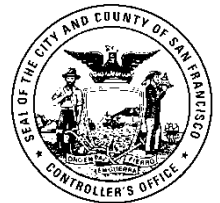City and County of San Francisco

Office of the Controller – City Services Auditor

CITYWIDE NONPROFIT MONITORING AND CAPACITY BUILDING PROGRAM

Fiscal Year 2015-2016 Annual Report

November 15, 2016

Acknowledgements

CONTROLLER'S OFFICE
CITY SERVICES AUDITOR

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

EXECUTIVE SUMMARY

Each year, the City and County of San Francisco (City) contracts with hundreds of nonprofit organizations to provide critical services throughout the City, such as health, housing, job training, family support and more. The Citywide Nonprofit Monitoring and Capacity Building Program (Monitoring Program) consolidates contract monitoring requirements related to fiscal and organizational health for nonprofit contractors that receive funding from multiple City departments. This streamlined approach saves both City taxpayers and nonprofits time and money. The Monitoring Program specifically assesses three broad areas of organizational health: fiscal (e.g., financial reports, audits, fiscal policies and procedures, agency-wide budget and cost allocation procedures); compliance (e.g., personnel policies, emergency operations plans, Americans with Disability Act policies, and Sunshine laws); and governance (e.g., board giving, board oversight, and board policies). The Monitoring Program also identifies nonprofit contractors in need of technical assistance or coaching, and provides consulting services at the City's expense to help those organizations improve their fiscal health and comply with City standards.

In Fiscal Year 2015-2016 (FY16), the Monitoring Program included 136 nonprofit providers with an aggregate of over $460 million in City funding from nine departments. This Annual Report documents the FY16 monitoring results and provides an overview of major program activities, including technical assistance provided, new initiatives carried out, and application of the Corrective Action Policy.

Monitoring Results Summary
- A total of 136 contractors participated in the monitoring pool in FY16, an increase of nine contractors since last year. This analysis includes monitoring results for 125 contractors (due to good performance waivers or monitoring delays, several contractors were excluded from the results).
- The FY16 initial monitoring (i.e., prior to the contractor's opportunity to respond) resulted in 65 contractors (52%) in conformance with all standards, with the remaining 60 contractors (48%) having one or more findings.
- By the close of the monitoring cycle, 89 contractors (71%) were in full conformance with monitoring standards, leaving 36 (29%) not yet in conformance with one or more standards. Of these, 19 corrected one or more findings, and 17 did not address any of their findings within the monitoring cycle.
- There has been a sustained decrease in monitoring findings over the past five years as monitored contractors have come in line with City standards.
- The categories of standards with the most findings in FY16 were *Audited Financial Statements* (42 findings), *Financial Reports* (37 findings), and *Emergency Operations Plans* (29 findings).
- Sixteen contractors had five or more uncorrected findings at the close of the monitoring cycle, five of them on this list for a second year.
- Ten contractors had one or more unresolved findings repeated from last fiscal year.
- The Monitoring Program assigned five contractors to elevated concern status based on the results of FY16 monitoring, per the Corrective Action Policy.
- Fourteen contractors received or were referred to technical assistance consulting services during FY16 to help bring them in line with City standards, including six contractors with repeated findings and the five contractors designated with elevated concern status.

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I. CITYWIDE NONPROFIT MONITORING AND CAPACITY BUILDING PROGRAM OVERVIEW

The Controller's Office coordinates the Monitoring Program for nonprofit organizations receiving multiple City contracts. The nine City departments participating in the Monitoring Program jointly conduct annual fiscal and compliance monitoring so that it is done efficiently and uses consistent standards and methods. In FY16, the Monitoring Program included 136 nonprofit providers with an aggregate of over $460 million in City funding from participating departments.[1]

The standards that must be met by nonprofits contracting with the City and the documentation and steps that the City uses to test compliance with these standards are available on the Controller's website at http://sfcontroller.org/nonprofits. Every year, the Controller's Office trains both nonprofit contractors and City staff on how to meet the standards and generally improve financial and administrative management.

FY16 City Departments Participating in the Monitoring Program	
ARTS	Arts Commission
First 5	Children and Families Commission – First 5
DCYF	Department of Children, Youth and Their Families
DOSW	Department on the Status of Women
DPH	Department of Public Health
HSA	Human Services Agency
MOHCD	Mayor's Office of Housing and Community Development
OEWD	Office of Economic and Workforce Development
SHF	Sheriff's Department

The Monitoring Program identifies nonprofits in need of technical assistance or coaching, and provides consulting services at the City's expense to help those organizations improve their fiscal health and comply with City standards. The Controller's Office coordinates a "Spring Nonprofit Training Series" annually, focusing on issues related to nonprofit financial management and governance. In addition, the Controller's Office provides City monitors with trainings, peer learning opportunities, and forums for feedback and program input through a series of topical trainings and "All-Monitor Meetings." See Section 3 for details.

