

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

A presentation to the
Joint Legislative Program Evaluation Oversight Committee

November 9, 2009
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Acknowledgements

Office of the State Auditor

Office of State Budget and Management

Department of Health and Human Services



Overview

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

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



Overview

Despite recent improvements in technology and tracking,

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



Overview

Four recommendations:

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



Background



Evaluation Purpose

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



Background: Data Sources

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



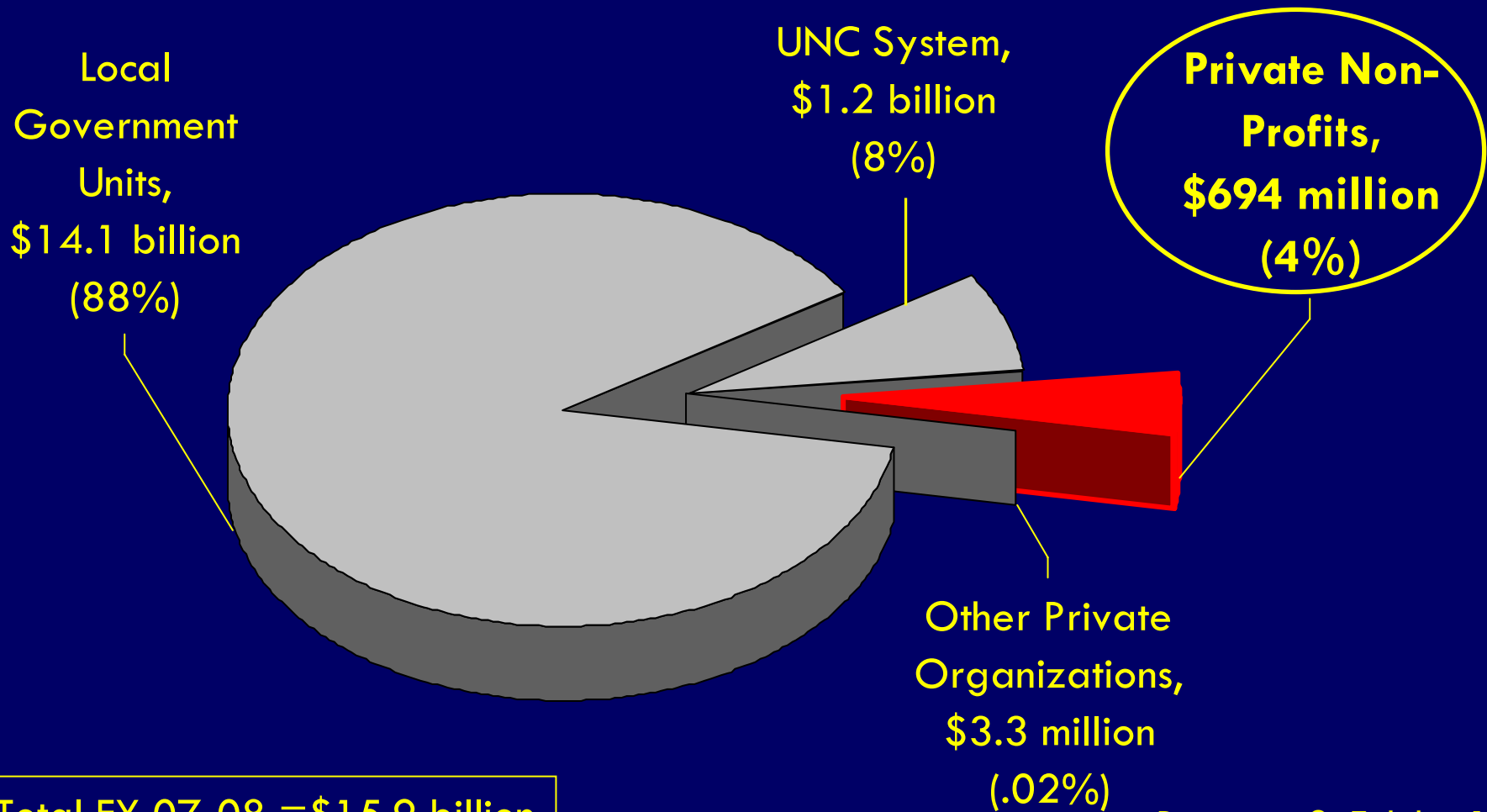
Background: Definition

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

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Background: State Grants to Non-Profits



