



New Policies Affecting Nonprofit Contracting and Oversight



Office of the Controller

September 9, 2024



About

- The San Francisco Controller's Office is required by Ordinance to issue several Citywide policies to standardize and improve the City's oversight of nonprofit contractors. The Ordinance and an Executive Directive require City departments to comply with these policies.
 - [Administrative Code Section 10.6-1: Monitoring of Nonprofits Contracting with the City](#) (enacted by [Ordinance # 55-24](#))
 - [Executive Directive 24-04: Nonprofit Grant Administration Reform](#)
- On September 9, 2024, the Controller's Office issued draft versions of these three required policies.
- Nonprofit staff and members of the public are invited to review the draft policies and provide feedback by visiting [our website](#) and filling out a feedback form by September 29, 2024.
- The Controller's Office will consider all input provided during the comment window and will issue final policies in November 2024.

Ordinance No. 55-24: Monitoring of Nonprofits that Contract with the City

In March 2024, the Board of Supervisors **passed legislation** that tasks the Controller's Office with creating policy to enhance and standardize oversight of nonprofit contractors.

This presentation provides highlights of draft policies and other monitoring requirements.

Snapshot of Draft Policies

1

Contract Monitoring Policy (new policy)

Establishes Citywide requirements and guidance for departments in monitoring the performance of contracts with nonprofit service providers

2

Citywide Nonprofit Corrective Action Policy (updated policy)

Establishes a process to provide appropriate support, technical assistance, and oversight to address issues with nonprofit service delivery or financial management

3

Policy on CPA Audit Requirements for Nonprofits (new policy)

Operationalizes the requirements for nonprofit submission of audited financial statements to the City when they receive threshold funding in a given year

What we have done so far...

Since fall 2023, the Controller's Office has engaged City and nonprofit stakeholders to gather information and solicit feedback to help develop new and revised policies.



Review and Publication Timeline

Next steps for publication and implementation



**Note: implementation will include department development of own processes and procedures and Controller's Office updates to program to oversee department monitoring practices.*

1. Contract Monitoring Policy

Policy Overview

DRAFT POLICY: Overview

The draft policy includes both **required** components and **recommended** components within four key areas

Performance Measures

Reporting

Program Monitoring

Engagement

It also specifies **policies and procedures** that departments should create to support implementation.



DRAFT POLICY: Performance Measures

Summary of proposed **required** components:

- Contracts should include performance measures and those measures should have **targets**. Measures should include service objectives and outcomes.
- **No requirements for the number of performance measures**, but the policy asks departments to balance collecting enough information to assess services while considering the administrative burden on contractors.

Summary of proposed **recommended** components:

- Performance measures should be **consistent** within service areas and generally align to broader department priorities and goals.

Performance Measures

A way to demonstrate the results of funded activities. Contracts typically include both service objectives (“how much”) and outcomes (“how well”).



DRAFT POLICY: Reporting

Summary of proposed **required** components:

- Departments should require reporting **annually at a minimum** and should review reports in a timely manner.
- If departments require nonprofits to submit reports in a system, they should provide **timely access and training** to those systems.

Summary of proposed **recommended** components:

- Departments should acknowledge when they receive reports.
- Generally, departments should **consider the administrative burden** on nonprofits when determining both requirements and systems, particularly when considering changes during the contract term.

Reporting

Reporting may include submitting data on performance measures and/or a narrative report. Reporting may be a required component of invoicing.

DRAFT POLICY: Monitoring

Summary of proposed **required** components:

- Departments must develop standards and checklists to **ensure a consistent approach** across staff.
- Departments must conduct at least **one program monitoring activity each year**. This should include a **site visit** at least once during a contract's term. Departments may establish good performance waiver policies to waive annual monitoring for one year.
- Departments must **communicate** results of monitoring with contractors in writing timely.

Summary of proposed **recommended** components:

- If a department holds multiple contracts with the same contractor, they should try to **streamline and coordinate monitoring** where possible.
- When feasible, monitoring should occur **outside of periods of high workload** for contractors (e.g., year-end close)

Program Monitoring

A point-in-time process of evaluating how well an organization is delivering services outlined in a contract. May include reviewing performance measure data and/or compliance elements.

