed the roles of nonprofit organizations and how federal involvement with and influence on these organizations varied across funding mechanisms. To assess federal funding reaching nonprofit organizations through various mechanisms, we conducted a literature review of funding to nonprofit organizations, assessed the suitability of various potential data sources, and analyzed data from several sources. Our data sources included the Federal Procurement Data System—Next Generation (FPDS-NG), Federal Awards and Assistance Data System (FAADS), several systems at the Centers for Medicare & Medicaid Services, the Department of the Treasury’s (Treasury) estimates of the revenue loss of tax expenditures, and the Office of Management and Budget’s (OMB) collection of information on federal credit programs. Although we did not validate all of the data provided by these sources, we took several steps to assess data quality. Overall, we determined that the data were sufficiently reliable for our engagement purposes. However, we identified significant reliability concerns regarding data from two systems, FPDS-NG and FAADS, which limit the precision of our estimates. We also reviewed research by others that provided perspective on the sector as a whole. A detailed description of our scope and methodology can be found in appendix I, and our findings on the reliability of nonprofit identification in key data systems are detailed in appendix II.

We conducted this performance audit from January 2008 to February 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Results in Brief

Federal agencies use a wide range of funding mechanisms in partnering with nonprofit organizations—defined in this report as federally tax-exempt entities—to carry out agencies’ missions, and the relationships are sometimes complex and multidirectional. The most direct mechanisms are grants to, cooperative agreements with, and contracts for nonprofit organizations to provide particular services, such as research or services to particular beneficiaries. In fiscal year 2006, grants were provided to

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nonprofit organizations directly under almost 700 different programs. Federal grants and contracts may also reach nonprofit organizations by passing through levels of government as intermediaries, particularly with grant funds provided to states or other government levels that are often passed through to nonprofit organizations that provide services. Federal funds paid to nonprofit organizations as fees for services follow a somewhat more complex path, as exemplified by federal health insurance programs that reimburse nonprofit organizations for services they provide to individuals. Federal loans facilitate nonprofit organizations' access to capital by, for example, financing the construction of systems to improve electric service in rural areas. Further, other mechanisms, such as loan guarantees, while not directly providing federal funds to nonprofit organizations, increase access to other sources of funds for nonprofit organizations. For example, student loans, while provided to individual students, make funds available that result in revenues to nonprofit higher-education institutions. Similarly, some tax policies (known as "tax expenditures") result in benefits to some nonprofit organizations by either reducing their costs or increasing revenues. For example, they may be able to borrow funds at lower interest rates because of access to tax-exempt bond financing or may receive more contributions because the tax code provides an incentive for taxpayers to give. Each of these mechanisms provides the federal government with differing levels of influence and oversight over nonprofit selection and performance. With direct federal grants and contracts, and with some loans and loan guarantees, federal agencies generally select the nonprofit recipient, directly control the amount of funding provided, and generally 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 funding data presently available leave policy makers without a complete, accurate understanding of the amount of funding flowing to these key partners, although they suggest these funds were significant in fiscal year 2006. The federal government collects information on federal funding through several governmentwide and program-specific data systems. However, we identified significant limitations and reliability concerns with the data contained in these systems that led us to conclude that they provide an incomplete and unreliable picture of the federal government's funding to nonprofit organizations. For example, there is no central source that tracks federal funds that are passed through an initial recipient, such as a state, to a nonprofit subrecipient. In addition, the nonprofit status of recipients was not reliably identified in two key data systems. Several

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factors contribute to these data limitations. In particular, the nonprofit status of recipients is often self-reported and not always verified, and there is no consistent definition of a nonprofit across these systems. Some changes are currently underway that may enable more complete estimates of funding to nonprofit organizations in the future, including the development of USAspending.gov, a searchable Web site overseen by OMB that includes funding through subawards.<sup>2</sup> However, until the accuracy of nonprofit status is improved, it will not be possible to accurately determine the extent of federal funds reaching the nonprofit sector, leaving policy makers without a precise understanding of the extent of funding to, and importance of, key partners in delivering federal programs and services. Despite these limitations, the sources identified the following approximate amounts of federal funds flowing to nonprofit organizations in fiscal year 2006 under different mechanisms:

- about \$145 billion in fee-for-service payments, mostly through Medicare;
- approximately \$25 billion in direct grants;
- about \$55 billion in grants that flow through states; and
- approximately \$10 billion in contracts.

These data suggest that federal funds represented a sizable portion of nonprofit organizations' total annual revenues, reported to be \$1.6 trillion.<sup>3</sup> Additional funding was available related to other federal policies. Nonprofit organizations received about \$450 million in outstanding direct loans and \$2.5 billion in loans guaranteed by the federal government. Additionally, nonprofit organizations benefited from about \$50 billion in tax expenditures.

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<sup>2</sup>The Federal Funding Accountability and Transparency Act of 2006 (FFATA) requires the federal government to collect and report data on subawards.

<sup>3</sup>The Urban Institute, "The Nonprofit Sector in Brief: Facts and Figures from the Nonprofit Almanac 2008" (2008), <http://nccs.urban.org/statistics/quickfacts.cfm> (downloaded Oct. 24, 2008). Data only include nonprofits with gross receipts greater than \$25,000 that filed Form 990 with the Internal Revenue Service (IRS). Also, revenues from certain religious organizations, such as churches, may not be included because they are not required to register with the IRS, although some have chosen to do so.



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We are recommending that OMB take action to ensure that a consistent definition to categorize nonprofit organizations is identified and used in USAspending.gov. In commenting by e-mail on a draft of this report, OMB wrote that using the Central Contractor Registration (a database used to support agency procurement) would likely offer a consistent way to validate IRS tax-exempt status. It noted, however, the increased resource burden on states to ensure compliance of those receiving subawards with any requirement to register in such a system. We recognize this additional responsibility, but believe that this is the appropriate time for OMB to consider approaches that could be effective in improving the reliability of this information, given that the development of the subaward data portion of USAspending.gov is now underway. The Department of Housing and Urban Development concurred, by e-mail, with our findings and conclusions. The Departments of Agriculture, Education, Health and Human Services, and Labor did not provide formal comments.

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## Background

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### The Nonprofit Sector

The nonprofit sector is diverse and has a significant presence in the U.S. economy.<sup>4</sup> Of the estimated 1.8 million tax-exempt organizations in fiscal year 2007, about 63 percent were public charities or foundations that benefited the broad public interest, and were referred to as 501(c)(3) organizations,<sup>5</sup> and about 8 percent were social welfare organizations. Nonprofit organizations provide services in a wide variety of sectors, including policy areas such as health care, education, and human services. Approximately three-quarters of the revenues of 501(c)(3) entities that filed IRS Form 990 in 2005 were from entities within two subsectors. Public charities within the health subsector reported about \$672.1 billion, or approximately 59 percent of the revenues reported, and nonprofit

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<sup>4</sup>For the purposes of this review, we define nonprofit organizations as any organization having federal tax-exempt status as approved by the IRS under section 501(a) of the Internal Revenue Code. This includes all organizations covered under section 501(c) of the Internal Revenue Code, such as charities, social welfare organizations, and chambers of commerce.

<sup>5</sup>U.S. Internal Revenue Service, *Data Book*, <http://www.irs.gov/pub/irs-soi/07dbexemptact.pdf> (downloaded June 11, 2008).

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organizations within the education subsector reported about \$188.2 billion, or approximately 16 percent.<sup>6</sup>

While the majority of nonprofit organizations individually have relatively small operating budgets, as a whole the nonprofit sector has a significant presence in the U.S. economy, according to researchers of the nonprofit sector. In 2005, nonprofit organizations that submitted Form 990<sup>7</sup> to the Internal Revenue Service (IRS) held an estimated \$3.4 trillion in total assets and received \$1.6 trillion in revenues.<sup>8</sup> As we reported in 2007, in addition to representing a significant portion of the U.S. economy, the sector grew substantially from May 2000 to May 2006.<sup>9</sup> Specifically, researchers indicated that the number of registered public charities, a large subset of all nonprofit organizations, grew over 30 percent from about 646,000 to about 851,000, although organizations that have gone out of existence may have been included in those numbers. In 2005, we reported that the nonprofit sector accounted for over 9.6 million employees in 2002, which was about 9 percent of the civilian workforce.<sup>10</sup>

As we have previously reported, the federal government is increasingly partnering with nonprofit organizations because nonprofits bring many strengths, such as flexibility to respond to needs and access to those needing services.<sup>11</sup> Federal agency officials we spoke with reported that

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<sup>6</sup>These figures only include revenues from charities classified as 501(c)(3) organizations and do not include 501(c)(3) private foundations and other tax-exempt organizations, such as trade organizations and labor unions. Also, revenues from certain religious organizations, such as churches, may not be included because they are not required to register with the IRS, although some have chosen to do so.

<sup>7</sup>After receiving tax-exempt recognition, many nonprofit organizations must annually file an information return, Form 990 (or 990-EZ), to report their financial transactions and activities. In 2005, certain religious organizations and entities with gross receipts of \$25,000 or less were not required to file annual information returns.

