



## ARLINGTON COUNTY AUDITOR NON-PROFIT FUNDING AUDIT REPORT 2022-01

### SUMMARY

This executive report, or “letter report,” summarizes the findings and recommendations from the Arlington County Auditor’s audit of non-profit funding within Arlington County. The purpose of the audit was to answer the question *What practices are available for policymakers to make decisions on non-profit funding allocations?* The focus on the audit was practices used to award contracts with non-profits who provide human and social services.

The audit resulted in two specific observations. First, there is need for clear strategic priorities to guide policymakers’ non-profit funding allocation decisions. These strategic priorities should be transparent to the community and non-profit partners, focused and measurable, and consistent from year to year. In addition, once these strategic funding priorities are set, the use of non-competitively procured contracts with non-profit partners should be re-evaluated.

### BACKGROUND

Arlington County uses non-profits to help provide a wide range of services for the Arlington community. The focus on this audit was practices used to award contracts with non-profits who provide human and social services. Specifically, these contracts are either awarded by the County Board through a discretionary process or awarded by the Department of Human Services (DHS). Contracts awarded by DHS may be either through a competitive procurement by Arlington County, by riding a competitively procured contract from Fairfax County or Loudoun County, or by a non-competitive process, such as a sole source contract.<sup>1</sup> All contracts, whether awarded by the County Board or DHS, are overseen by DHS.

DHS reported a total of \$25.076 million in contracts with non-profit service providers in FY 2022, spread over 75 contracts. Of these contracts:

**22** contracts totaling \$6,019,122 were awarded by the County Board.

Of the 53 contracts awarded or otherwise used by DHS:

---

<sup>1</sup> *Riding a contract* refers to when a government agency acquires goods or services under an existing contract from another government entity with the same scope of work. Generally, the existing contract must be active and originally obtained through a competitive procurement, and the rider contract cannot exceed the length of the original contract. The process for riding contracts in Arlington County is laid out in the *Arlington County Purchasing Manual*.

## Non-Profit Funding – Letter Report

21 contracts totaling \$10,442,940 were competitively procured. <sup>2</sup>
13 contracts totaling \$1,414,799 are Fairfax County contracts that Arlington is riding.
14 contracts totaling \$2,359,525 were exempted from competitive procurement for various reasons.
4 contracts totaling \$4,676,207 are sole source contracts, meaning the provider was determined to be the only practicable source of the service.
1 contract totaling \$154,390 is a Loudoun County contract that Arlington is riding.

The County Auditor is grateful to the County management and staff, especially in DHS, who assisted this audit with their time and expertise.

### FINDINGS AND RECOMMENDATIONS

**CLEAR STRATEGIC PRIORITIES FOR NON-PROFIT FUNDING ARE NEEDED**—This audit determined that there is a need for clear strategic priorities to guide policymakers’ non-profit funding allocation decisions. These strategic priorities should be transparent to the community and non-profit partners, focused and measurable, and consistent from year to year. In addition, once these strategic funding priorities are set, the use of non-competitively procured contracts with non-profit partners should be re-evaluated.

**Strategic priorities should help to guide non-profit funding decisions**—Strategic priorities address a key question for elected officials in making non-profit funding allocation decisions: *How to decide between all the worthy work being done in their constituency?* With scarce resources, such allocation is critical, as is working to ensure that resources are being spent effectively. Strategic priorities help to accomplish two goals. First, they help to identify where larger portions of discrete funding should go. Second, strategic priorities help to explain to the community why some worthy non-profits may not receive funding.

Strategic priorities already help guide funding decisions in other states, localities, and human service funding organizations. The most salient example for Arlington is Loudoun County, which set four strategic priorities for its non-profit grantmaking in FY 2022.<sup>3</sup> By identifying these strategic priorities, Loudoun County ensures that potential non-profit grant applicants and the community are aware of the decision criteria even before the grant application process begins. Similarly, the State of Virginia’s Community Development Block Grant (CDBG) Program offers Community Improvement Grants that contain strategic priorities. There are three types of Community Improvement Grants, each with their own priorities, and each grant program must also meet the three national funding priorities of the CDBG program. These national priorities are:

1. Give maximum feasible priority to activities which will benefit low- and moderate-income (LMI) families,
2. Aid in the prevention or elimination of slums and blight, and

<sup>2</sup> Two of these 21 contracts were originally awarded by the County Board but are now competitively procured and were awarded by DHS.