DRAFT POLICY: Engagement

Summary of proposed **required** components:

- Department staff should **engage with each contractor** at least once per quarter. Departments should prioritize in person visits, phone calls, one-on-one meetings, etc.
- Departments should **visit program locations** where contractors serve clients at least one per year (even if not a formal site visit).

Summary of proposed **recommended** components:

- Department staff are encouraged to **engage more frequently** when a program is new or department staff are new.
- Engagement may include provision of **technical assistance** where appropriate.

Engagement

How departments communicate and provide support to help organizations meet expectations. Includes email/phone check-ins, regular meetings, drop-in visits, and/or technical assistance.



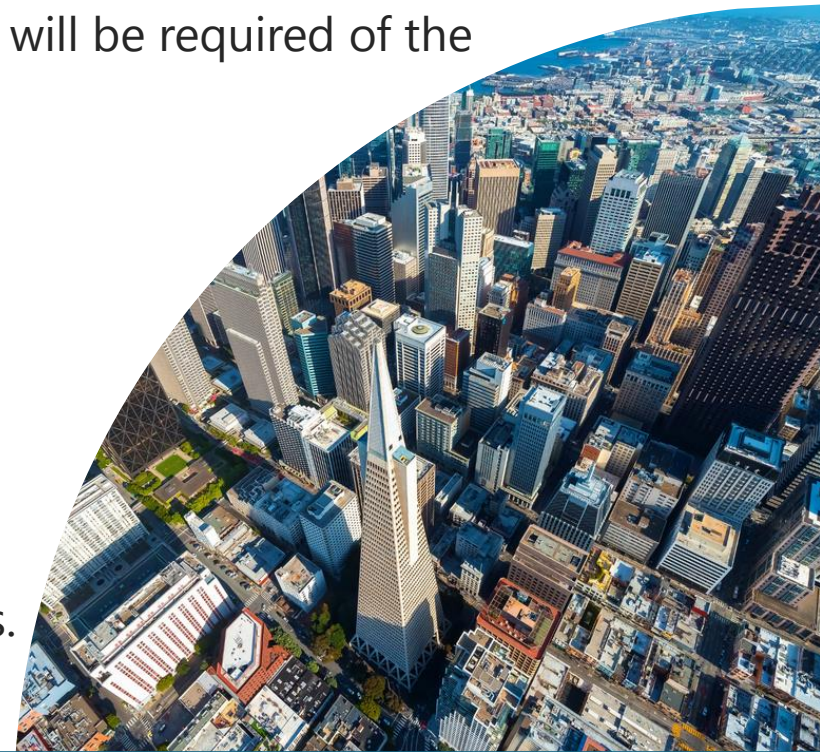
DRAFT POLICY: Policies and Procedures

Summary of proposed **required** components:

- Departments must maintain **written procedures** aligned to City policy that prioritize consistency.
 - These should include the department's approach to corrective action
 - These should establish guidelines to evaluate if a contractor has met a monitoring standard
- Across all components, departments should clearly communicate what will be required of the contractor during **contract negotiation**.

Summary of proposed **recommended** components:

- Departments should generally help nonprofits meet requirements outlined in their policies. This may include:
 - Providing **examples** or **templates**
 - Providing access to **technical assistance** or other supports
- Departments should plan for how to manage their own staff transitions.



DRAFT POLICY: Applicability

- This policy applies to all departments that contract with nonprofits to deliver **services to the public**.
- This policy applies to all nonprofit contracts valued at **\$200,000** per year or greater.
- Departments may develop their own criteria to determine when to apply this policy and standards to contracts of less than \$200,000 if appropriate.
- There are certain **exceptions**, such as excluding short-term, deliverable-based projects from monitoring requirements.



DRAFT POLICY: Implementation Timeline

Contract Monitoring

- Policy asks departments to establish or update **internal policies/protocols** by **March 31, 2025**
- Policy asks departments to incorporate required **policy elements into contracts** executed or amended **after March 31, 2025**
 - Departments will *not* be required to update or amend contracts solely to include these policy elements





Share Your Feedback

Scan the QR code or visit the link below to share your feedback on the Contract Monitoring Policy by September 29.

