

## Nonprofit Funding Follow-up Audit

Ms. Anita Friedman, Director, Department of Human Services



# ARLINGTON COUNTY AUDITOR FOLLOW UP AUDIT REPORT REPORT NO. DHS2025FL001

## INTRODUCTION

In accordance with the FY 2025 Audit Plan, the Office of County Auditor (OCA) conducted a follow up audit to the nonprofit funding audit issued on May 30, 2022. The purpose of this follow-up audit was to assess whether actions taken by management adequately address the original findings and recommendations by OCA.

## BACKGROUND

As part of the FY 2021 Annual Audit Work Plan, OCA conducted an audit of nonprofit funding within Arlington County. The purpose of the audit was to answer the question: *What practices are available to help policymakers make decisions on nonprofit funding allocations?* The audit focused on the practices used to award contracts to nonprofits that provide human and social services.

The audit resulted in two key observations. First, there is a need for clear strategic priorities to guide policymakers in making nonprofit funding decisions. These strategic priorities should be transparent to the community and nonprofit partners, focused and measurable, and consistent from year to year. Additionally, once these strategic funding priorities are established, the continued use of non-competitive contracts with nonprofit partners should be re-evaluated.

At the time of the audit, Arlington County partnered with nonprofits to deliver a wide range of services to the community. The audit specifically examined the practices used to award contracts to nonprofits providing human and social services. These contracts were either awarded directly by the County Board through a discretionary process or by the Department of Human Services (DHS). DHS-awarded contracts could be issued through a competitive procurement process conducted by Arlington County, through cooperative agreements by using competitively procured contracts from Fairfax County or Loudoun County, or through a non-competitive process such as a sole source contract.

## AUDIT FINDING AND RECOMMENDATION STATUS

<b>Audit Finding 1</b>	<i>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.</i>
<b>Recommendations</b>	<b>Recommendation 1.1:</b> 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

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	<b>Recommendation 1.2:</b> 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.
<b>Actions Taken</b>	<p><b>Recommendation 1.1:</b> An equity-based nonprofit funding model for Arlington County was developed with input from Black, Indigenous, and People of Color (BIPOC) community leaders, the County Board, and key County staff, including the Chief Race and Equity Officer and the Director of DHS. A summary document was created to outline the process for evaluating nonprofit agencies for funding, covering proposal development, evaluation, award decisions, and accountability through performance measures.</p> <p>In December 2022, recommendations for nonprofit funding reform were presented to the County Board. On February 21, 2023, the Board adopted a resolution supporting the transition to a racial equity-based competitive funding process.</p> <p><b>Recommendation 1.2:</b> The agreed-upon management action for this recommendation is that DHS will engage the Purchasing Agent to review the previous sole source determination. This review will assess whether to maintain the sole source procurement method or to issue a competitive solicitation, with the understanding that some of the goods and services may still be justifiably procured through a sole source after the evaluation.</p> <p>OCA obtained and reviewed the sole source justification, noting that it included the rationale for retaining the services of the nonprofit, as well as the required approvals.</p>
<b>OCA Conclusion:</b> <i>Implemented</i>	No further action required by OCA.

## CONCLUSION

Management has taken the necessary corrective actions to address the risk associated with the audit finding and effectively implemented corrective actions.

The Office of County Auditor thanks Department of Human Services for their support during the follow-up process.

## REPORT DISTRIBUTION

cc: M. Coffey, County Board  
S. Cunningham, County Board  
M. Schwartz, County Manager  
M. Corr, County Attorney  
M. Cowan, Deputy County Manager  
M. Meredith, Director, Department of Management & Finance  
L. Porfiri, County Manager's Office Chief of Staff

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### **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.

#### **County Auditor**

Wayne M. Scott, CIA, CISA, County Auditor

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