<sup>8</sup>Amy Blackwood, Kennard T. Wing, and Thomas H. Pollak, "The Nonprofit Sector in Brief—Facts and Figures from the Nonprofit Almanac 2008: Public Charities, Giving, and Volunteering" (Urban Institute, 2008), <http://nccs.urban.org/statistics/quickfacts.cfm> (downloaded Oct. 24, 2008).

<sup>9</sup>See GAO, *Nonprofit Sector: Increasing Numbers and Key Role in Delivering Federal Services*, [GAO-07-1084T](#) (Washington, D.C.: July 24, 2007), 4. Data from National Center for Charitable Statistics (using the IRS Business Master File, May 2006), <http://nccsdataweb.urban.org/NCCS/Public/index.php> (downloaded Dec. 18, 2006).

<sup>10</sup>GAO, *Tax-Exempt Sector: Governance, Transparency, and Oversight Are Critical for Maintaining Public Trust*, [GAO-05-561T](#) (Washington, D.C.: Apr. 20, 2005), 10.

<sup>11</sup>[GAO-07-1084T](#).

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they may target nonprofit organizations when authorized by program regulations or when nonprofit organizations are the best source of a particular service, but they generally do not focus on the profit-making status of partners when distributing funding. For example, the Department of Labor is authorized by law to provide grants to public and nonprofit private organizations as part of its Senior Community Service Employment Program. Further, while the Department of Housing and Urban Development does not specifically target Emergency Shelter Grant Program funding to nonprofit organizations, a large portion of this funding reaches nonprofits because these organizations play a prominent role in delivering emergency shelter services for the homeless.

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## Federal Funding Mechanisms

The federal government uses a variety of funding mechanisms to achieve national priorities through partnerships with nonfederal parties such as nonprofit organizations. Federal grants and cooperative agreements are forms of assistance authorized by statute in which a federal agency transfers something of value, such as money or property, to a party for a purpose, undertaking, or activity of the grantee that the government has chosen to assist.<sup>12</sup> Federal contracts are mutually binding legal relationships obligating the seller, in this case the nonprofit entity, to furnish the supplies or services, and the buyer, in this case the government, to pay for them. The federal government typically uses contracts (rather than grants) as a mechanism when the principle purpose of the funded activity is to provide something for the direct benefit of the federal government. For example, contracts can be used to procure independent evaluations of programs, to conduct research for agency missions, or to buy information technology services for an agency. Federal credit and insurance programs, which include direct loans and loan

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<sup>12</sup>The Federal Grant and Cooperative Agreement Act of 1977 discusses the use of grant relationships versus procurement contracts. The act's provisions are intended to prescribe criteria for executive agencies in selecting appropriate legal instruments to achieve uniformity in grant and cooperative agreement use, a clear definition of the relationships they reflect, and a better understanding of the responsibilities of the parties to them. The distinction between these two forms of assistance is that substantial involvement is expected between the executive agency and the state, local government, or other recipient when carrying out the activity contemplated in a cooperative agreement, whereas such involvement is not expected in carrying out a grant agreement (see 31 U.S.C. § 6304-05). Cooperative agreements are useful where federal project management would be helpful due to the novelty or complexity involved, where collaborative research is desirable, or federal involvement is needed in early stages where standards are being developed. Given the similarity between these two forms of assistance, we refer to grants and cooperative agreements as grants in the remainder of this report.

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guarantees, provide an alternative to direct spending and can fill market gaps when private lending and insurance companies cannot meet economic demands. Tax expenditures are reductions in tax liabilities that result from preferential provisions, such as exclusions, credits, and deductions. They result in revenue forgone by the federal government and create incentives for certain behaviors, such as making charitable donations to nonprofit organizations. Fee-for-service, or voucher-type, mechanisms provide funding to organizations through the ultimate recipient of services. For example, under a fee-for-service mechanism, physicians may receive payments for each service provided (such as an office visit).

Several cross-governmental databases provide information on federal funding through the mechanisms described above. The Federal Assistance Award Data System (FAADS) provides financial data on grants and other forms of assistance that are made by the federal government, whereas the Federal Procurement Data System—Next Generation (FPDS-NG) collects federal procurement data. OMB is responsible for [USAspending.gov](http://USAspending.gov), a Web site mandated by the Federal Funding Accountability and Transparency Act of 2006<sup>13</sup> (FFATA) that establishes a single searchable location for financial information on grants, contracts, credit, and fee-for-service payments. Also, the IRS Form 990 provides detailed financial information on tax-exempt entities with annual gross receipts greater than \$25,000. In addition, the Federal Audit Clearinghouse provides information on nonprofit organizations and other nonfederal entities that spend more than \$500,000 a year in federal awards.<sup>14</sup> Treasury's Office of Tax Analysis lists tax expenditures and estimates their cost, as reported by OMB in the President's Budget submission.

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<sup>13</sup>Pub. L. No. 109-282, 120 Stat. 186 (Sept. 26, 2006).

<sup>14</sup>The Single Audit Act requires nonfederal entities that expend \$500,000 or more annually in federal awards to undergo an audit. 31 U.S.C. § 7502. However, entities spending less than \$500,000 in federal awards are not required to undergo an audit and therefore information on these entities is not provided in the Federal Audit Clearinghouse.

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## Funding Mechanisms Are Varied and Relationships Can Be Complex

Federal agencies partnering with nonprofit organizations use several different funding mechanisms, and relationships between nonprofit organizations and federal agencies vary. The type of funding mechanism used determines the level of federal influence over nonprofit selection and oversight of performance.

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## Grants and Contracts Provide Both Direct and Indirect Funds to Nonprofit Organizations

Nonprofit organizations sometimes work directly with federal agencies as grantees and contractors, in a relatively straightforward relationship. Our analysis of the 2006 data on federal funding to nonprofit organizations indicated that grants were provided to nonprofits directly under about 700 different programs. Types of activities funded through direct grants to nonprofit organizations included social services and research. For example:

- The National Institutes of Health provide grants for extramural research to accomplish its mission related to public health needs. About 84 percent of its budget in fiscal year 2007 supported extramural research by researchers at various entities, including nonprofit higher-education institutions, research institutes, and hospitals.<sup>15</sup>
- The Administration for Children and Families in the Department of Health and Human Services provides Head Start grants to nonprofit as well as for-profit entities. Public and private nonprofit and for-profit agencies can receive direct grants to provide educational, health, nutritional, and other services to low-income children and families.
- The Senior Community Service Employment Program, funded by the Department of Labor's Employment and Training Administration, provides grants to nonprofit organizations to provide subsidized, part-time work-based training to older workers through employment in the community service sector. Under this program, nonprofit organizations can also be the beneficiary of this subsidized labor.

Federal agencies also contract directly with nonprofit organizations to provide goods or services for the direct benefit of the federal government. Contracts are tracked in FPDS-NG, which we found to be somewhat unreliable in categorizing entities as nonprofit, although suitable for providing some order of magnitude. (See results of our reliability analysis in app. II.) It showed that of the federal contracts provided to nonprofit

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<sup>15</sup>See GAO, *Temporomandibular Joint and Muscle Disorders: NIH Supports a Wide Range of Research*, [GAO-08-454R](#) (Washington, D.C.: Apr. 4, 2008).

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organizations in fiscal year 2006, about two-thirds were awarded by the Department of Energy and the Department of Defense and about one-tenth by the Department of Health and Human Services. Even so, the percentage of dollars contracted to nonprofit organizations within these agencies is relatively small. For example, nonprofit contracts constituted only 1 percent of the Department of Defense's total 2006 contract dollars, while about 10 percent of the Department of Health and Human Services' contract dollars were awarded to nonprofit organizations. Some programs contract with nonprofit organizations to help administer programs. For example, the Centers for Medicare & Medicaid Services contract with quality-improvement organizations, which can be nonprofit organizations, to monitor provider performance.

Nonprofit organizations also receive grants indirectly through other levels of government, or as subgrantees of other grantees, and are sometimes subcontractors to other federal contractors. Some federal programs are set up as large grants to states, with the expectation that they will then be further disbursed for local program implementation, and nonprofit organizations are sometimes used for further service delivery. For example:

- The Department of Health and Human Services' Administration for Children and Families oversees the Social Services Block Grant, providing funds to states to furnish social services to residents. Depending on the state, nonprofit organizations compete with other organizations for these funds to provide a wide range of social services, which can include daycare, protective services, adoption, case management, health-related services, and transportation.
- Similarly, the U.S. Department of Agriculture's Food and Nutrition Service provides grants to state agencies under its Child and Adult Care Food Program. States reimburse institutions and organizations that provide nutritious meals and snacks to eligible children and adults enrolled for care at participating child and adult day care homes and centers, emergency shelters, and after-school care programs. Both the sites providing the nutrition service and the organizations that manage site operations, keep records, and submit claims are sometimes nonprofit organizations.