Report p 3, Exhibit 1



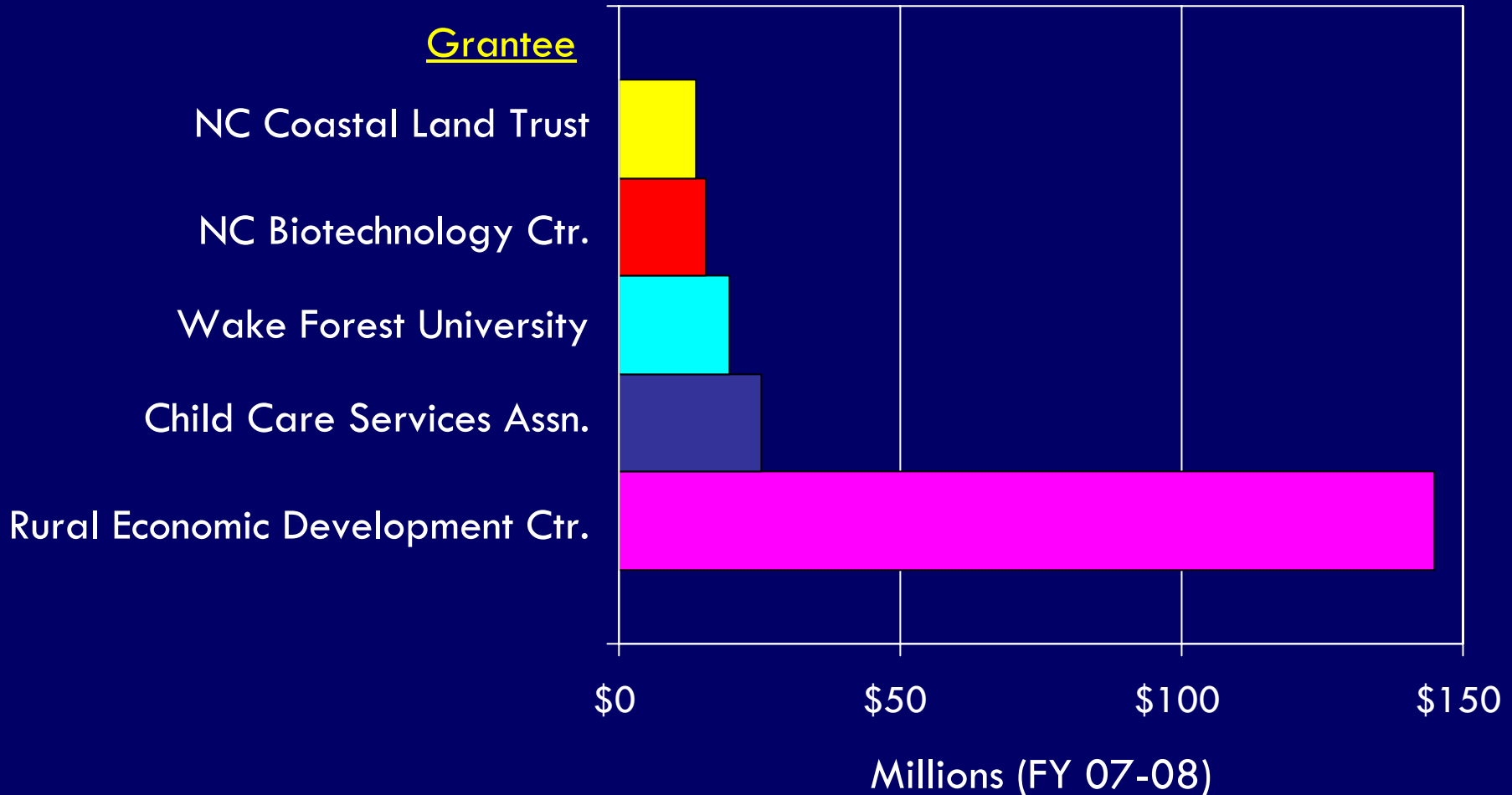
Background: Oversight Guidelines for Grants to Non-Profits

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

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



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

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Can We Say More Than “All is Well”?