Feedback Form: Contract
Monitoring Policy



<https://forms.office.com/g/pPe9vesqt4>

2. Citywide Nonprofit Corrective Action Policy

Policy Overview

DRAFT POLICY: Corrective Action Background

- Why Citywide Corrective Action?
 - The policy helps identify nonprofit contractors that are not meeting City standards for service delivery or financial management.
 - The policy ensures the City provides appropriate support, technical assistance, and oversight to address these issues.
- Background
 - The Controller's Office has administered a **Citywide Nonprofit Corrective Action Policy since 2014**
 - Per [recent legislation](#), the Controller's Office has been working to **update the policy** to clarify the process used to apply corrective action and the criteria used to designate an organization for both financial and programmatic issues.



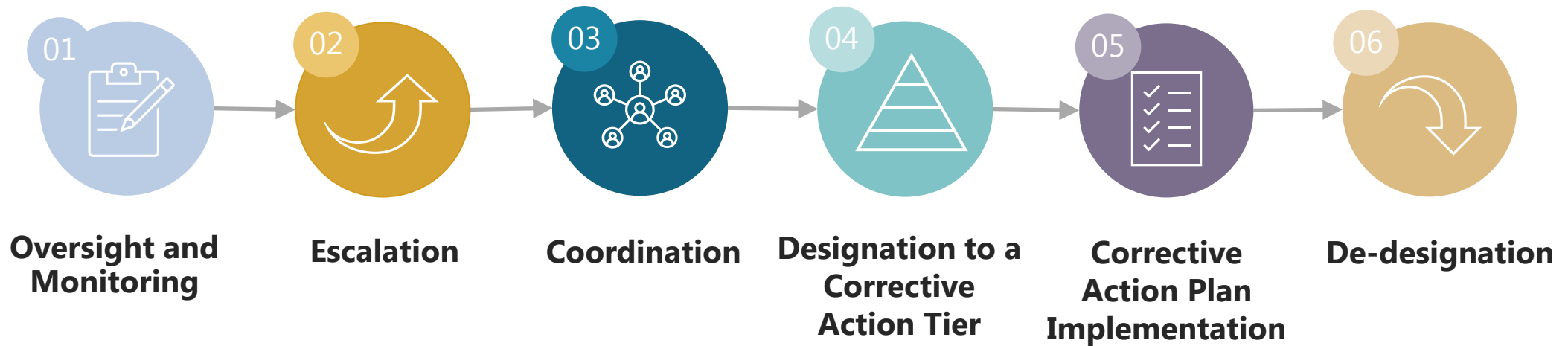
DRAFT POLICY: Key Assumptions in Policy-Setting

- Most nonprofits deliver high-quality services in alignment with contracted expectations.
- The most frequent uses of the Citywide Corrective Action Policy will most likely continue to be for financial and administrative concerns.
- Most programmatic concerns are best addressed through ongoing collaboration between departments and nonprofits (addressed in Contract Monitoring Policy)
- Not every nonprofit that is escalated to the Controller's Office will receive a designation to a corrective action tier.
- Some programmatic concerns may only occur within a single department, contract, or program (as opposed to being widespread across multiple programs). However, if issues are sufficiently serious, a nonprofit may still be designated to a Citywide corrective action tier for program-specific concerns.

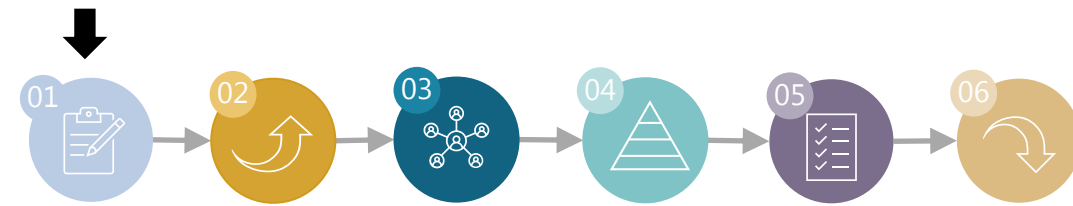


DRAFT POLICY: Corrective Action Process and Workflow

Six step collaborative process to identify and resolve financial, administrative, and programmatic issues