The Monitoring Program conducts an annual assessment of contractors' ability to meet specific fiscal and compliance standards that act as indicators of organizational health. City monitors conduct the assessment between October and March through a site visit or a desk review (called a "self-assessment"). When a contractor does not meet a standard, this is considered a "finding." City monitors document all findings in a Monitoring Report Letter, deliver direction on how to meet the standard, and provide the opportunity to do so within the monitoring cycle.[2]

At the end of the monitoring cycle, City monitors record the final outcome for each contractor in a Final Status Letter that describes the findings that have been corrected by the contractor and are now "in conformance" with City standards, as well as findings that must still be addressed by the nonprofit contractor, and thus "not yet in conformance." Per the Monitoring Program's Corrective Action Policy,[3] contractors that do not adequately address findings from year to year may be labeled "unresponsive," which can lead to placement on elevated concern or red flag status.

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[1] See Program Results Dataset, Tab 2 for a full list of the nonprofits monitored under the Monitoring Program and the City departments who fund them: http://openbook.sfgov.org/webreports/details3.aspx?id=2382

[2] The Monitoring Program also tracks governance activities and other elements as indicators of organizational health; however, these are considered "best practices" and are not considered "findings" if they are not met.

[3] See Section IV below, and see Appendix G for the full policy.

Changes to the Monitoring Standards in FY16

To prepare for the FY16 monitoring cycle, City departments conducted an annual process to review and improve upon the Standard Monitoring Form.[4] In the prior year, the City added several pilot and best practice standards, testing new key indicators of organizational health. For FY16, City departments kept most of these new standards in their pilot or best practice stage, but did establish some new official standards and re-organized existing standards.

- **Fiscal Policies and Procedures:** City departments have made adjustments to this category in recent years in an attempt to shift the focus from simply having a policies and procedures document to testing that it is being implemented consistently by the agency. A strong system of internal controls is one of the most important elements of good financial management, but the specific controls may vary based on the structure and needs of an agency. Rather than testing that a contractor uses specific controls, the Monitoring Program has changed the standards to test that the contractor has established reasonable policies and actively and consistently follows them.

- **Board Oversight:** The City departments changed the category title from "Board Minutes" to "Board Oversight" to reflect the rationale and purpose for reviewing board minutes, which is to assess the strength of governance in both fiscal and compliance areas. Within the category, City departments added or clarified several standards to better assess board oversight practices using the board minutes as source documentation.

- **Public Access:** The Monitoring Program consolidated several standards related to compliance with the Sunshine Ordinance (e.g., posting board meeting notices, hosting public board meetings, ensuring client representation on the board) into a single category of "Public Access." The standards themselves did not change.

- **Frequency of Review:** Beginning in FY15, City departments identified certain standards that only require monitoring at site visits (not through self-assessments). For FY16, the Monitoring Program has expanded the number of standards that will only be monitored during site visits. Additionally, certain standards require that the contractor develop various types of policies and procedures (e.g., an Americans with Disabilities Act policy). Once complete and verified by monitors, these standards will not need to be monitored again unless the City's monitoring team requests it, or there are major changes to the organizational structure of the nonprofit, which would trigger a review of all its policies and procedures.

A summary of specific changes to the Standard Monitoring Form for FY16 can be found in Appendix C.

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[4] FY16 Standard Monitoring Form: http://sfcontroller.org/sites/default/files/FileCenter/Documents/6759-CCSF%20Standard%20Monitoring%20Form%20FY15-16.pdf

II.   FY16 MONITORING RESULTS

FY16 Monitoring Pool
A total of 136 contractors participated in the monitoring pool in FY16, an increase of nine contractors since last year. Departments granted three contractors[5] a waiver from monitoring this year due to strong performance, in accordance with the Monitoring Program's waiver policy. The analysis below excludes an additional eight contractors due to scheduling delays or incomplete documentation by City monitors.[6] As a result, this analysis includes monitoring outcomes for 125 contractors.

The FY16 dataset (available online[7]) includes a list of the contractors in the FY16 monitoring pool and their monitoring results, including any initial findings and the final status for each contractor.

Trends in Initial Findings
The FY16 initial monitoring (i.e., prior to the contractor's opportunity to respond) resulted in 65 contractors (52%) in conformance with all standards, with the remaining 60 contractors (48%) having one or more findings.[8]

The percentage of contractors with no initial findings has held steady since last year after an increase from previous monitoring cycles (see Figure 1). Similarly, the trend of actual findings at the initial monitoring as a percentage of total possible findings continues on a downward trajectory from 3.7% in FY14 to 3.1% in FY16, as shown in Figure 2.