Nonprofit organizations can also be subcontractors to other federal contractors. For example, a nonprofit university performing research under a federal contract could subcontract with another nonprofit university to complete a portion of the research where its researchers have a particular specialty.

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## Nonprofit Organizations Obtain Federal Funds through Fees and Direct Payments for Services

Federal funds also reach nonprofit organizations through other more complex routes, such as through reimbursement for fees that they charge their clients. The Medicare program is a significant example of such a program. Individuals aged 65 and older as well as certain disabled individuals seek health care at various facilities, some of which are nonprofit hospitals, nursing facilities, and managed care organizations. The facility is then paid by the Medicare program.

Other programs involving direct payments for services in which nonprofit organizations can be recipients include voucher programs. These allow the beneficiary of a program to choose the source of services, while the services are paid by the program. The Pell Grant program, for example, operates under this principle. It provides need-based grants to low-income students to promote access to postsecondary education. Students may use their grants at any of about 5,400 participating postsecondary institutions, many of which are nonprofit. In these cases, the nonprofit institution acts as an intermediary between the student and the Department of Education.

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## Nonprofit Organizations Provided Access to Additional Funds through Federal Loans and Loan Guarantees

Nonprofit organizations are involved in credit relationships with the federal government, in some cases as the recipient of funds loaned or guaranteed by federal agencies, and in some cases as the guaranty agency. In general, the federal government loans money and guarantees others' loans as a way of increasing the availability of funding for borrowers or activities it considers important. The Rural Development Electric Program, operated by the U.S. Department of Agriculture's Rural Development, Utilities Programs, is an example of a program where loans and loan guarantees are provided directly, in this case to electric utilities to serve customers in rural areas.<sup>16</sup> The loans and loan guarantees help finance the construction of electric distribution, transmission, and generation facilities; system improvements; and other activities, including energy conservation programs. In this program, nonprofit organizations can also be intermediaries, issuing loans that are guaranteed by the federal government.

Similarly, the Hospital Mortgage Insurance Program, implemented by the Department of Housing and Urban Development's Federal Housing

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<sup>16</sup>Although electricity cooperatives may not be traditionally considered nonprofit organizations, they fall under the definition of "nonprofit" used in this report because they are classified as tax-exempt entities under the tax code.

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Administration, operates a loan guaranty program that insures loans. These federally guaranteed loans finance the construction, modernization, equipping, or refinancing of acute-care hospitals. The program facilitates affordable financing of nonprofit, for-profit, and government-owned hospitals by protecting lenders against losses they might incur if hospitals fail to make their mortgage payments. The program generally targets hospitals deemed too risky to obtain private bond insurance but able to pass certain agency underwriting tests. In addition, the program serves as a credit enhancement and improves the credit rating of the hospital, resulting in a lower interest rate for the loan.

Finally, some federal programs use loans and loan guarantees to encourage activities that indirectly result in increased revenues to nonprofit organizations. For example, within student loan programs, the federal government both guarantees loans and provides loans directly to students for postsecondary education, often at nonprofit institutions. The various loans available within the Federal Family Education Loan Program are set up to provide incentives to lenders (such as banks, credit unions, and savings and loan associations) to make loans to students enrolled at eligible postsecondary institutions. Guaranty agencies, which are state or nonprofit organizations, administer several portions of the program by providing technical assistance and training to schools and lenders on procedures, providing counseling to borrowers, reimbursing lenders with federal funds when borrowers default on their loans, and initiating collections. Conversely, with the Federal Direct Student Loan program, the federal government provides loans directly to vocational, undergraduate, and graduate postsecondary school students and their parents, rather than through private lenders. In both cases, nonprofit higher-education institutions benefit from the availability of funds.

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## Nonprofit Organizations Benefit from Federal Tax Policies

Federal tax policies provide significant financial benefits to nonprofit organizations while resulting in revenue forgone by the federal government. Unlike some of the other mechanisms discussed above, they do not provide federal funds but rather either reduce taxes needing to be paid, reduce other costs, or increase revenues. Classification as section 501(c) type organizations provides these entities exemption from paying federal income tax.<sup>17</sup> Further, certain types of organizations are

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<sup>17</sup>However, exempt organizations are subject to tax on income earned through activities that are unrelated to their tax-exempt purpose, commonly referred to as unrelated business income tax. 26 U.S.C. § 501(b).



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specifically exempted from paying income taxes; for example, credit union income is exempt from income taxes.

Nonprofit organizations also benefit indirectly from tax expenditures that are aimed at encouraging certain kinds of behavior by taxpayers when those behaviors involve nonprofits.<sup>18</sup> For example, tax expenditures encourage charitable giving, stimulate economic development in disadvantaged areas, finance postsecondary education, and encourage adequate healthcare coverage. In some cases, these behaviors primarily involve nonprofit organizations, such as with charitable contributions.<sup>19</sup> In other cases, nonprofit organizations are significant providers of services being targeted, although these services are also provided by for-profit and government-operated entities. For example, individuals deducting education and health care expenses could incur those expenses at all three types of entities.

Some tax expenditures have more complex interrelationships between nonprofit organizations and governmental units. For example, tax-exempt bonds are used to finance the construction of facilities used by 501(c)(3) organizations. These bonds are issued by state and local governments. Interest income from these bonds is exempt from federal income tax, the alternative minimum tax, and, in general, state income taxes. The tax exemption lowers the bond issuer's borrowing costs as investors require lower returns than they otherwise would. In addition, state and local governments can create other entities, including nonprofit entities to issue bonds on behalf of a governmental unit. Similarly, the low-income housing tax credit also involves multiple parties. Nonprofit and other types of developers of low-income rental housing receive the federal tax credits from state agencies to develop or rehabilitate low-income housing. Developers then sell these credits to investors to raise capital (or equity) for their projects, which reduces the debt that the developer would otherwise have to borrow. In addition, a few large nonprofit organizations also provide technical assistance to nonprofit developers and serve as intermediaries for facilitating the sale of tax credits to investors.

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<sup>18</sup>For additional information on tax expenditures, see GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, [GAO-05-690](#) (Washington, D.C.: Sept. 23, 2005).

<sup>19</sup>Individuals may also deduct charitable contributions to federal, state, and local governments if the contribution is solely for public purposes.

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## Type of Funding Mechanism Generally Determines the Level of Oversight and Influence That Federal Agencies Have over Nonprofit Organizations

The amount of federal involvement in selecting and overseeing nonprofit performance varies across funding mechanisms. With some funding mechanisms, federal agencies generally select nonprofit recipients, determine how much funding nonprofit organizations will receive, and monitor nonprofit performance. With direct contracts and grants, agencies select nonprofit organizations by soliciting requests for proposals and holding open competitions. The National Institutes of Health, for example, competitively awards grants by using a system of peer review that assesses applications on scientific merit and agency funding priorities. Also, with direct contracts and grants, federal agencies evaluate nonprofit performance and can under certain circumstances choose to terminate contracts or may choose not to renew contracts and grants when nonprofit organizations perform poorly. For example, in the Head Start Program, the Administration for Children and Families conducts on-site monitoring reviews of grantee programs every 3 years and administers an extensive annual survey of grantees to evaluate performance. If a nonprofit grantee is not meeting program requirements, the agency has authority to remove the grantee from the program. With some credit programs, federal agencies also select nonprofit organizations and monitor performance, but their opportunity to evaluate performance occurs before they provide funding to the nonprofit. The Department of Housing and Urban Development, for example, uses a variety of financial criteria to determine nonprofit organizations' future performance before providing hospital mortgage insurance to hospitals. After it has awarded insurance to a hospital, the department monitors a hospital's performance while using the loan and can require poorly performing hospitals to hire consultants to improve performance.

In programs using other funding mechanisms, the federal agency sets eligibility standards for nonprofit recipients but relies on other government entities to select nonprofit organizations and monitor performance. For example, with indirect grant programs such as the Social Services Block Grant, the federal government provides funding to states, which have broad discretion to determine the services provided, define individual beneficiary requirements, and allocate funding to recipients.<sup>20</sup> While the federal agency does not monitor the performance of individual nonprofit and other recipients receiving this grant funding, states are required to monitor the performance of nonprofit recipients.

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<sup>20</sup>Depending on the state, nonprofit organizations may compete with for-profit entities for state-allocated Social Services Block Grant funds.

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With fee-for-service programs such as Medicare, states determine service provider eligibility, but individuals choose their providers. While the federal agency has overall responsibility for administering Medicare, state agencies—typically state health departments—monitor, survey, and inspect health care service providers.<sup>21</sup> Additionally, some tax expenditure programs, such as the low-income housing tax credit, leverage state or local governments to select or monitor nonprofit performance, or both. With the low-income housing tax credit, nonprofit developers compete for the credits, and states allocate them based on broad federal guidelines. While the IRS issues regulations for the program, it relies on state authorities to monitor and certify which projects remain eligible to receive tax credits. The IRS may then recapture taken credits or deny issuance of further credits for reported noncompliance with low-income housing tax credit laws.