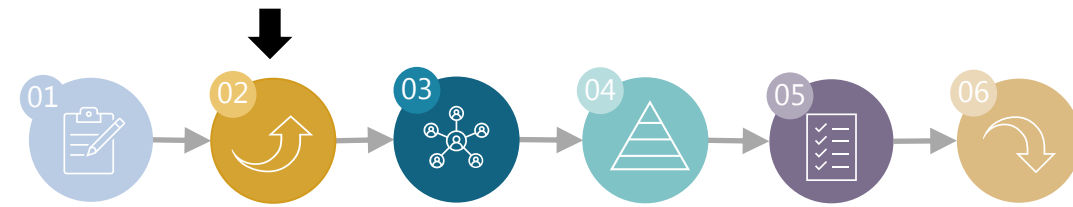
DRAFT POLICY: Oversight and Monitoring



- Departments are expected to conduct regular oversight and monitoring to ensure contracted services meet expectations and nonprofit contractors adhere to the City’s financial management standards.
 - Fiscal Oversight
 - The Controller’s Office administers the **Fiscal Monitoring Program** to coordinate monitoring across departments with the largest number of nonprofit contracts
 - Programmatic Oversight
 - The new **Contract Monitoring Policy** establishes guidance for departments in monitoring the performance of contracts with nonprofits



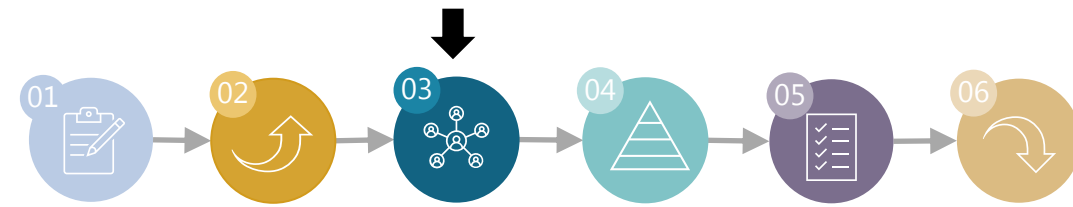
DRAFT POLICY: Escalation



- Departments should **escalate serious issues** to the Controller’s Office for Citywide coordination if they **can’t be resolved through internal corrective action**.
- **Fiscal Concerns**
 - The policy indicates certain standards departments assess through fiscal monitoring that can indicate a need to escalate the nonprofit when they are not resolved for one or more years.
- **Programmatic Concerns**
 - Programmatic issues vary widely by department and service area.
 - Departments should escalate if all the following are true:
 - Programmatic issue is serious
 - Department engaged with the nonprofit and allowed reasonable time to address the issue
 - Nonprofit hasn’t made adequate progress on resolving the issue
 - In rare cases, departments should escalate severe programmatic issues immediately for Citywide coordination

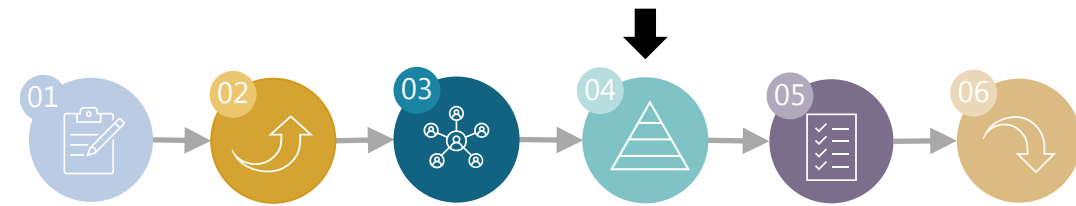


DRAFT POLICY: Coordination



- Once a department escalates a nonprofit for fiscal or programmatic concerns, the Controller’s Office convenes all departments who fund the nonprofit and gathers detailed information on financial and programmatic performance.
 - The Controller’s Office conducts a comprehensive review of any financial and programmatic issues across all contracts.
- The **goal is to determine what level of support or intervention is needed**, including potential designation to a corrective action tier.