**Figure 1:
% of Contractors with No Initial Findings**

**Figure 2:
Actual Findings as % of Total Possible Findings**
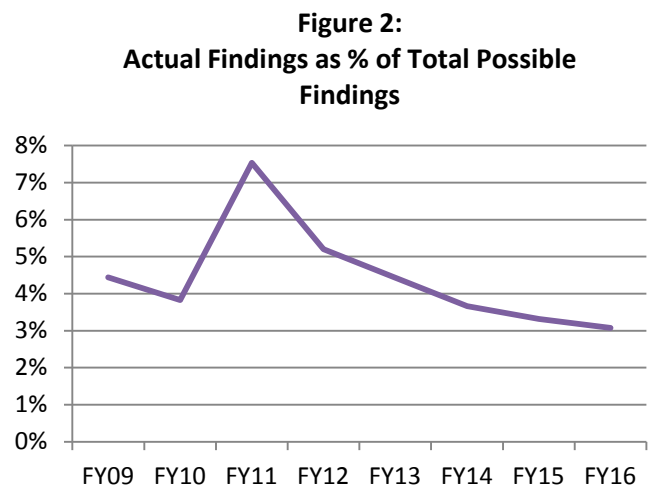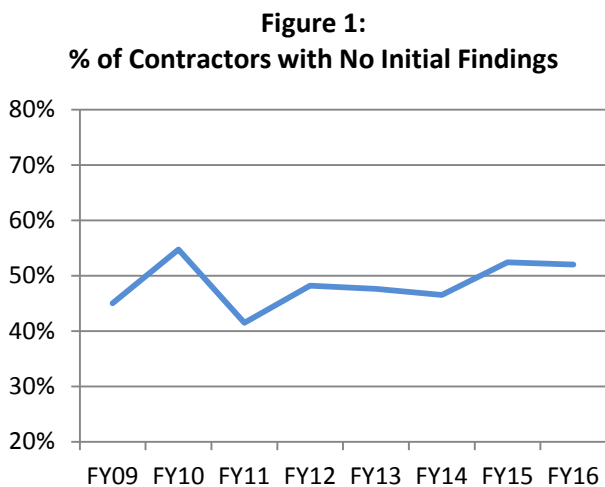
The trend may be a result of the Monitoring Program's training and technical assistance for nonprofits, with the goal of increasing clarity and guidance with monitoring requirements and skills-building for fiscal and organizational capacity.

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[5] Mission Economic Development Agency; Positive Resource Center; and Richmond Area Multi-Services, Inc.
[6] Bayview Hunters Point Foundation for Community Improvement, Filipino American Development Foundation, Independent Living Resource Center of San Francisco, Legal Services for Children, Renaissance Entrepreneurship Center, San Francisco Housing Development Corporation, Veterans Equity Center, and West Bay Pilipino Multi Services Corporation
[7] http://openbook.sfgov.org/webreports/details3.aspx?id=2382
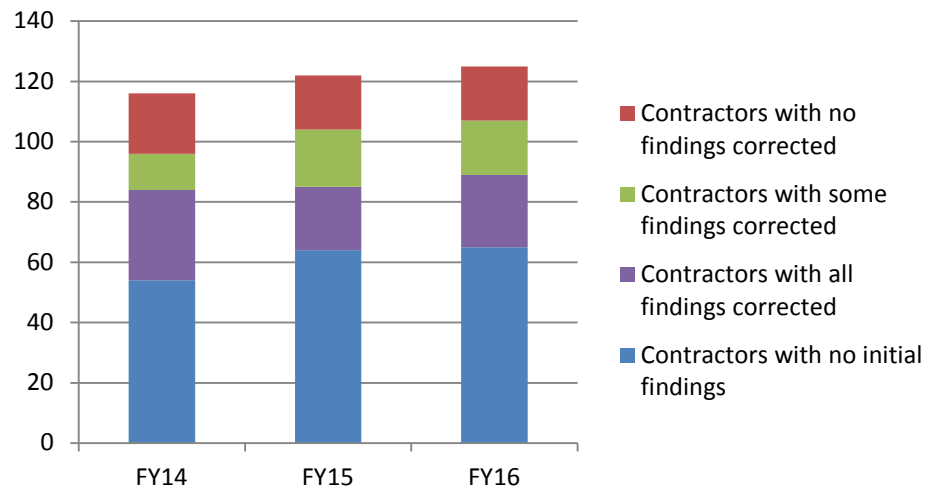[8] This analysis excludes best practice and pilot findings.

Trends in Final Status of Findings

Beginning in FY14, the Monitoring Program began tracking which standards contractors corrected by the end of the monitoring cycle. In FY16, 24 of the 60 contractors with initial findings (40%) corrected one or more findings to come into full conformance with the monitoring standards. An additional 19 contractors corrected some of but not all of their findings, while the remaining 17 contractors did not correct any findings during the monitoring cycle.

Though the number of contractors in the Monitoring Program has increased over the years, the percentage of contractors able to end the monitoring cycle in conformance with all standards has stayed consistent at 72% FY14 and 71% in FY16, as shown in Figure 3.

Figure 3:
Contractors with Initial and Corrected Findings, FY14-16

- Contractors with no findings corrected
- Contractors with some findings corrected
- Contractors with all findings corrected
- Contractors with no initial findings

See Appendix A for a list of contractors with no findings at the end of the monitoring cycle, including contractors that corrected initial findings completely. Of the 89 contractors on this list, 58 (65%) also had no findings at the close of FY15.