<sup>3</sup> See <https://www.loudoun.gov/nonprofitgrants> for broader discussion of these four areas.

## Non-Profit Funding – Letter Report

3. May also include activities which are designed to meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the community.<sup>4</sup>

Specific examples of strategic priorities from five different grant-making organizations are in Table 1 below. Most of the strategic priorities guide non-profit focused grant funding (the CDBG program does not require that funding go to a non-profit). Each of these priorities match the interests or needs of the funding organizations. The priorities also illustrate the importance of directing scarce resources where decisionmakers have determined is most likely to have a strategic impact.

**Table 1 – Strategic Priority Examples for Grant Funding**

Organization	Organization Type	Strategic Priorities
<b>Loudoun County</b>	County government	<ol style="list-style-type: none"><li>1. Prevention and self-sufficiency</li><li>2. Crisis intervention and diversion</li><li>3. Long-term support</li><li>4. Improved quality of human services</li></ol>
<b>Virginia Community Development Block Grant Program – Community Improvement Grants – Competitive Grants</b>	State government	<ol style="list-style-type: none"><li>1. Comprehensive community development grants</li><li>2. Business district revitalization</li><li>3. Housing rehabilitation</li><li>4. Public infrastructure</li><li>5. Community service facilities</li></ol>
<b>Gates Family Foundation<sup>5</sup></b>	Family foundation	<ol style="list-style-type: none"><li>1. Educational equity</li><li>2. Natural resources</li><li>3. Vibrant communities</li></ol>
<b>Wells Fargo/Wells Fargo Foundation</b>	Corporation/Foundation	<ol style="list-style-type: none"><li>1. Financial health</li><li>2. Housing affordability</li><li>3. Small business growth</li><li>4. Sustainability and environmental justice</li></ol>
<b>United Way of the National Capital Region</b>	Community service organization	<ol style="list-style-type: none"><li>1. Health</li><li>2. Education</li><li>3. Economic opportunities</li></ol>

**DHS has proposed developed strategic priorities for non-profit funding**—An internal DHS proposal for restructuring Arlington County’s non-profit funding process recommends that all funding decisions be based on articulated strategic priorities. Specifically, DHS proposed that the County

<sup>4</sup> See the introduction to the 2022 CDBG Competitive Grant Application Guidelines at <https://www.dhcd.virginia.gov/sites/default/files/Docx/cdbg/cdbg-competitive-application-guidelines-2022.pdf>.

<sup>5</sup> This is not the Bill and Melinda Gates Foundation. The Gates Family Foundation can be found here: <https://gatesfamilyfoundation.org/strategic-priorities/overview/>. The Bill and Melinda Gates Foundation also has strategic priorities, but the list is much longer befitting the immense size of that foundation. See more information about the Bill and Melinda Gates Foundation program strategies here: <https://www.gatesfoundation.org/our-work>.

## Non-Profit Funding – Letter Report

*[d]evelop a data-informed strategy with extensive community input from the non-profit provider community and other stakeholders for determining the type of services subject to a competitive procurement or grant-making process. All funding requests would demonstrate that the program or service enhances existing county functions.*

This recommendation is embedded in a larger proposal regarding an alternative way for the County to contract and award non-profit grants. Evaluating the totality of the larger proposal is outside the scope of the present audit, but whether or not the DHS proposal for contracting and awarding non-profit grants is adopted, the recommendation regarding development of strategic funding priorities should be implemented. Specifically, the County Manager or appropriate designee should collaborate with the County Board to develop a set of strategic funding priorities that would guide all the County’s non-profit funding allocations, including County Board discretionary funding as well as funding awarded by DHS. These strategic priorities should be transparent to the community and non-profit partners, focused and measurable, and consistent from year to year.

**Non-competitively procured contracts should be re-evaluated**—In addition, the use of non-competitively procured contracts for non-profit funding should be re-evaluated. The Arlington County Purchasing Resolution emphasizes that the County Board desires to ensure the “maximum feasible amount of competition” in procurement. As shown in the background of this report, 18 of the FY 2022 non-profit funding contracts were either sole source contracts or otherwise exempt from procurement. In some cases, it may not be apparent why the original procurement was exempt from competition. Once the strategic funding priorities are developed, DHS should engage in a rigorous, data-driven re-evaluation of whether the County would benefit from a competitive procurement process for the good or services currently being obtained under sole source contracts or under contracts that previously were exempted from the competitive procurement process. Further, DHS should report publicly the findings from this re-evaluation.