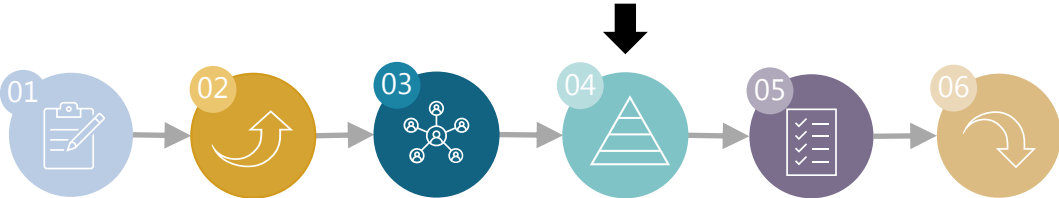
DRAFT POLICY: Designation to a Corrective Action Tier



- After coordinating with funding departments and a comprehensive review of fiscal and performance information, the Controller’s Office will determine whether to designate the nonprofit to a corrective action tier.
 - If severity of fiscal and programmatic findings differ, the designation will reflect the more severe concerns.
- Designation **initiates a Citywide corrective action planning process** with the nonprofit.

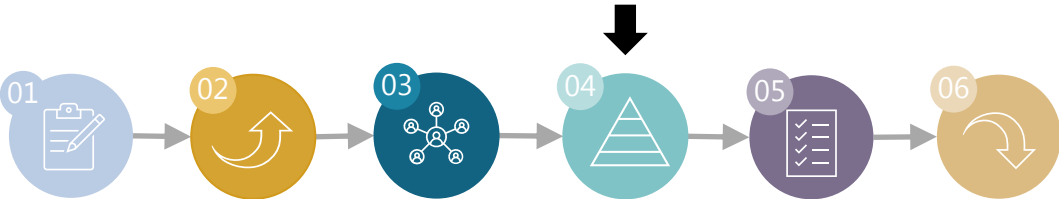


DRAFT POLICY: Corrective Action Tiers



Corrective Action Tier	Description of Findings or Concerns	Action Planning and Technical Assistance	Implications
Tier 1	<ul style="list-style-type: none"> • Lower-severity financial issues that may be indicators of future risk • Serious financial or programmatic issues may be downgraded from Tier 2 if nonprofit meets Tier 1 eligibility criteria 	<ul style="list-style-type: none"> • Participation in action planning and technical assistance is encouraged but voluntary 	
Tier 2	<ul style="list-style-type: none"> • Serious financial or programmatic issues, which have generally persisted over time (e.g., multiple years) despite department intervention 	<ul style="list-style-type: none"> • Participation in action planning and technical assistance is required 	<ul style="list-style-type: none"> • Status publicly reported
Tier 3	<ul style="list-style-type: none"> • Severe financial or programmatic issues such as non-payment of taxes or inability to perform core contracted services • May result from a worsening of Tier 2 issues over time • Expected to be rare 	<ul style="list-style-type: none"> • Participation in action planning and technical assistance is required 	<ul style="list-style-type: none"> • Status publicly reported • Status may impact funding

DRAFT POLICY: Tier 1 Eligibility Criteria

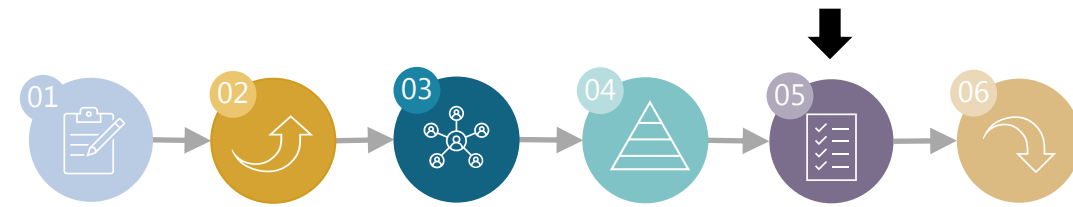


- Tier 1 supports City and nonprofit coordination around initial indicators of financial issues, or a mitigation of more serious financial or programmatic issues if Tier 1 criteria are met.
- Mitigation supports **new and emerging nonprofits** who may require more time and assistance to comply with City funding requirements.
- Also supports **established nonprofits** whose performance has been **impacted by extenuating factors**.