In other programs, individuals select nonprofit organizations, and federal oversight of nonprofit performance is limited. With student loan programs, for example, the Department of Education determines institutions' eligibility to participate in the programs, while the institutions' funding is dependent on the number of students that choose to matriculate and the financial need of those students. The Department of Education monitors the performance of nonprofit postsecondary institutions through reviewing their default rates, which measures the extent students are defaulting on their loans, and performing periodic program reviews. Further, with charitable deductions, agencies do not select nonprofit organizations or monitor nonprofits' performance. Instead, individuals providing contributions determine which nonprofit will receive funding, and the IRS's role is limited to determining 501(c)(3) eligibility, monitoring certain filing requirements, and revoking section 501(c)(3) status. While the IRS may revoke the 501(c)(3) status of nonprofit organizations in certain circumstances, it does not assess whether nonprofit organizations use the revenues from charitable contributions to meet the goals of the contribution, although some information is publicly available to individuals.

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<sup>21</sup>An official from the Centers for Medicare & Medicaid Services stated that oversight over nonprofit and for-profit contract providers is the same within the managed care and part B components of Medicare, which cover hospital insurance and insurance coverage for physician visits.

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**Data Limitations  
Leave Decision  
Makers without  
Complete Information  
on Funding to  
Nonprofit  
Organizations,  
Although Data  
Suggest That  
Significant Federal  
Funds Reached  
Nonprofit  
Organizations in 2006**

The federal government tracks and provides information on funding in order to provide decision makers and the public with accurate information on the sources and uses of federal funds, among other reasons. The Federal Managers' Financial Integrity Act of 1982 requires that agencies establish controls to ensure that expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports.<sup>22</sup> In fulfilling this responsibility, federal agencies collect a range of information on funding mechanisms and recipients, and this information is consolidated and reported to a few governmentwide data systems that consolidate data across most of the federal government. With the development of USAspending.gov—a publicly available Web site of federal spending, mandated by the FFATA, that provides information on entities awarded federal grants, loans, contracts, and other forms of federal assistance—such data are readily available to the public. In addition, in conjunction with performance data, this information can be used as a tool for reexamining federal roles and the efficiency and effectiveness of various mechanisms and partners in the pursuit of federal objectives. These data are also used as inputs for the development of economic analyses such as the Consolidated Federal Funds Report, which analysts use to measure and assess federal expenditures in state and substate areas.

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**Data Limitations and  
Reliability Concerns  
Contribute to an  
Incomplete and Unreliable  
Picture of Federal Funding**

The data presently collected provide an incomplete and, for portions, unreliable picture of federal funding to nonprofit organizations. First, information on funding reaching nonprofit organizations through indirect mechanisms is generally not available, though we present some estimates for some programs in table 1. Therefore, we cannot conduct a comprehensive assessment of how much federal money reaches nonprofit organizations through subcontracts, subgrants, or through fee-for-service payments to for-profit enterprises that are subsequently spent on nonprofit organizations or through other mechanisms. Nonprofit organizations may receive considerable funding through indirect mechanisms, in particular through indirect grants to state and local governments. According to OMB, federal grant outlays to state and local governments amounted to \$434

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<sup>22</sup>Pub. L. No. 97-255, 96 Stat. 814 (Sept. 8, 1982), codified at 31 U.S.C. § 3512(c); see also Office of Management and Budget, *Revisions to OMB Circular A-123, Management's Responsibility for Internal Control* (Washington, D.C.: Dec. 21, 2004).

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billion in 2006, and one study estimated that about 26 percent of such funds reached nonprofit organizations in fiscal year 2001.<sup>23</sup>

Second, nonprofit entities are not reliably identified, which limits the reliability and completeness of reported funding amounts in two key data systems, FPDS-NG and FAADS. These systems are the only governmentwide systems for obtaining detailed information on federal procurement and assistance, and their data are used to populate USAspending.gov. However, in developing the funding information outlined above, we found that nonprofit organizations are not reliably identified in either of these systems. For example, based on our testing of a sample of records, we estimate that 8 percent of the records in FAADS coded as nonprofit organizations are actually other entity types, and that 5 percent of records coded as other entities are actually nonprofits. (See app. II for further details on our approach and results of reliability testing.) Similarly, 27 percent of the vendors in FPDS-NG with nonprofit contract actions also had contract actions where they were classified as not being nonprofit organizations. This represents 1,768 vendors, who constituted a majority of reported nonprofit obligations (\$8 billion of \$12 billion total).

We have previously reported concerns about the accuracy and completeness of data in FPDS-NG and FAADS.<sup>24</sup> For example, we reported in February 2006 that data submitted for inclusion in FAADS on financial assistance awards related to economic development were often inaccurate and incomplete.<sup>25</sup> During the course of our current review we identified one program that FAADS data indicated provided almost \$1 billion to nonprofit organizations. However, program officials told us that the program only provided a total of around \$150 million to all recipients. According to OMB, figures in FAADS and FPDS-NG have, in the past, been incomplete, untimely, and inaccurate. For example, agencies have reported loan guarantee amounts only when a default occurs.

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<sup>23</sup>Woods Bowman and Marion Fremont-Smith, "Nonprofits and State and Local Governments," in *Nonprofits and Government: Collaboration and Conflict* (Washington, D.C.: The Urban Institute Press, 2006), 193.

<sup>24</sup>See GAO, *Reliability of Federal Procurement Data*, [GAO-04-295R](#) (Washington, D.C.: Dec. 30, 2003); *Improvements Needed to the Federal Procurement Data System-Next Generation*, [GAO-05-960R](#) (Washington, D.C.: Sept. 27, 2005); *Alaska Native Villages: Recent Federal Assistance Exceeded \$3 Billion, with Most Provided to Regional Nonprofits*, [GAO-05-719](#) (Washington, D.C.: Aug. 2, 2005).

<sup>25</sup>GAO, *Rural Economic Development: More Assurance Is Needed That Grant Funding Information Is Accurately Reported*, [GAO-06-294](#) (Washington, D.C.: Feb. 24, 2006), 23.

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In addition to these overall concerns about the reliability and integrity of the databases, several ways in which the data are captured and stored prevented us from distinguishing funding to nonprofit organizations from funding to other groups. For example:

- Nonprofit institutions of higher education in FAADS are classified along with other private higher-education institutions. Based on a sample of these records, we estimate that 95 percent of the records in this category were actually nonprofit organizations. (See app. II for further details.)
- Similarly, tax expenditure estimates in various areas include benefits to nonprofit as well as other entities. For example, though Treasury estimates that the low-income housing tax credit cost the federal government \$4.4 billion in 2006 in forgone revenues, the portion of that total that is related to projects developed by nonprofit organizations is not systematically assessed.

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### Limitations and Reliability Concerns Caused by Various Factors

Limitations in the data presently collected may be caused by several factors including a reliance on data that are not verified and a lack of clear guidance defining a “nonprofit” organization. Agency officials told us that the nonprofit status of organizations can be self-reported by recipients or entered by agency officials and not verified in most data systems we examined including FPDS-NG, FAADS, and Medicare’s Health Plan Management System (HPMS) which provides information on Medicare managed care and prescription drug plan payments. Furthermore, there is no consistent, governmentwide definition of “nonprofit.” Guidance for registrants in the Central Contractor Registration, which agencies may use to identify the nonprofit status of entities for federal assistance and contracts in FAADS, FPDS-NG, and USAspending.gov, asks registrants simply to identify whether they are “for profit”, “non profit”, or “other not for profit.”<sup>26</sup> Similarly, HPMS provides no guidance for recipients. These concerns are not new, as we have previously reported that data in FPDS-NG and FAADS can be improved. For example, we have recommended automating data checks and improving knowledge among program officials about reporting requirements.<sup>27</sup>

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<sup>26</sup>Central Contractor Registration, *CCR Handbook* (March 2008), p. 12.

<sup>27</sup>See [GAO-04-295](#), 5; [GAO-05-960R](#), 5; and [GAO-06-294](#), 32.

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## Efforts to Improve Data Collection May Improve Information on Federal Funding to Nonprofit Organizations, Though Concerns Will Likely Remain

Efforts are underway to improve the funding data collected by the federal government and may, if appropriately implemented, provide further and more accurate information on federal funding to nonprofit organizations. In March 2008, OMB issued a memo with new guidelines, emphasizing the need to report timely, accurate, and complete data for FAADS and FPDS-NG, as prescribed by the Federal Funding Accountability and Transparency Act of 2006 (FFATA). The act, and OMB's efforts to implement it, may improve data collected on grants, contracts, credit, and fee-for-service payments. First, the act requires data on subawards such as subcontracts and subgrants to be collected and reported. These indirect mechanisms are likely to be a major way nonprofit organizations receive federal assistance and this will represent the first time data will be collected to address it. Second, the act requires the use of unique identifiers for entities receiving certain types of federal assistance. It is currently very difficult to assess the nonprofit status of a single recipient across federal funding databases or over time because these databases do not have a unique entity identifier. Having unique identifiers could facilitate agency and outside analysts' verification and tracking of nonprofit organizations and their status and therefore could facilitate the identification of errors and improve the data. Third, recognizing that data in the past have been incomplete, untimely, and inaccurate, OMB has issued guidance for agency data submissions under FFATA that specifies more exactly how agencies are to report credit assistance (loans and loan guarantees) and requires agencies to ensure that they provide appropriate oversight for the accuracy of data and validate all data submissions. If appropriately pursued, such validation could encourage agencies to implement policies and processes to improve the quality of data they submit to federal funding sites.