**Recommendation 1.1:** The County Manager or appropriate designee should collaborate with the County Board to develop a set of strategic funding priorities that would guide all the County’s non-profit funding allocations, including County Board discretionary funding and funding awarded by DHS. These strategic priorities should be transparent to the community and non-profit partners, focused and measurable, and consistent from year to year.

**Recommendation 1.2:** Once the strategic funding priorities are developed, DHS should engage in a rigorous, data-driven re-evaluation of whether the County would benefit from a competitive procurement process for the good or services currently being obtained under sole source contracts or under contracts that previously were exempted from the competitive procurement process. Further, DHS should report publicly the findings from this re-evaluation.

**Other observations about current County practices for non-profit funding allocation**—In addition to the observations reported above, this audit concludes that the use of County Board discretion in making non-profit funding decisions is in line with other Virginia counties, and the use of contracts to structure the County’s non-profit funding is a strong internal control.

## Non-Profit Funding – Letter Report

A survey of 33 Virginia counties conducted for this audit through the Virginia Association of Counties indicates that the use of County Board discretion in making non-profit funding decisions is relatively common.<sup>6</sup> Fourteen of the 33 survey respondents reported including discretion for elected Board members as part of the county's non-profit funding decisions. Further, the research of this audit does not indicate that providing discretion to elected Board members is inherently a poor practice. Instead, when elected policymakers have authority to make non-profit funding decisions, and when such decisions are made publicly and documented openly, additional transparency and accountability are created.

The use of contracts to codify policymakers' non-profit allocations helps to ensure that performance expectations are clearly articulated, and that management has the ability to monitor non-profits' ongoing performance. This audit did not have DHS' oversight of non-profit contracts as part of its scope and does not make a conclusion regarding the quality of contract monitoring in DHS. The County's contract administration guidelines, which are adopted as part of the County Purchasing Manual, is clear that contract managers must understand the terms and conditions of contracts they administer and are responsible for enforcing the specific requirements of the contracts. The County Auditor refers DHS to the May 2021 audit of contract management in the Department of Technology Services for additional information regarding contract administration maturity and leading practices.

---

<sup>6</sup> The 33 counties were geographically dispersed throughout Virginia but skewed smaller than Arlington. The largest respondent by population was Loudoun County. Three other counties of over 100,000 population responded.

## OBJECTIVES, SCOPE AND METHODOLOGY

The audit objective was to answer the following question: *What practices are available for policymakers to make decisions on non-profit funding allocations?*

The audit scope was information material to the audit objective that was current during fieldwork.

The County Auditor used various methodologies to conduct the audit. These include reviewing County documents, such as a white paper from DHS about possible alternative approaches to non-profit funding. The audit included a review and analysis of other non-profit funding practices in non-profits, such as the Bill and Melinda Gates Foundation, and at the state and local levels. The audit also used interviews with County staff and Arlington County community members, as well as interviews with representatives from other localities in northern Virginia about their non-profit funding allocation processes. The Auditor interviewed an official at the United Way of the National Capital Area to better understand the United Way's overall funding strategy and how equity plays a role in the funding strategy. Finally, the Auditor commissioned a survey of Virginia counties through the Virginia Association of Counties to better understand non-profit funding processes in other Virginia counties.

## ABOUT US

### **Compliance Statement**

The County Auditor conducted this performance audit in accordance with generally accepted government auditing standards, except for a peer review. 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.

### **Authority**

The County Auditor is appointed by the Arlington County Board under the authority of § 15.2-709.2 of the Code of Virginia, 1950, as amended. The County Auditor originally initiated this audit as part of the FY 2021 Annual Audit Work Plan approved by County Board on June 16, 2020. The audit was subsequently reauthorized as a carryover audit in the FY 2022 Audit Work Plan.