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- Nonprofits with findings related to client safety are not eligible for Tier 1 status.

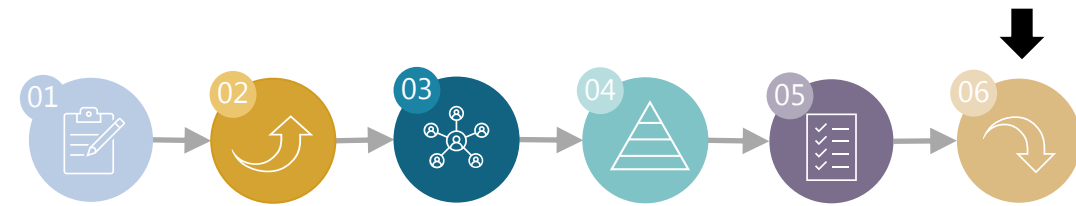
DRAFT POLICY: Corrective Action Plan Implementation



- The Controller’s Office will facilitate a collaborative action planning process between the nonprofit contractor and funding departments.
- Corrective action plans include:
 - List of findings and areas of concern
 - Strategies, activities and/or tasks to address each finding
 - Milestone or result sought for each finding
 - Timeline for achieving the milestones or results
 - Supports associated with each strategy or task, including consultant technical assistance, departmental engagement, or nonprofit-led supports
 - Timeline for check-ins and monitoring throughout implementation of the action plan



DRAFT POLICY: De-designation



- Designation to a Corrective Action Tier is meant to be temporary and only last until the nonprofit has resolved the issues which led to designation.
- At the end of the timeframe established in the plan, the Controller’s Office will re-evaluate performance.
- **Satisfactory resolution of all findings will lead to a de-designation.**
- Though de-designation is the goal, the Controller may also take the following actions:
 - **Lowered designation:** re-designate at a lower corrective action tier
 - **Extended timeline:** extend timeline at current corrective action tier
 - **Heightened designation:** raise to a higher corrective action tier
- Should issues persist or worsen, the City may implement additional measures as appropriate (e.g., identification of alternative service providers, de-funding, debarment, etc.)





Share Your Feedback

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Feedback Form: Citywide
Nonprofit Corrective Action Policy



<https://forms.office.com/g/7igmi0nfmk>

3. Policy on CPA Audit Requirements for Nonprofits

Policy Overview



New CPA Audit Requirement

The new legislation states that nonprofit organizations that receive threshold funding from the City in a fiscal year must submit to the City audited financial statements (or “CPA audit”) for that fiscal year.

The legislation **directs the Controller’s Office to establish procedures and deadlines** for the submission of materials and distribution to relevant departments.

In developing these procedures and guidelines, the Controller’s Office will leverage the “**Annual Economic Statement**” as a key tool for defining submission procedures when audits are required.

Funding Threshold

- Nonprofits receiving **\$1 million** or more in City funding (“threshold funding”) from any source in a fiscal year must submit a CPA audit for that fiscal year.
 - Moving forward, the threshold funding amount will be tied to the **OMB’s Single Audit threshold**.
- Nonprofits that receive \$1 million or more in City funding, but do not receive \$2 million in gross revenues in that same year (i.e., are not subject to CA state requirements) are **exempt** from the requirement to prepare audited financial statements **except** where one or more City departments directly funds the full cost of preparing the audit.