Officials from the General Services Administration (GSA) and OMB indicated they have considered an approach to verify the nonprofit status of nonprofit organizations receiving grants. A GSA official indicated that GSA is considering using the Central Contractor Registration (CCR)<sup>28</sup> to validate information on these recipients' nonprofit status. While using the CCR to verify nonprofit status presents challenges, such as there being no central registry for state nonprofit designations and having a time lag with data from IRS's publicly available master file of federally tax-exempt

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<sup>28</sup>CCR is the primary registrant database used by the federal government to collect, validate, store, and disseminate data in support of agency procurement activities. Currently, organizations must register in CCR to be awarded contracts by the federal government.

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organizations, an OMB official noted that this is potentially a source for validating nonprofit status.

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**Data Sources Suggest  
Significant Federal Funds  
Reach Nonprofit  
Organizations**

Our analysis of data presently collected suggests that significant federal funds reached nonprofit organizations in 2006, as shown in table 1. Although we identified a number of data limitations and reliability concerns with several key data sources as discussed above, we nevertheless found the data overall to be sufficiently reliable to provide an approximate indication of the general magnitude of federal assistance across these mechanisms. Available data, and our estimates based on these sources, suggest that federal funding made up a significant portion of nonprofit organizations' total revenues. The Urban Institute estimated that nonprofit organizations that submitted Forms 990 to the IRS received \$1.6 trillion in revenues in 2005. (See app. I for specific information on data sources and analysis.)



**Table 1: Amounts and Limitations of Data on 2006 Federal Funds Involving Nonprofit Organizations**

<b>Mechanism</b>	<b>Approximate amount of total funds to nonprofits</b>	<b>Data source</b>	<b>Limitations and data reliability concerns</b>
<b>Federal funds provided</b>			
Fee-for-service and vouchers	\$135 billion through Medicare	Centers for Medicare & Medicaid Services (CMS) Automated Plan Payment System, Health Plan Management System, Provider of Services files, and Health Care Information System	Includes payments to some Blue Cross/Blue Shield plans that are not nonprofits.
	\$10 billion in additional payments to nonprofits	Federal Award and Assistance Data System (FAADS)	Nonprofit status not reliable, funding amounts potentially unreliable and incomplete.
Direct grants	\$25 billion	FAADS	Nonprofit status not reliable, funding amounts potentially unreliable and incomplete.
Contracts	\$10 billion	Federal Procurement Data System—Next Generation (FPDS-NG)	Nonprofit status not reliable, funding amounts potentially unreliable and incomplete.
Indirect grants and contracts	\$55 billion from Medicaid and State Children’s Health Insurance Program (SCHIP) reached nonprofits	CMS Financial Management Report	Estimate based on limited program data.
	Data from other programs not readily available.	Not applicable	Grant and contract funds passed on to nonprofits generally not tracked.
<b>Additional funds available due to federal policies</b>			
Credit (loans and loan guarantees)	\$450 million in direct loans and \$2.5 billion in loan guarantees	FAADS	Amounts may not be consistently captured, nonprofit status not reliable, funding amount potentially unreliable and incomplete.
Tax expenditures (federal revenues forgone)	\$50 billion specifically related to nonprofits and additional funds for activities that involve nonprofit as well as other entities	OMB, Analytical Perspectives, Budget of the United States Government, Fiscal Year 2008	Unclear how much of the value of these tax expenditures reach nonprofits.

Source: GAO analysis of data sources outlined above.

Note: Amounts are for fiscal year 2006 except for Medicare and tax expenditures, which are for calendar year 2006. Tax expenditures and credit amounts are not directly comparable to other funding amounts. Also, we rounded our estimates to the nearest 5 billion. Additional information on the methods used to calculate these amounts are found in app. I.

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- **Fee-for-Service and Vouchers**—Data from the Medicare program and the Federal Award and Assistance Data System (FAADS) indicate that federal fee-for-service or voucher programs provided nonprofit organizations with about \$145 billion in 2006.<sup>29</sup> Medicare was the largest source of such funds, having paid nonprofit health care providers and managed care plans about \$135 billion in calendar year 2006.<sup>30</sup> Other fee-for-service or voucher programs, such as federal Pell Grants and the Federal Work-Study program, obligated about \$10 billion to nonprofit organizations in 2006. Together, these data suggest that nonprofit organizations received about one-third of total federal fee-for-service funding.
  - **Direct Grants**—A large number of direct grant programs provided about \$25 billion to nonprofit organizations in 2006, about 5 percent of total grant funding.
  - **Contracts**—About \$10 billion was obligated in actions with nonprofit organizations, representing less than 3 percent of total contract obligations in 2006.
  - **Indirect Grants**—Comprehensive data on grant funds that indirectly reach nonprofit subrecipients are not available. We examined two specific programs that make up a large portion of total funding to states, Medicaid and the State Children’s Health Insurance Program (SCHIP), and estimate that around \$55 billion was passed on by states to nonprofit organizations based on program-reported expenditures and the share of nonprofit organizations in the health care sector overall. There are a number of other programs for which federal funds flow through states to nonprofit organizations but we did not attempt to estimate that funding. We did attempt to identify information on federal funds flowing through the three states that, according to FAADS, received the highest amount of federal financial assistance—California, New York, and Texas. However, state officials indicated that none of these states collected data across agencies on federal funding provided to nonprofit organizations, although we did identify some individual state agencies that maintained these data. For

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<sup>29</sup>Figures from these two data systems are not entirely comparable because (1) funding in FAADS is primarily obligations, whereas Medicare figures refer to outlays; and (2) FAADS refers to the federal fiscal year while Medicare figures are for the calendar year.

<sup>30</sup>Figures for Medicare managed care and prescription drug care plans, totaling \$26 billion in calendar year 2006, include some payments to Blue Cross/Blue Shield plans that are not federal tax-exempt organizations.

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example, the Texas Department of State Health Services' records indicated that over \$280 million in federal funds were encumbered on active contracts with nonprofit organizations during the state's fiscal year 2007. Since we were unable to comprehensively assess such funding to nonprofit organizations, we believe that total funding to nonprofits through indirect grants was likely more than \$55 billion in 2006.

- **Indirect Contracts**—We did not identify any information on which to assess the funding nonprofit organizations received indirectly through other contractors.

Further, some federal policies result in additional funds being available to nonprofit organizations.

- **Credit**—Available data from FAADS indicates that about \$450 million in direct loans and \$2.5 billion in loan guarantees were issued directly to nonprofit organizations in 2006, though OMB has raised concerns with how some of these data are reported.<sup>31</sup> For example, we found that these data do not include one of the largest federal credit programs, the Federal Family Education Loan program. Based on data from OMB, we estimate that in 2006, the federal government had about \$120 billion in outstanding loans or guarantees involving nonprofit organizations through four key credit programs. This includes our estimate of student loans that were used at nonprofit institutions of higher education.<sup>32</sup> Based on OMB's estimates of the future costs to the federal government of these credit programs, the future costs of credit involving nonprofit organizations is likely to be about \$15 billion.<sup>33</sup>

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<sup>31</sup>According to the FAADS reporting manual, amounts in FAADS for direct loans are "the gross amount of the loan" and guaranteed loans are the "amount of the Federal Government's contingent liability." OMB and U.S. Dept of Commerce, Bureau of the Census, *Federal Assistance Award Data System Reporting Manual for Federal Fiscal Year 2006* (2006), 25. However, OMB has reported that FAADS only includes loan guarantee information when a default claim payment has been made.

<sup>32</sup>According to data from FAADS, 20 percent of Federal Direct Student Loans went to nonprofit organizations in 2006. We therefore estimated that 20 percent of total outstanding direct and guaranteed federal student loans were used at nonprofit schools.

<sup>33</sup>The future costs are the subsidy cost and estimated uncollectible principal and interest for direct loans, and estimated liabilities for loan guarantees. The subsidy cost, as defined by the Federal Credit Reform Act of 1990, is the government's estimated net long-term cost, in present value terms, of direct or guaranteed loans over the entire period the loans are outstanding.