Final Status of Findings by Standard Type: Fiscal or Compliance

Standards fall into two categories: fiscal and compliance. Fiscal standards relate to budgets, cost allocation plans, financial statements, and invoice procedures, etc., and represent 49 (69%) of the 71 monitored standards. Compliance standards relate to public access to records, personnel policies, emergency operations plans, etc., and account for 22 (31%) of the monitored standards. In FY16, findings were proportionally split between the two categories, with fiscal standards accounting for 69% of all findings at initial monitoring and compliance standards accounting for 31% of all findings.

Figure 4:
Finding Outcomes by Category, FY15-16

- In Conformance
- Not Yet in Conformance
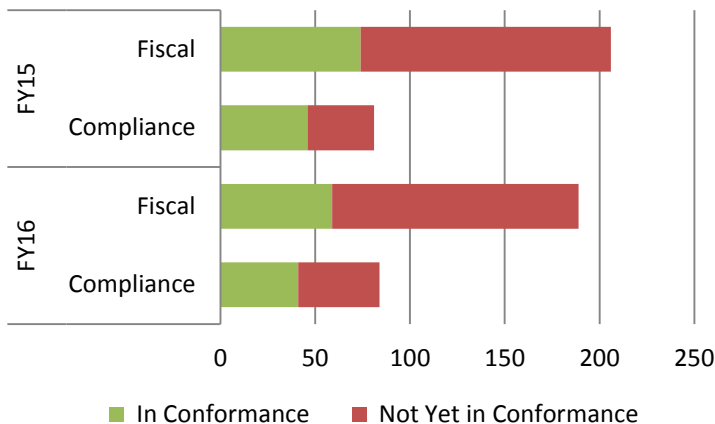
Contractors were much more likely to correct compliance findings during the monitoring cycle than to correct fiscal findings. While contractors came into conformance with 49% of compliance findings, they were in conformance with just 31% of fiscal findings by the close of the monitoring cycle (see Figure 4).

Only three (14%) of the 22 compliance standards are required to be monitored annually, and 12 (55%) are only required during site visits, which about half of contractors in the pool receive each year. Additionally, compliance standards often

require less complex remedies to address noncompliance. These factors may account for there being fewer compliance findings, and a higher percentage of corrected findings in the compliance category.

In FY15, contractors were able to come into conformance with a slightly higher percentage of both fiscal and compliance standards than in FY16. Last year, contractors corrected 57% of compliance findings during the monitoring cycle, while in FY16, contractors corrected just 49%. Similarly, contractors corrected 36% of fiscal findings during FY15 and 31% in FY16. This is counter-balanced with a reduced number of initial findings in FY16, 273 compared to 287 in FY15, with most of this reduction in fiscal findings.

Final Status of Findings by Standard Category

Figure 5 shows the total number of findings within each of the 16 fiscal and compliance categories that make up the monitoring standards.[9] The chart shows the overall number of findings in each category that were corrected within the monitoring year ("in conformance") or not corrected ("not yet in conformance").[10] Overall, contractors had the most findings in the areas of *Audited Financial Statements* (42), *Financial Reports* (37), and *Emergency Operations Plans* (29).

Figure 5:
Final Status by Standard Category
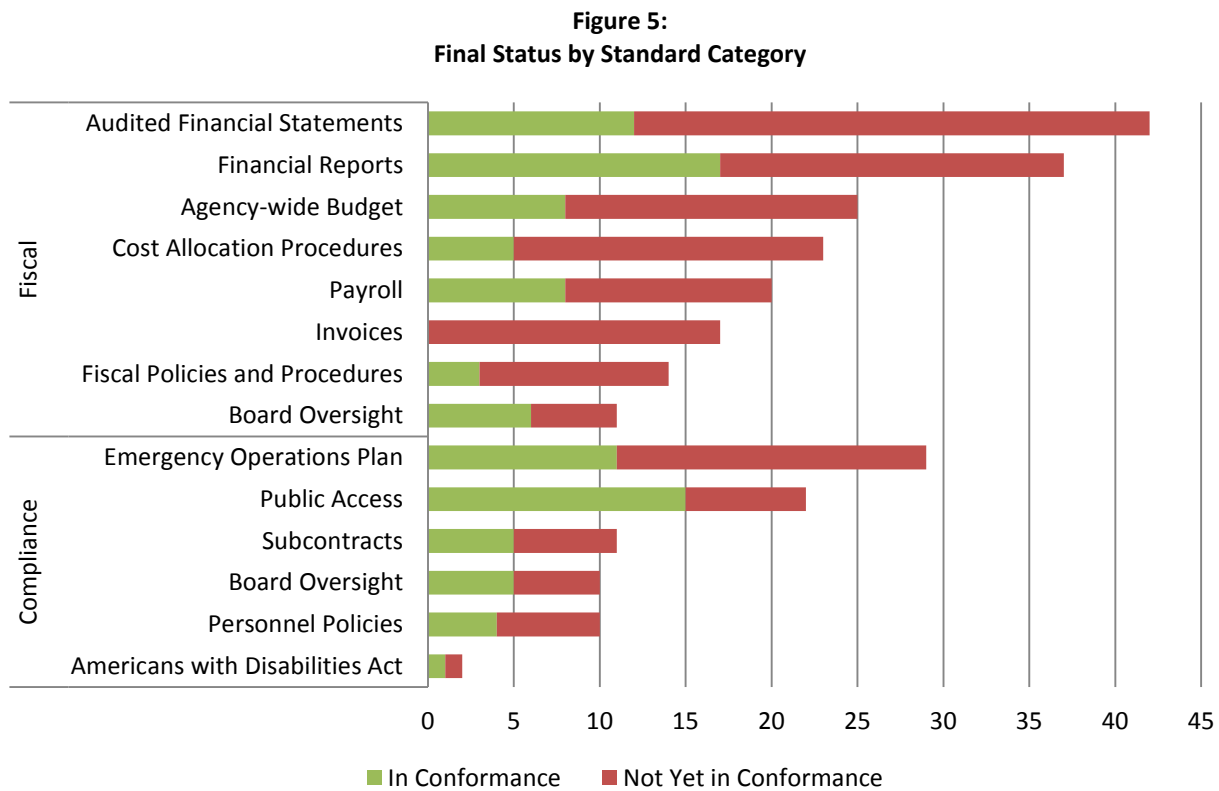
The number of findings in the *Audited Financial Statements* category represents a significant change from FY15. Last year, contractors had 24 findings in this category, while in FY16, contractors had 42 findings. The