Findings



Focus of Central Findings

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



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



State Reporting Requirements

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

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State Reporting Requirements

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

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State Reporting Requirements and Distribution of Non-Profit Grant Funds

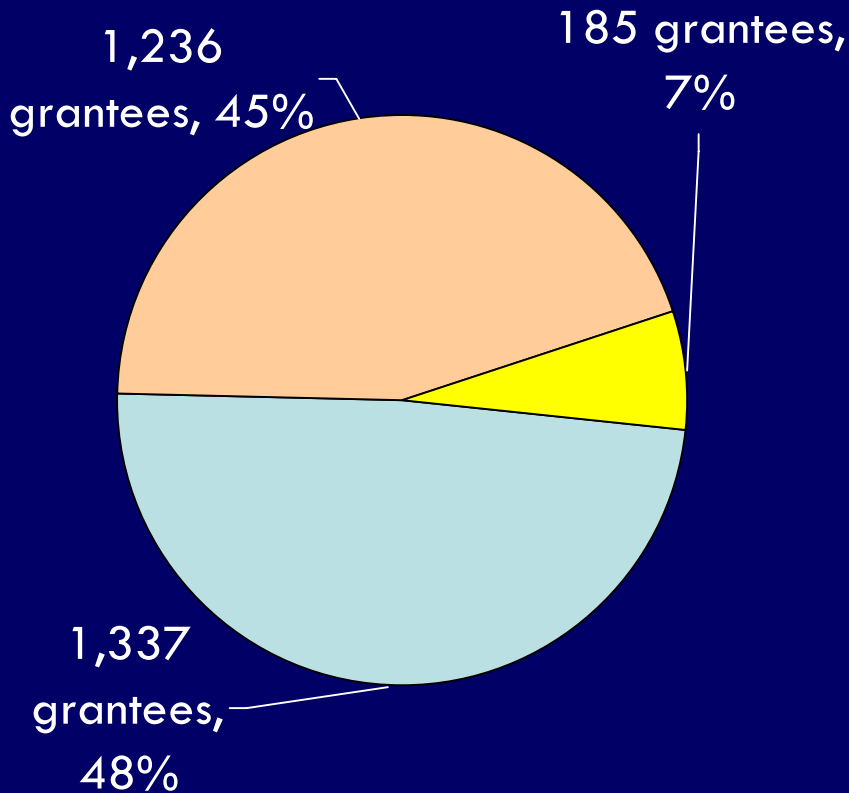
- Most (93%) of non-profit grantees received a total of \$500,000 or less in state funds
 - Award-level financial reporting required
 - No audit required
- But most (79%) of grant funds were awarded to non-profits that received over \$500,000
 - No grant-level financial reporting required
 - Audit required

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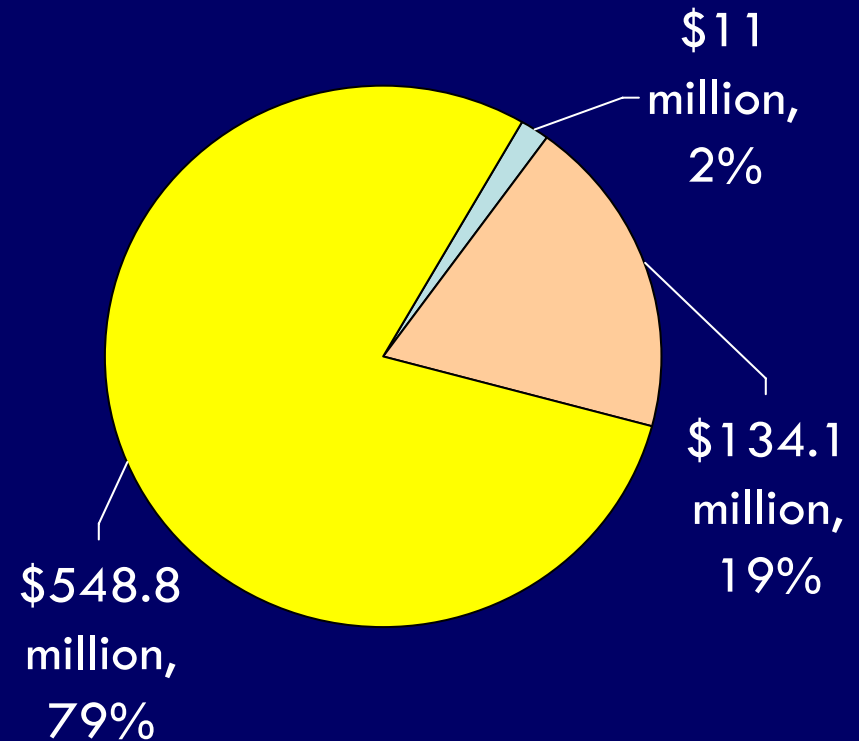


Distribution of Non-Profit Grant Funds

Number of Grantees (2,758)