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- **Tax Policies and Tax Expenditures**—Though more difficult to assess and not directly comparable to funding through other mechanisms, federal tax policies provide significant financial benefits to nonprofit organizations. As described above, federal tax policy benefits nonprofit organizations by (1) exempting nonprofits from having to pay federal income taxes on activities substantially related to the purpose that led to the nonprofits’ tax exemption, and (2) through specific tax expenditures, or tax provisions that grant special tax relief for certain behaviors by taxpayers or for taxpayers in special circumstances. Researchers have estimated the amount of revenue the federal government may forgo by not taxing nonprofit income, and the Treasury’s Office of Tax Analysis annually compiles a list of tax expenditures and estimates of their cost.<sup>34</sup> There has been no comprehensive research on the revenue lost from not taxing nonprofit organizations, although existing research offers estimates for specific portions of the nonprofit sector. One study estimated that the value of the federal and state income tax exemption for charitable nonprofit organizations was about \$10 billion in 2002.<sup>35</sup> In 2005, the Joint Committee on Taxation estimated that taxing large credit unions similarly to the way that other thrift institutions are taxed would raise \$6.5 billion between 2006 and 2010. However, in their assessment of the consequences of taxing nonprofit organizations more broadly, the Congressional Budget Office found that taxing nonprofits would likely yield less tax revenues than their size and share of economic activity might suggest because nonprofits were likely to reduce their taxable income by lowering prices and increasing compensation and other costs.<sup>36</sup>

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<sup>34</sup>Generally, tax expenditure costs are estimated by comparing the revenue raised under current law with revenue that would have been raised if a given provision did not exist, assuming all other parts of the tax code remain constant and taxpayer behavior is unchanged. These revenue loss estimates are intended to provide information about the value of tax expenditures. However, tax expenditure estimates do not incorporate any behavioral responses and thus do not necessarily represent the exact amount of revenue that would be gained if a specific tax expenditure were repealed. In addition, the value of the tax expenditure depends on baselines used and various other assumptions.

<sup>35</sup>Evelyn Brody and Joseph J. Cordes, “Tax Treatment of Nonprofit Organizations: A Two-Edged Sword?” in *Nonprofits and Government: Collaboration & Conflict*, 2nd ed. (Washington, D.C.: The Urban Institute Press, 2006), 141-180.

<sup>36</sup>Congressional Budget Office, *Taxing the Untaxed Business Sector* (Washington, D.C., July 2005).

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Various specific tax expenditures also benefit nonprofit organizations. Table 2 presents five tax expenditures that involve nonprofit organizations and which Treasury estimated to represent \$49 billion in forgone revenue in 2006, primarily through the deductibility of charitable contributions.<sup>37</sup> The deductibility of charitable contributions creates an incentive for corporations and individuals to provide support for charitable activities, and the availability of tax-exempt bond financing can enable certain nonprofit organizations to borrow funds at lower interest rates. Other tax expenditures indirectly benefit nonprofit organizations by increasing the demand for services provided by nonprofits as well as other entities. For example, the exclusion of employer contributions for health care insurance and various education-related tax expenditures are aimed at broad health and education objectives and not particularly targeted at nonprofit provision of those services. However, since nonprofit organizations provide a large portion of health care and educational services to the nation, some of the value of these tax expenditures reaches nonprofits.

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<sup>37</sup>Aggregate tax expenditure estimates must be interpreted carefully because of inherent limitations in the meaning of the summed estimates. The sum of the individual tax expenditure estimates is useful for gauging the general magnitude of revenue forgone through provisions of the tax code but does not take into account interactions between individual provisions.

**Table 2: Revenue Loss Estimates for Select Tax Expenditures Affecting Nonprofit Organizations Reported for Fiscal Year 2006, with Budget Function**

Tax expenditure	Revenue loss estimate (dollars in billions)	Budget function
Tax expenditures involving nonprofits		
Deductibility of charitable contributions, other than education and health <sup>a</sup>	37.1	Training, employment and social services
Deductibility of charitable contributions (education)	4.2	Education
Deductibility of charitable contributions (health)	4.2	Health
Exclusion of interest on bonds for private nonprofit educational facilities	2.1	Education
Exemption of credit union income	1.3	Financial institutions and insurance
<b>Total</b>	<b>48.9</b>	
Examples of tax expenditures involving nonprofits as well as others		
Exclusion of employer contributions for medical insurance premiums and medical care	125	Health
Credit for low-income housing investments	4.4	Housing
HOPE tax credit	3.9	Education
Exclusion of interest on hospital construction bonds	3.4	Health
Lifetime learning tax credit	2.5	Education
Empowerment zones and renewal communities	1.2	Community and regional development
Various other education-related tax expenditures <sup>b</sup>	3.4	Education
Various other health-related tax expenditures <sup>c</sup>	8.0	Health

Source: GAO analysis of OMB data.

Notes: Data are from Analytical Perspectives, Budget of the United States Government, Fiscal Year 2008. From year to year, revenue loss estimates may change because Treasury updates its estimates for each new budget to reflect legislation enacted, prevailing economic conditions, and the latest taxpayer data available. Although there are substantial revenues forgone for these tax expenditures, the estimated amount of federal spending that would be required to provide equivalent assistance is frequently larger than the revenue forgone because this spending could be subject to income tax. For example, the so-called “outlay equivalent” estimate for the income tax exclusion of employer contributions for medical insurance premiums and medical care is \$126.7 billion for fiscal year 2004.

<sup>a</sup>Some charitable deductions may also reach federal, state, and local governments.

<sup>b</sup>Includes education individual retirement accounts, deductibility of student-loan interest, deduction for higher education expenses, state prepaid tuition plans, and the exclusion of interest on student-loan bonds.

<sup>c</sup>Includes self-employed medical insurance premiums, Medical Savings Accounts/Health Savings Accounts, and the deductibility of medical expenses.

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## Conclusions

The federal government interacts with nonprofit organizations and a wide range of other partners to accomplish mutual goals—providing health care, ensuring that youth are educated, providing job training, increasing the supply of low-income housing, and many other goals. Much of this interaction is tied to federal funding available to nonprofit and other recipients, or funding made available as a result of federal policies. The available data indicate that these sources represent a significant portion of the nonprofit organizations' total revenues. Such funds come in many forms, each with varying ways in which the federal government is able to monitor and influence recipients' performance. As a result, the federal government's ability to influence which nonprofit organizations are involved and the quality of their services varies, and the involvement of other parties—states, local government, and individual contributors—varies.

The significant extent and diversity of the federal government's partnering with the nonprofit sector should be better understood, but this opportunity is being missed, in part, because of the absence of complete and accurate data on federal funding reaching recipients of different types. Although available data indicate that significant federal funding reaches the nonprofit sector, the precise extent of that funding is not known because of data limitations. As a result, the extent of the federal government's dependence on various sectors for delivering services also is unknown.

Some efforts are underway to improve information on the funding reaching nonprofit organizations and other types of organizations. One of the areas that is hard to measure is the funding reaching nonprofit organizations through indirect grants and contracts. The changes in FFATA should improve the availability of this information. However, as we found in reviewing data collected by agencies, there are concerns about the quality of those data, particularly the type of entity, a data element that is critical to accurately understanding the amount of federal funding reaching nonprofit organizations. We have reported our concerns on the quality of the data and recommended improvements in the past, but this additional problem—that nonprofit status is sometimes incorrect and defined differently across the federal funding data—has additional implications. It prevents the federal government from accurately assessing the extent to which it uses this sector and the potential effect of the sector's strength as a key partner in delivering federal services.

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## Recommendation for Executive Action

To better ensure the accuracy of information on federal funding provided to nonprofit entities in the data available under FFATA, we recommend that the Director, OMB, ensure that a consistent definition is identified and used to categorize nonprofit organizations in USAspending.gov.

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## Agency Comments and Our Evaluation

We provided a draft of this report to OMB and the Departments of Agriculture, Education, Health and Human Services, Housing and Urban Development, and Labor. OMB responded in an e-mail that the use of CCR would likely offer a consistent method of validating the Internal Revenue Service tax-exempt status of nonprofit recipients at the prime level and at lower tiers. However, in order to validate nonprofit status and effectively capture award data of all nonprofits receiving funds passed through other entities, the prime award recipients would have to require that those receiving subawards at every award tier register in CCR and report their award data directly to a central repository. OMB noted that states would likely have the largest volume of multitier award activity and would be responsible for ensuring compliance at every tier and for validating the data, which could impose a major resource burden on states.

We recognize the additional difficulty of ensuring the accuracy of information on those receiving subawards. However, we identified unreliable information on nonprofit status for funds that were provided directly to nonprofits, and ensuring the accuracy of information on these direct recipients would be a first step to improving the data. We also believe, however, that as the FFATA data are expanded to include data on those receiving subawards, efforts are needed to ensure the accuracy of that data, including the nonprofit status of recipients of federal funds. We believe that this is the appropriate time—as OMB is continuing to develop its approach to implementing FFATA’s subaward data requirements—to identify approaches that could be effective in improving the reliability of this information.

The Department of Housing and Urban Development also responded by e-mail, stating that it concurred with the draft and offering comments based on information from its own verification and validation of FPDS-NG data. It concurred that data limitations and reliability concerns contribute to an incomplete and unreliable picture of federal funding, which limits the reliability and completeness of reported funds. Further, it concurred that the CCR should be used to validate information on recipients’ nonprofit status and should have validation checks and a consistent definition describing nonprofits. In addition to these formal comments, the Department of Agriculture provided a technical comment, which we



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incorporated. The Departments of Agriculture, Education, Health and Human Services, and Labor did not provide formal comments.