	City funding: Less than \$1M per year	City funding: \$1M (or more) per year
Gross revenue: Less than \$2M per year	<u>No audit required</u>	<u>Audit required</u> when 1+ City department directly funds audit costs. - OR - <u>Exempt (no audit required)</u> when no City department directly funds audit costs.
Gross revenue: \$2M (or more) per year	<u>Audit required</u>	<u>Audit required</u>

Audited financial statements = “CPA audit”

Authority to Request Documents

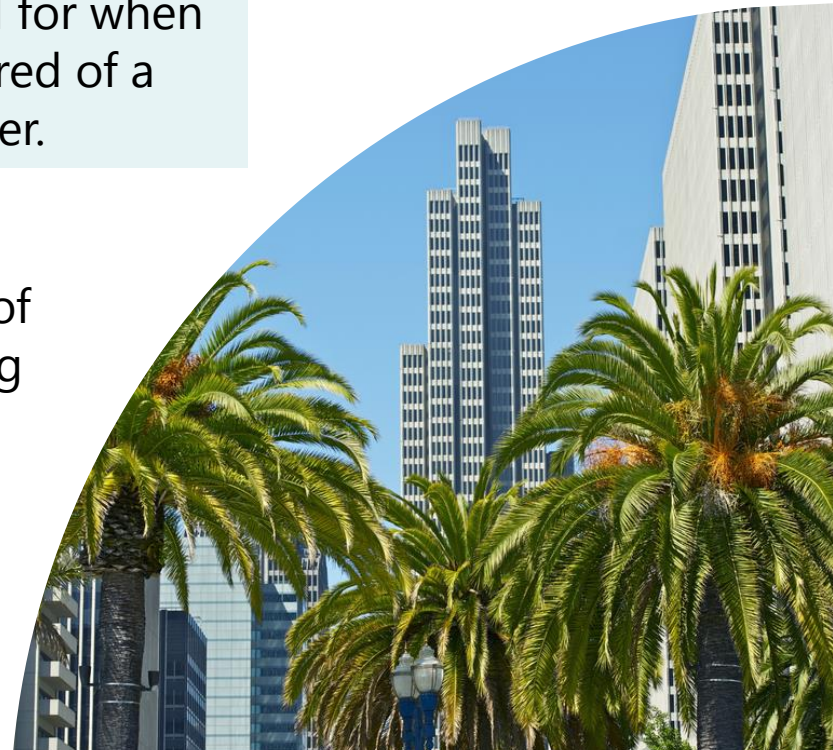
Nothing in this policy or the legislation restricts the authority of the Controller's Office to conduct financial and/or performance audits of City contractors in receipt of any amount of City funding.

Prior to March 2024, the City did not have a uniform policy regarding nonprofit audit requirements, and so City departments established variable policies and requirements.



This policy requires all departments to **align to this Citywide threshold** funding level for when an audit will be required of a nonprofit supplier.

City departments **may require** non-audited financial reviews, submission of unaudited financial statements, and/or alternate documents demonstrating sound financial controls for any nonprofit supplier, including for nonprofit suppliers receiving less than \$1 million from the City in a fiscal year.



Fiscal Year and Timeline for Submission

Threshold funding must be received **within a nonprofit's fiscal year**. This period may differ from the City's fiscal year.

Nonprofits must complete and submit the audit within **nine months** of the close of the nonprofit's fiscal year.

As a best practice, nonprofits should complete the CPA audit within **six months** of the close of their fiscal year. Timely auditing supports an organization to identify issues quickly and adjust practices prior to a subsequent audit.

Nonprofit's Fiscal Year	Audit Completion Due Date	
	Best Practice	Requirement
July 1 – June 30	December 31	March 31
January 1 – December 31	June 30	September 30
October 1 – September 30	March 31	June 30
Other Fiscal Period	6 months	9 months

Extensions may be allowed. The Controller's Office will issue separate procedures for how nonprofits should request and document extensions of up to 3 months.





Submission Requirements

In July 2023, the Board of Supervisors updated the **“Annual Economic Statement”** requirements (file [#230165](#)) to direct every nonprofit receiving at least \$100,000 in City funding to make publicly available an annual economic statement that includes a copy of the most recent CPA audit **when one is required by local**, state or federal law.

The contract monitoring legislation establishes a **new local requirement** for a CPA audit.