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[9] There were no findings in three categories: Tax Forms, Licenses and Data Universal Numbering System (DUNS). The Board Oversight category includes both fiscal and compliance standards and appears twice in Figure 6.

[10] When contractors respond to findings by submitting a plan to address the issue, e.g., a plan to revise fiscal policies during the coming year, the City monitors may approve the plan and close the monitoring cycle. However, the contractor is "not yet in conformance" until that plan has been fully implemented and City monitors verify the change has been made, usually during the next monitoring cycle.

primary driver of this 75% increase is a new standard requiring the contractor's audit be completed within six months of the close of the contractor's fiscal year: 22 contractors had a finding for this item, or 18% of monitored contractors. This standard had been piloted in FY15, and as a pilot measure, contractors were not required to carry out corrective action. In FY15, 35 contractors (29%) did not meet the pilot standard; thus FY16 shows an improvement in timely audits within the Monitoring Program pool.[11]

There have been other changes in the types of findings contractors receive between FY15 and FY16, as shown in Figure 6. Despite the increase in findings in *Audited Financial Statements*, there was a 56% decrease in findings in the *Fiscal Policies and Procedures* category, likely due to the changes in the standards referred to in Section I, and a 28% decrease in findings in both the *Agency-wide Budget* and *Cost Allocation Procedures* categories.[12]

Figure 6:
Top Fiscal Finding Categories, FY15-16
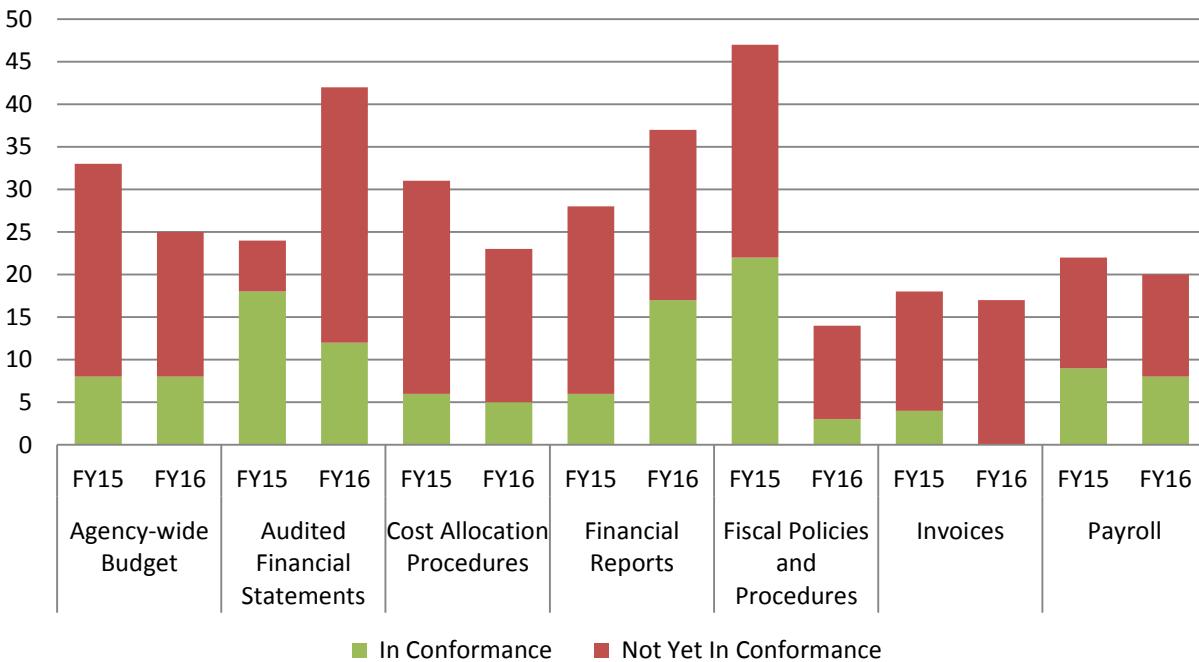
Initial and Final Status of Standards
The following figures report the fiscal and compliance standards with the highest number of findings, organized by the number of findings not yet in conformance at the close of the monitoring cycle. Results for fiscal findings show a large breadth, covering seven fiscal categories. As discussed above, the new standard requiring contractors to complete an audit within six months of the close of their fiscal year had the highest number of initial findings, as well as the highest number of contractors remaining out of compliance with the standard. Nine monitored contractors (7%) had negative net income in their most recent financial statements,