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We will send copies of this report to the Director of OMB and the Secretaries of Agriculture, Health and Human Services, Housing and Urban Development, Labor, and Education. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

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Sincerely yours,

A handwritten signature in black ink that reads "Stanley J. Czerwinski". The signature is written in a cursive style with a large, stylized 'S' and 'C'.

Stanley J. Czerwinski  
Director, Strategic Issues

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# Appendix I: Detailed Scope and Methodology

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To identify the direct and indirect mechanisms through which nonprofit organizations receive federal funds, we reviewed academic and professional literature, met with experts on the nonprofit sector, reviewed previous GAO reports on federal programs that involve nonprofit organizations, reviewed 19 different programs (see table 3), and met with agency officials. We judgmentally selected these programs using three criteria: they (1) utilized a variety of direct and indirect mechanisms, (2) provided services across a variety of policy areas and sectors, and (3) represented programs among the higher dollar values of all federal programs that involve nonprofit organizations. Although the information obtained from this review cannot be generalized as representative of all nonprofit programs or funding mechanisms, we believe it provides valuable insight into how these funding mechanisms operate and the relationship between the federal and nonprofit sectors.

**Table 3: Summary of Targeted Programs Discussed in the Report**

	<b>Program title</b>	<b>Agency</b>	<b>Description</b>
Grants provided directly to the nonprofit sector	Head Start	Health and Human Services (HHS) / Administration for Children and Families (ACF)	Provides grants to public and private nonprofit and for-profit agencies that help prepare low-income children for kindergarten by providing comprehensive early childhood development services—including educational, health, nutritional, and social services—to children and their families.
	National Institutes of Health (NIH) Research Grants	HHS/NIH	Provides grants to public and private, nonprofit and for-profit organizations to support the advancement of high-caliber, unique, and investigator-initiated research that promotes public health.
	Senior Community Service Employment Program	Department of Labor (DOL) / Employment and Training Administration (ETA)	Funds nonprofit organizations and state and territorial governments to provide subsidized, part-time work-based training to older workers through employment in a variety of community-service oriented jobs in nonprofit and public facilities, including hospitals and day care services.
Indirect grants provided to the nonprofit sector through state governments or other entities	Child and Adult Care Food Program	U.S. Department of Agriculture (USDA) / Food and Nutrition Service (FNS)	Provides grants to states that reimburse institutions and organizations that provide nutritious meals and snacks to eligible children and adults who are enrolled for care at participating child care centers, day care homes, adult day care centers, emergency shelters, and after-school care programs.
	Emergency Shelter Grants Program	Housing and Urban Development (HUD) / Office of Community Planning and Development	Provides funding to states, large cities, urban counties, and U.S. territories to provide homeless persons with basic shelter and essential supportive services.
	Medicaid	HHS / Centers for Medicare & Medicaid Services (CMS)	A state-administered program jointly funded by the federal and state governments to provide medical assistance, including acute and long-term care for low-income, aged, or disabled individuals.
	Social Services Block Grant	HHS/ACF	Provides funding to states to furnish social services including daycare, protective services, adoption, health-related services, transportation, or any other social services found necessary by the state.
	Temporary Assistance to Needy Families	HHS/ACF	Provides grants to states for a range of benefits and services, including providing cash assistance to needy families with children.
	Workforce Investment Act Youth Programs	DOL/ETA	Provides formula grants to states to support training and related services—including mentoring, leadership development, support services such as childcare, and counseling—for certain low-income, at risk youth ages 14-21.

**Appendix I: Detailed Scope and Methodology**

	<b>Program title</b>	<b>Agency</b>	<b>Description</b>
Contracts	Federally Funded Research and Development Centers	Many federal departments and agencies, including the Departments of Defense (DOD), Energy (DOE), HHS, and Homeland Security (DHS)	Privately owned but government-funded entities with long-term contractual relationships with one or more federal agencies conducting research in areas such as military space programs, nanotechnology, microelectronics, nuclear warfare, and biodefense countermeasures, among other areas.
Fee-for-service payments	Medicare	HHS/CMS	Provides health insurance to individuals aged 65 and older as well as certain disabled individuals.
	Pell Grant	Department of Education (Education) / Office of Federal Student Aid (FSA)	Provides need-based grants to low income undergraduate and certain postbaccalaureate students to promote access to postsecondary education.
Tax expenditures	Low-Income Housing Tax Credit	Internal Revenue Service (IRS), HUD, and Department of Justice	Promotes lower, more affordable rents by providing federal tax credits to developers of qualified low-income housing projects, who can either use the credits or sell them to investors to raise capital (or equity) for real estate projects.
	Tax-Exempt 501(c)(3) Bonds	IRS	Tax-exempt bonds issued by state and local governments, the proceeds of which are used to finance property owned by 501(c)(3) charitable organizations or a governmental unit.
	Charitable Contribution Deduction	IRS	Provides an incentive for individual and corporate taxpayers to donate to nonprofits.
Credit programs	Federal Direct Student Loans	Education/FSA	Provides loans directly to vocational, undergraduate, and graduate postsecondary school students and their parents.
	Federal Family Education Loans	Education/FSA	Provides guarantees to encourage private lenders to make loans to vocational, undergraduate, and graduate students enrolled at eligible postsecondary institutions to help pay for educational expenses.
	Hospital Mortgage Insurance	HUD / Federal Housing Administration	Insures nonprofit and for-profit hospitals' loans that finance the construction, modernization, equipping, or refinancing of acute care hospitals.
	Rural Development, Utilities Programs—Electric Program	USDA / Rural Development, Utilities Programs	Provides financing to electric utilities serving rural communities to construct electric distribution, transmission, and generation facilities.

Source: GAO analysis of program data from agencies.

To assess federal funding reaching nonprofit organizations through various mechanisms, we reviewed the literature on funding to nonprofits, assessed the suitability of various potential data sources, and analyzed data from those sources we determined to be most appropriate. We did not validate all of the data provided through these various sources. However, we took several steps to assess data quality. Specifically, in sources where individual recipient-level data were available, we tested a

sample of records with the Internal Revenue Service's (IRS) Master File listing of all tax-exempt organizations and other sources. (For more information, see app. II.) To assess the reliability of funding figures in these data sources, we interviewed agency officials, performed various quality checks, reviewed available documentation, and where possible compared data to that from other sources. Overall, we determined that the data were sufficiently reliable for our engagement purposes. However, we identified significant reliability concerns regarding data from two systems, Federal Procurement Data System—Next Generation (FPDS-NG) and Federal Awards and Assistance Data System (FAADS), which we highlight in the body of the report and in appendix II.

We used the following data sources to estimate federal funding to nonprofit organizations:

- **FPDS-NG**—We assessed federal contract funding to nonprofit organizations by summing the funding for all contract actions involving vendors identified as nonprofits in the FPDS-NG in fiscal year 2006.
- **FAADS**—To assess federal grant, fee-for-service or voucher, and credit assistance to nonprofit organizations, we used data from FAADS. We compiled quarterly files for all of fiscal year 2006 and removed any actions reported during fiscal year 2006 that are corrections to data from previous fiscal years. We did not include corrections to fiscal year 2006 data that were reported in subsequent quarterly files. During the course of our analysis, we identified a set of records with action obligation dates outside of fiscal year 2006 and removed those we determined did not relate to fiscal year 2006 actions. FAADS contains several assistance types, and we considered grants to include those actions coded as being block grants, formula grants, project grants, and cooperative agreements. Direct payments for specified use include payments under Medicare, and we consider these to be fee-for-service or voucher programs. FAADS also reports data on direct loans and loan guarantees. We did not comprehensively assess the accuracy of the assistance types in FAADS. FAADS funding amounts are primarily based on obligations.
- **Medicare**—To assess Medicare program funding to nonprofit organizations, we analyzed data from Centers for Medicare & Medicaid Services (CMS) data systems and assessed information provided by CMS officials. For Medicare Part A and B payments to nonprofit organizations, we combined data on payments to providers in CMS' Health Care Information System (HCIS) with the nonprofit status of those providers in the Provider of Services (POS) files. We divided

entity types in the POS into nonprofit and other categories based on our review of documentation and, where documentation was lacking, tests of some recipients. We did not consider entities coded as combined types, such as combined government and voluntary home health facilities, to be nonprofit organizations. CMS officials provided data on Medicare Part C (managed care) and D (prescription drug benefit) payments to nonprofit and other plan types, which officials told us represent nonprofit status from CMS' Health Plan Management System (HPMS) and payment figures to those plans from the Automated Plan Payment System (APPS). All figures on Medicare payments are for the calendar year 2006.