Grant Funds (\$694 million)



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

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State Reporting Requirements Do Not Ensure Accountability

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

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



Inconsistent Agency Oversight

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

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



Features of Best Practices

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

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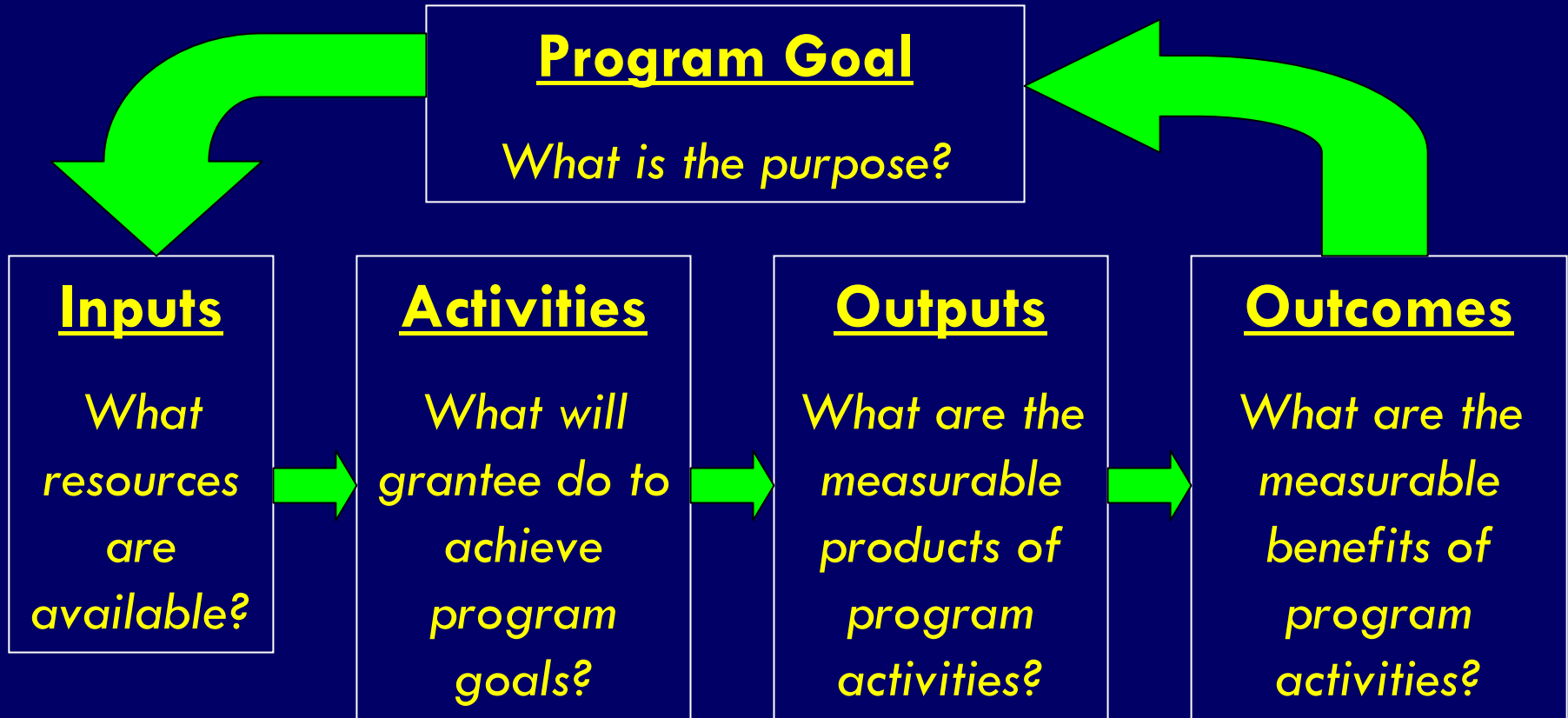
Adopting Best Practices Can Improve Oversight

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

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Performance Measurement Framework



Report p 16, Exhibit 9



Recommendations



Recommendation 1.

Revise N.C. Gen. Stat. § 143C-6-23(d)

Direct changes to Administrative Rules to:

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

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Recommendation 2. Emphasize Competitive Awards

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



Recommendation 3. Increase Enforcement of Reporting Requirements

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



Recommendation 4. Authorize Agencies to Withhold Funds for Oversight

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

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Summary

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



Report Available Online

www.ncleg.net/PED/Reports/Topics/Intergovernmental.html

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