[11] Audits are important tools to ensure sound financial management practices, and delaying an audit could result in longer periods during which practices needing corrective action remain in place. However, many nonprofits cite the cost of the audit as a limiting factor. Certified Public Accountants charge more during busy periods, and nonprofits can save money by delaying the review.

[12] The Monitoring Program reorganized several compliance findings in FY16, making comparisons with FY15 categories impractical. Emergency Operations Plans was the Compliance category with the most findings in FY15 as well, with 23 initial findings, compared to 29 initial findings in FY16.

and eight (6%) could not show that they were accurately applying their cost allocation plan within their financial documents.

Figure 7: Top Fiscal Findings

Category	Standard	Contractors Not Yet In Conformance	Contractors Now In Conformance	Total Initial Findings
Audited Financial Statements	Audit completed within six months of the close of the contractor's fiscal year	14	8	22
Financial Reports	Profit and Loss Statement: Year-to-date net income is positive (or reasonable explanation)	9	5	14
Cost Allocation Procedures	Procedures for cost allocation match actual cost allocation practices found in the agency-wide budget and financial documents	8	2	10
Invoices	Expenses tested on invoices have supporting documentation	7	0	7
Fiscal Policies and Procedures	Complete (contains internal controls, financial reporting, accounts payable and receivable, payroll and procurement)	7	1	8
Agency-wide Budget	Shows fundraising separate from program expense	5	3	8
Payroll	Timesheets: If employee time is paid by more than one source, it is recorded by funding source or program on timesheets	5	5	10
Financial Reports	Balance Sheet: Working capital ratio is greater than 1	4	3	7

Initial compliance findings were spread across four categories, but were concentrated within the *Emergency Operations Plan* category. The most common unresolved finding was within the standard requiring contractors to show evidence that at least one fire drill and one earthquake drill was conducted in the last year. The Board Oversight standard requiring contractors' boards of directors to conduct annual performance reviews of the executive director had previously been a best practice and was made a standard for the first time in FY16. Five contractors (4%) did not meet the standard. In FY15, when this was a "best practice," seven contractors did not meet the standard.

Figure 8: Top Compliance Findings

Category	Standard	Contractors Not Yet In Conformance	Contractors Now In Conformance	Total Initial Findings
Emergency Operations Plan	At least one fire drill and one earthquake drill have been conducted in last year	6	3	9
Board Oversight	Board conducts an Executive Director performance review annually	5	5	10
Personnel Policies	Documentation within the personnel file is complete	5	3	8
Emergency Operations Plan	Staff and volunteers were trained within the last year on the emergency plan	4	4	8
Emergency Operations Plan	Plan contains contingency planning, including an alternate site, if needed	4	4	8
Public Access	Contractor has a written Sunshine Ordinance policy regarding record inspection	3	4	7
Public Access	Two meetings are announced to the general public at least 30 days in advance	2	8	10

Governance Best Practices

In addition to the fiscal and compliance monitoring standards, the City assesses governance practices through a "Governance Review Checklist." Because these standards are considered best practices, they are not part of the findings analysis, nor are included in the determination of elevated concern or red flag status. Contractors are not required to come into conformance with these best practices, but are encouraged to adopt them over time as part of a strong organizational governance structure.

Seventeen contractors (14%) did not follow one or more governance best practices, a reduction from last year's count of 21 contractors (17%). A total of 41 findings spanned the various best practices outlined in Figure 9 below. This is similar to FY15, which saw 40 total governance findings. In FY14 just six contractors received a total of 17 findings. However, this increase may be a result of increased attention and training in recent years on the Governance Review Checklist, as well as an increased number of best practices under review.

Figure 9 shows trends in governance findings since FY14. There have been some changes in which best practices are monitored, and which are best practices versus standards (i.e., resulting in formal findings if not met). The most common unmet governance best practice in FY16 was new this year, and asks that board members review the IRS Form 990, which encourages board members to better understand the financial position of the organization.