- **Medicaid and State Children's Health Insurance Program**—We estimated the amount of federal funds that may have reached nonprofit institutions through Medicaid and the State Children's Health Insurance Program (SCHIP) by examining program expenditure reports and assessing a share of expenditures in select categories that may have reached nonprofit organizations. Our calculations are based on a preliminary version of CMS' Financial Management Report for fiscal year 2006 that was provided to us by CMS and is subject to revisions. We combined federal Medicaid and SCHIP expenditures in fiscal year 2006 in select service categories that we identified during our review as significantly involving nonprofit organizations. We then used nonprofit organizations' share of total health care sector revenues from the Census Bureau's Service Annual Survey 2006 as a proxy for the portion of federal expenditures in these categories that may reach nonprofit organizations.<sup>1</sup> The actual amount of funds reaching nonprofit organizations through Medicaid and SCHIP could be greater or less than our estimate for several reasons including how similarly the programs rely on nonprofit organizations compared with the health care sector overall. To assess the reasonableness of our estimate, we discussed our approach and findings with internal GAO experts, officials at CMS, and compared our results with those of other researchers.
- **Other Indirect Grants through States**—For perspective on the extent to which states collect data on federal funding passed through to nonprofit organizations, we spoke to officials from the three states

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<sup>1</sup>The *Service Annual Survey 2006* includes revenues at government-operated hospitals along with revenues at tax-exempt establishments. Therefore, in order to get revenues at private tax-exempt institutions corresponding to our definition of nonprofit organizations, we subtract revenues to government hospitals from total revenues at tax-exempt firms.

obtaining the most federal assistance funds in 2006, based on the FAADS data from that year—California, New York, Texas—as well as two states suggested by others as developing information systems to track those funds—Michigan and Maryland. We discussed their present and planned activities to track these funds and, when available, obtained limited information that they collected.

- **Credit**—In addition to using data from FAADS, we assessed federal funding to nonprofit organizations through credit programs by examining the Office of Management and Budget’s (OMB) compilation of data on federal credit programs in the President’s Budget.<sup>2</sup> OMB reports on the face value of federal credit outstanding as well as the estimated future cost of outstanding federal credit.
- **Tax Policy**—To assess the costs of tax policies that benefit nonprofit organizations, we reviewed the literature on nonprofits and taxes and reviewed estimates of the value of nonprofits’ tax exemption and the revenue loss estimates associated with various specific tax expenditures. In particular, we assessed estimates of the costs of several specific tax expenditures that benefit nonprofit organizations in the Department of the Treasury’s Office of Tax Analysis list of tax expenditures and estimates of their cost as reported by OMB in the President’s Budget submission.<sup>3</sup> We had analyzed the development of these estimates extensively for recent work.<sup>4</sup> We did not attempt to identify all tax expenditures that involve nonprofit organizations. In several cases, estimates of the cost of tax expenditures include tax expenditures involving nonprofit and other entities. For example, the exclusion of interest for hospital construction bonds benefits nonprofit and other hospitals. We were unable to distinguish the portion of these tax expenditures that involved nonprofit organizations.

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<sup>2</sup>Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2009* (Washington, D.C.: 2008).

<sup>3</sup>Generally, tax expenditure costs are estimated by comparing the revenue raised under current law with revenue that would have been raised if a given provision did not exist, assuming all other parts of the tax code remain constant and taxpayer behavior is unchanged. These revenue loss estimates are intended to provide information about the value of tax expenditures. However, tax expenditure estimates do not incorporate any behavioral responses and thus do not necessarily represent the exact amount of revenue that would be gained if a specific tax expenditure were repealed. In addition, the value of the tax expenditure depends on baselines used and various other assumptions.

<sup>4</sup>GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, GAO-05-690 (Washington, D.C.: Sept. 23, 2005), 79-81.

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# Appendix II: Nonprofit Identification in Key Data Systems

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To assess how reliably nonprofit organizations are identified within key data systems for our purposes, we tested random samples of populations from various segments of these databases against alternative sources. We tested samples of records in the Federal Awards and Assistance Data System (FAADS), Federal Procurement Data System—Next Generation (FPDS-NG), and Medicare’s Provider of Services (POS) and Health Plan Management System (HPMS).<sup>1</sup> For FAADS, our testing is based on a sample of 96 records coded as nonprofit organizations and 97 records coded as other entity types. For FPDS-NG, we tested 95 vendors that were consistently coded as nonprofit organizations, and 96 vendors of all other types. For the POS, we tested 96 providers including nonprofit and other types. We tested 87 HPMS plans.

For each of these samples, we compared the nonprofit status of records with organizations’ status in several sources including the Internal Revenue Service’s Business Master File,<sup>2</sup> the 2002 Census of Governments,<sup>3</sup> the 2005 Higher Education Directory,<sup>4</sup> the American Hospital Association’s 2007 Guide,<sup>5</sup> and information from the Department of Housing and Urban Development (HUD) that is compiled by the National Housing Trust on housing developments. Since we relied on matching organizations by name and location across these data sources, we used our professional judgment based on the preponderance of the evidence across multiple data sources in assessing whether a given organization was a nonprofit or other entity type. Because of limitations

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<sup>1</sup>Each of these systems was tested at different levels because of how the data are collected. We tested FAADS records at the obligation or award level such that one recipient may be associated with multiple records. FPDS-NG and Medicare data were tested at the vendor or provider level and may have multiple funding actions associated with each vendor.

<sup>2</sup>Internal Revenue Service, *Business Master File* (<http://www.irs.gov/taxstats/charitablestats/article/0,,id=97186,00.html>, downloaded on Aug. 6, 2008, containing data that had been updated as of July 31, 2008).

<sup>3</sup>U.S. Census Bureau, *2002 Census of Governments: Governments Integrated Directory Public Use Files* (<http://www.census.gov/govs/www/cog2002.html>, downloaded Sept. 18, 2008).

<sup>4</sup>Higher Education Publications, Inc., *2005 Higher Education Directory* (Falls Church, Va., 2005).

<sup>5</sup>American Hospital Association, *AHA Guide 2007* (Chicago, Ill., 2007). We considered the following control codes in the AHA Guide to be nonprofit organizations: church operated nongovernment nonprofit, other nongovernment nonprofit, church operated osteopathic, and other not-for-profit osteopathic. All other control codes were considered to be other entity types.



involved with name searches and the lack of comprehensive sources for entities that are not nonprofit organizations, we were unable to verify the status of a significant portion of sampled records in many of these data sources, as shown in table 4 below. We also estimate that a significant portion of records in FAADS and vendors in FPDS-NG are miscoded for the purposes of our assessment. These are not necessarily errors since these databases use various definitions of nonprofit organizations in their systems, none of which align exactly with our definition of a nonprofit.

**Appendix II: Nonprofit Identification in Key Data Systems**

**Table 4: Estimated Reliability of Nonprofit Identification in Key Data Systems Based on Samples of Records**

Database and segment of records	Percent estimated to be correctly identified (with 95 percent confidence interval)	Percent unable to verify (with 95 percent confidence interval)	Percent estimated to be miscoded for our purposes (with 95 percent confidence interval) <sup>a</sup>
<b>FAADS</b>			
Nonprofits	70 (60-79)	22 (14-31)	8 (4-16)
All other recipients <sup>b</sup>	59 (48-69)	36 (27-46)	5 (2-12)
<b>FPDS-NG<sup>c</sup></b>			
Nonprofits	74 (64-82)	11 (5-19)	16 (9-25)
All other recipients	100 (97-100)	0 (0-3)	0 (0-3)
Medicare Provider of Services (POS)	91 (83-96)	8 (4-16)	1 (0-6)
Medicare Health Plan Management System (HPMS) <sup>d</sup>	82 (72-89)	2 (0-8)	16 (9-26)

Source: GAO analysis of Census Bureau, CMS, General Services Administration, and OMB data.

Notes: GAO analysis of Federal Awards and Assistance Data System (FAADS), Federal Procurement Data System—Next Generation (FPDS-NG), Medicare Provider of Services (POS) and Health Plan Management System (HPMS) data.

<sup>a</sup>Though miscoded for the purposes of our assessment, these are not necessarily errors because databases use various definitions of nonprofit organizations in their systems none of which align exactly with our definition of a nonprofit.

<sup>b</sup>This includes those records in FAADS that are not labeled as nonprofit organizations or private institutions of higher education.

<sup>c</sup>FPDS-NG samples were drawn from the set of vendors who were consistently labeled in FPDS-NG. This assessment excludes 1,768 vendors in FAADS with some contract actions where they are labeled as nonprofit organizations and other contract actions where they are labeled as other recipient types.

<sup>d</sup>Most entities that we labeled as miscoded in the HPMS system were due to Blue Cross/Blue Shield plans that were listed as nonprofit organizations. Because these organizations are not federal tax-exempt organizations, we did not include them in our definition of nonprofit organizations.

We used the same approach and sources to assess the portion of records in FAADS labeled as private institutions of higher education that were nonprofit organizations. Based on our tests of a sample of 96 records, we estimate that 95 percent are nonprofit organizations (with a 95 percent confidence interval of 88-98 percent).

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Stanley J. Czerwinski, (202) 512-6806 or [czerwinskis@gao.gov](mailto:czerwinskis@gao.gov)

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