### **County Auditor**

Chris Horton, Ph.D., CIA, CGAP, CRMA, CCSA, County Auditor

### **County Board**

Katie Cristol, Chair  
Christian Dorsey, Vice-chair  
Matt De Ferranti  
Libby Garvey  
Takis Karantonis

## **Non-Profit Funding – Letter Report**

### **Audit Committee**

Christian Dorsey, Co-chair

Takis Karantonis, Co-chair

Luanne Lohr, Community Member

Brian Sigriz, Community Member (Fiscal Affairs Advisory Committee representative)

John Vihstadt, Community Member

William (Bill) Wiggins, Community Member

Mark Schwartz, County Manager

Maria Meredith, Director, Department of Management and Finance

**MANAGEMENT RESPONSE**

As is required in audits conducted in compliance with generally accepted government auditing standards, this audit contains a response to the two recommendations from the non-profit funding. The response is contained on the following pages.

County management agreed with both audit recommendations. For each recommendation, the response discusses the action plan for implementation.



## Non-Profit Funding – Letter Report



### DEPARTMENT OF HUMAN SERVICES

2100 Washington Blvd., Arlington, VA 22204  
TEL 703.228.1775 FAX 703.228.1173 TTY 703.228.1788 [www.arlingtonva.us](http://www.arlingtonva.us)

May 29, 2022

Chris Horton, Ph.D., CIA, CGAP  
County Auditor  
2100 Clarendon Blvd, Suite 300  
Arlington VA, 22201

Dear Dr. Horton,

The Department of Human Services (DHS) is in receipt of your Non-Profit Funding Audit Report # 2022-01. As noted in your report, DHS carries out a significant amount of its work through non-profit providers. In FY 2023, DHS intends to spend a total of \$25.076 million in contracts with non-profit service providers. Contracting with non-profits provides a benefit to County residents by providing a wide array of supports to those who are most vulnerable and disadvantaged. Some services are mandated by State or Federal agencies, while others may support a particular population or provide specialized skills not available within the County's workforce. Non-profit organizations often provide services at a lower cost by leveraging fundraising and grant resources with greater flexibility than government entities.

DHS agrees with the overarching recommendations of this audit – to align non-profit contracts with strategic priorities and to competitively procure these contracts whenever possible. However, competitive procurement is not always allowed or possible where very specific kinds of locally provided services are mandated by State agencies.

Sole source contracts are necessary at times due to the scarcity of providers and the need for specialized services in Arlington. For example, DHS has a contract with the Animal Welfare League of Arlington for \$1.4 million to provide animal control and shelter services. DHS does not possess the facility nor the expertise to carry out this service, hence contracting with AWLA is the best method to provide this service to the community. Furthermore, the AWLA is the only such service available in Arlington, and so providing a sole source contract is a completely legal option according to the County's Purchasing rules.

Twelve of the non-profit contracts that are "riders" to Fairfax County's competitively procured contracts, totaling \$1.4 million, provide services to individuals with developmental disabilities (DD). These contracts are for the provision of day support, employment, and residential services to DD clients, and are mandated by the Virginia Department of Behavioral Health and Developmental Disabilities (DBHDS). DHS is obligated to provide these services to this population. All of the Northern Virginia Community Services Boards utilize these contracts that are initiated by Fairfax County and where the providers are often located in Fairfax County. It is more efficient

## Non-Profit Funding – Letter Report

and effective for the County to ride these Fairfax contracts, since DD clients actually participate in these Fairfax-based programs.

DHS utilizes rider contracts resulting from competitive solicitations issued by other government agencies when the services align with those needed from the County and fall within parameters established in our Purchasing guidelines. The riding of contracts as specified above allows the County to save time and resources by utilizing another jurisdiction's competitive process.

DHS contracts do largely follow strategic priorities of the County and the respective plans that have been developed in partnership with its residents. For example, there are several non-profit contracts that form part of Arlington's Action Plan to End Homelessness (contracts with Doorways, Bridges to Independence, Path Forward and THRIVE) in response to the strategic priorities identified by the Homeless Continuum of Care to address the needs of Arlington's homeless population. Other non-profit contracts support strategic priorities and plans such as Age-Friendly Arlington, Community Services Board mandates, and requirements set forth by the Regional Workforce Council to name a few.

A subset of the non-profit contracts are County Board awards that have been allocated at the County Board's discretion and have not been competitively procured. Some of these awards date back to decades and grew out of community responses to local socio-economic needs. We do not have reliable information on the circumstances leading to the original execution of some of these contracts.