Figure 9: Governance Best Practices Findings, FY14-16

Board of Directors Best Practices	Contractors Not Meeting the Standard		
	FY16	FY15	FY14
Board reviews IRS Form 990 (or is distributed)	12	n/a	n/a
Agency has a Board Manual	5	8	n/a
Participate in annual giving to agency	5	4	0
Board leadership positions filled	4	6	2
Conflict of interest policy exists	4	4	n/a
Assist with the raising of funds	3	3	8
Board is conducting active recruitment to fill vacancies	3	1	4
Achieve quorum at every meeting	3	5	4
Bylaws define term limits, quorum, committee structures, and voting/decision-making process	2	2	1

Fiscal Best Practice and Pilot Standards

The Monitoring Program added several new best practice and pilot standards to fiscal categories in FY15, and continued to test most of these standards in FY16. Because these standards are considered pilots or best practices, they are not part of the findings analysis, nor are they included in the determination of elevated concern or red flag status. Contractors were not required to come into conformance with these standards, but were encouraged to adopt them as part of a strong fiscal and organizational structure over time.

The Monitoring Program uses "pilot" standards to test a new standard before making it official, and to allow contractors time to learn about the standard and come into conformance. Based on the testing, the pilot standard may or may not become officially monitored. The Monitoring Program is unlikely to make fiscal best practices into formal standards, as they may not be feasible or relevant for all contractors. For example, a strong nonprofit may show a negative cash balance in their audit based on the timing of revenues or having made a large capital purchase recently. However, all of these pilot and best practice standards are key indicators of financial health and support the City monitors efforts to assess the capacity and sustainability of funded programs.

Figure 10:
Pilot and Best Practice Findings, FY15-16
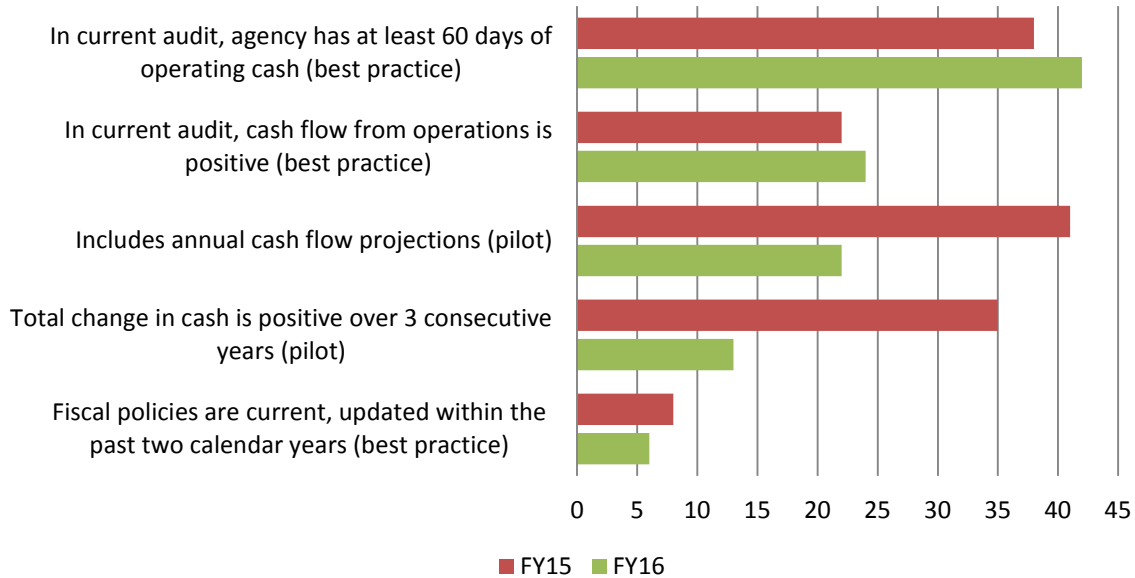
Sixty-four contractors did (51%) did not meet one or more of the fiscal best practice and pilot standards in FY16. This is an improvement over FY15, the first year of these new best practice and pilot standards when 70% of contractors did not meet one or more of the standards. There are two fewer pilot standards in FY16, which may account for some of the overall improvement, as well as improved understanding of the standards by both City monitors and contractors.

Contractors had a total of 107 findings within the fiscal best practice and pilot standards, as shown in Figure 10.[13] At the top of the list, 42 contractors (34%) did not have at least 60 days of operating cash, according to their most recent audit. Twenty-four contractors (19%) showed a negative cash flow in their most recent audit. While the data shows improvement in both of these best practices since last year, the large percentage of contractors unable to meet the standards is a key indicator of the financial challenges faced by the nonprofit sector.

Contractors with the Most Findings in FY16
A high number of findings or repeated findings can signal potential instability in the organizational and financial health of a nonprofit – and ultimately an organization's ability to provide effective and sustainable services to residents in need. Through the annual monitoring process, City monitors identify contractors struggling to meet the monitoring standards so they can receive support through one-on-one technical assistance, coaching and training to resolve findings.

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[13] In FY15, "Fiscal policies are current" was a formal standard, not a best practice. In FY16, the Monitoring Program added a new formal standard requiring contractors to update fiscal policies within a year of turnover in executive or financial leadership. The FY15 standard in Figure 10 became a best practice. The results in Figure 10 reflect the number of contractors with the finding not yet in conformance in FY15, and the number of contractors that did not meet the best practice in FY16.