In August 2024, the City Administrator published procedures requiring that nonprofit organizations **post all documentation to their own websites** to comply with the Annual Economic Statement requirements.

<https://www.sf.gov/post-your-nonprofit-annual-economic-statement>

Departments should not separately request submission of CPA audits from a nonprofit without first checking the nonprofit’s publicly-posted Annual Economic Statement for these documents.

Applicability and Oversight

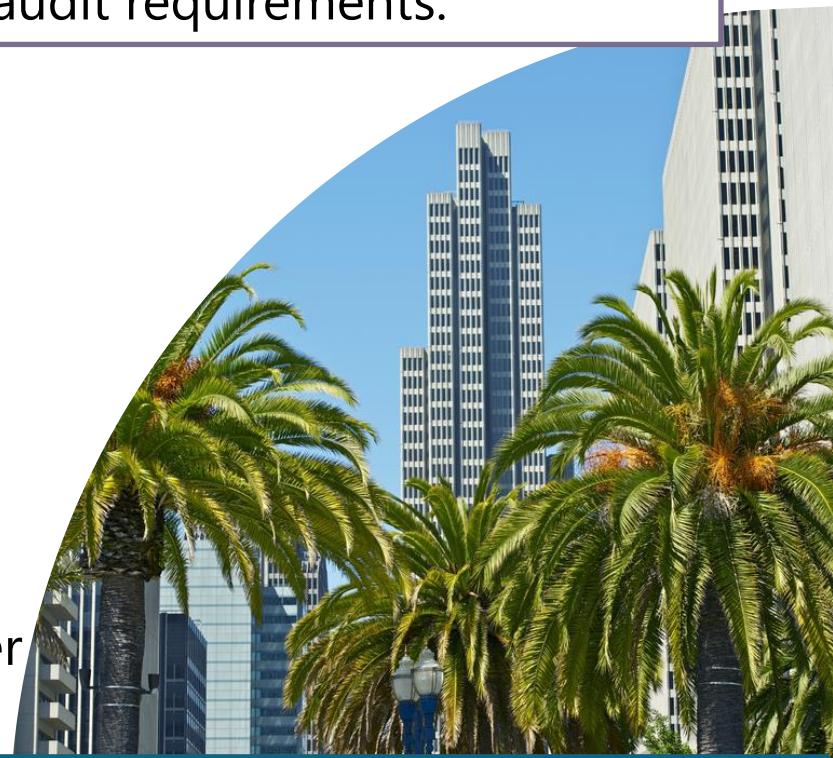
The requirements of this policy apply to nonprofits receiving funding from **any revenue source** and via **any agreement type** including but not limited to contracts, grant agreements or purchase orders.

This policy applies to the direct recipient of City funding, i.e., the “**prime contractor**.” Sub-recipients are not subject to the local audit requirement, though may be subject to state or federal audit requirements.

City departments are responsible for performing **annual fiscal monitoring** of nonprofit contractors, and this monitoring includes review of audited financial statements when applicable.

Nonprofits that fail to complete and post required documents, including a CPA audit, may be subject to the **Citywide Nonprofit Corrective Action Policy**.

The Controller’s Office will moderate any disputes regarding whether an audit is required.



Resources

At the request of many nonprofits, the Controller's Office is developing a publicly available **directory of accounting firms interested in conducting financial audits for nonprofits**, including those willing and able to take on small nonprofit auditing jobs.

We heard from nonprofits that they struggle to find auditors with experience, capacity or willingness to take on their audits timely.

To develop a list of CPAs, we are surveying firms to identify (1) interest in taking on nonprofit auditing jobs and (2) expertise and qualifications in conducting audits for nonprofit organizations.

Results will be posted and maintained on our website to support nonprofits in finding firms that meet their needs.





Share Your Feedback

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Feedback Form: Policy on CPA
Audit Requirements for Nonprofits



<https://forms.office.com/g/qYJiLvfUzR>

Next Steps

**Feedback,
Publication, and
Implementation**

Review and Publication Timeline

Next steps for publication and implementation



**Note: implementation will include department development of own processes and procedures and Controller's Office updates to program to oversee department monitoring practices.*

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