In recognition of this issue and at the direction of the County Board in FY 2021 budget guidance, DHS began development of a new funding framework focused on discretionary "County Board" award non-profit contracts in 2020-2021. Our work recognizes that lacking a competitive award process, the scopes of work in these legacy contracts do not consider the County's changing population and priorities. Additionally, we recognize that the current process does not take into account equity in the awarding of contracts. Small, women, minority-owned community-based organizations lack opportunities to compete for funding, being overlooked in communications regarding the availability of funding, and have limited capacity to compete or implement County contracts.

DHS proposes a data-informed Notice of Funding Availability (NOFA) strategy with extensive community input from the non-profit provider community and other stakeholders for determining and prioritizing the type of services subject to a competitive procurement or grant-making process, and in line with the community's strategic priorities. The NOFA process would result in funding recommendations based on proposals that can demonstrate results-based and outcomes-focused performance measures. Applications and performance measure data would be assessed through an equity framework. The County will offer assistance to the non-profit community in understanding the procurement process as well as understanding the proposal submittal requirements as part of the strategy.

In 2020 – 2021, DHS began conversations with many of the safety net non-profits about moving to a NOFA and competitive award process, and they are in support. After those initial conversations and with the leadership of Chair Cristol and her fellowship with (and resources provided by) UNUM, we conducted focused engagement with BIPOC-led non-profits who supported a new framework but desired a greater role in shaping the strategic priorities and NOFA process. In light of that feedback, work has been underway for the last year to ensure

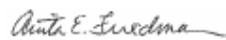
## Non-Profit Funding – Letter Report

that the input from the community of BIPOC non-profits and community is factored into a new NOFA process. This work has been facilitated through the United Way of the National Capital Region and will be incorporated into the DHS Non-profit Funding Framework. We expect that the results of the racial equity work will be completed this Summer 2022.

Lastly, I would like to let you know that DHS prides itself on working closely with the Purchasing Office and the County Attorney's Office in issuing contracts and will continue to collaborate and seek guidance from these offices. In addition to auditing processes conducted by the County Auditor and DMF Internal Audit, DHS' Finance and Management Bureau conducts its own monitoring of non-profit contracts with an inter-disciplinary team of programmatic, finance and contract staff. I have attached a copy of our internal audit tool for your perusal.

Thank you for the opportunity to respond to this audit report.

Sincerely,



Director  
Department of Human Services

**Non-Profit Funding – Letter Report**

**Finding 1: Clear strategic priorities for non-profit funding are needed**

**Recommendation 1.1:** The County Manager or appropriate designee should collaborate with the County Board to develop a set of strategic funding priorities that would guide all the County’s non-profit funding allocations, including County Board discretionary funding and funding awarded by DHS. These strategic priorities should be transparent to the community and non-profit partners, focused and measurable, and consistent from year to year.

Agree/Disagree	Responsible Individual	Action Plan and Expected Date of Completion
Agree	Anita Friedman	Finalization of strategic funding priorities and refinement of the NOFA process will begin shortly after the BIPOC and County Board-led process with the United Way is completed, anticipated later this summer. We anticipate that the finalization of funding priorities and the NOFA process will take 6-12 months and could be ready for implementation during the FY 2025 budget process at the latest.

**Recommendation 1.2:** Once the strategic funding priorities are developed, DHS should engage in a rigorous, data-driven re-evaluation whether the County would benefit from a competitive procurement process for the good or services currently being obtained under sole source contracts or under contracts that previously were exempted from the competitive procurement process. Further, DHS should report publicly the findings from this re-evaluation.

Agree/Disagree	Responsible Individual	Action Plan and Expected Date of Completion (Month/Year)
Agree	Anita Friedman	Finalization of strategic funding priorities and refinement of the NOFA process will begin shortly after the BIPOC and County Board-led process with the United Way is completed, anticipated later this summer. We anticipate that the finalization of funding priorities and the NOFA process will take 6-12 months and could be ready for implementation during the FY 2025 budget process at the latest.  As part of the re-evaluation process, DHS will engage the Purchasing Agent to review the previous sole source determinations to either maintain the sole source procurement method or issue a competitive solicitation, understanding that some of the goods and services may remain a justified sole source after the evaluation.