Figure 11 lists the 16 contractors with five or more findings that were not brought into conformance by the end of the monitoring year.[14] In FY15, nine contractors were on this list, and five of them appear on it for the second year in a row, as indicated in the table. Seven of these contractors have already been referred for technical assistance ("TA" in Figure 11) and are actively receiving coaching and support for monitoring findings.

The most common findings for these contractors relate to financial documentation. Seven of the 16 contractors had negative year-to-date net income in their most recent financial statements. Seven also could not show that their cost allocation plan matched actual cost allocation practices in financial documents.

Figure 11: Contractors with the Most Findings in FY16

Contractor	Findings Not Yet in Conformance	Findings In Conformance	Total Initial Findings	On FY15 List?	TA?
African American Art and Culture Complex	22	6	28	Yes	Yes
Potrero Hill Neighborhood House	14	0	14	Yes	Yes
Mental Health Association of San Francisco	12	1	13	Yes	Yes
La Raza Centro Legal	10	0	10		
Community Works West, Inc.	9	1	10		Yes
Bernal Heights Neighborhood Center	8	0	8	Yes	Yes
Westside Community Services	7	0	7		
Mission Language and Vocational School	7	1	8	Yes	Yes
Collective Impact	7	10	17		Yes
Central American Resource Center	7	1	8		
Eviction Defense Collaborative, Inc.	7	0	7		
St. Vincent de Paul Society	6	0	6		
Charity Cultural Services Center	5	1	6		
United Playaz	5	6	11		
Glide Community Housing	5	4	9		
Arriba Juntos	5	0	5		

Contractors with Repeated Findings between FY15 and FY16

Figure 12 lists the ten contractors with one or more repeated findings between FY15 and FY16, listed in order of greatest to least number of repeated findings. Of these contractors, six have already been referred for technical assistance ("TA" in Figure 12) and are actively receiving coaching and support for monitoring findings. Consistent with the past, most of the repeated findings were in fiscal categories: *Cost Allocation Procedures*, *Invoices*, and *Financial Reports*.

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[14] As noted previously, findings have not been determined for the following contractors, thus they are not included in this analysis: Bayview Hunters Point Foundation for Community Improvement, Filipino American Development Foundation, Independent Living Resource Center of San Francisco, Legal Services for Children, Renaissance Entrepreneurship Center, San Francisco Housing Development Corporation, Veterans Equity Center, and West Bay Pilipino Multi Services Corporation.

Figure 12: Contractors with Repeated Findings between FY15 and FY16

Contractor	# of Repeat Findings	Standards Categories	TA?
Mental Health Association of San Francisco	8	Audited Financial Statements (1); Cost Allocation Procedures (1); Financial Reports (2); Invoices (3); Payroll (1)	Yes
Mission Language and Vocational School	5	Agency-wide Budget (2); Cost Allocation Procedures (3)	Yes
African American Art and Culture Complex	4	Agency-wide Budget (2); Cost Allocation Procedures (2)	Yes
Bernal Heights Neighborhood Center	4	Cost Allocation Procedures (2); Invoices (2)	Yes
Potrero Hill Neighborhood House	3	Audited Financial Statements (1); Financial Reports (2)	Yes
Brava For Women in the Arts	2	Public Access (2)	
Collective Impact	2	Invoices (2)	Yes
Institute on Aging	1	Financial Reports (1)	
Renaissance Parents of Success	1	Financial Reports (1)	
United Playaz	1	Agency-wide Budget (1)	

Though some financial standards are difficult to address within a year, repeated findings (i.e., not meeting a standard or correcting a finding two years in a row) are important indicators of noncompliance with monitoring standards. Per the City's Corrective Action Policy,[15] contractors that do not adequately address findings from year to year may be labeled "unresponsive," which can lead to placement on elevated concern or red flag status. See Appendix B to view the specific findings that were repeated. See Section IV below for a discussion of contractors that have been placed on elevated concern based on repeated findings.

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[15] See Appendix G for full policy.

III.   TECHNICAL ASSISTANCE, COACHING, AND TRAININGS

Technical Assistance

In an effort to help contractors correct their findings and improve their financial and administrative operations, the Controller's Office provides individualized coaching and technical assistance to City-funded nonprofit contractors. City monitors refer contractors to technical assistance when the fiscal and compliance monitoring process has uncovered areas of potential financial instability or incapacity, or cases in which the contractor's performance on an existing City contract is at risk. Though the nonprofit contractor does not have to be in the joint monitoring pool to qualify for the technical assistance, these contractors may be prioritized for service as a benefit of participation in the program.

In FY16, the Controller's Office contracted with three consultant firms to provide these activities: Fiscal Management Associates (FMA), Northern California Community Loan Fund and Social Policy Research Associates (SPRA). Technical assistance projects are typically small, discrete tasks that can be carried out in fewer than 30 hours of consultant time (though the nonprofit contractor may need to spend additional time implementing or spreading changes developed by the consultant). Larger projects are also possible, such as for an agency at risk of closing due to financial instability or large-scale strategic planning in periods of organizational transition, though these projects require more coordination and support by funding departments.

Technical assistance focuses on fiscal capacity building, though elements of governance and planning may also be addressed through technical assistance. The Controller's Office does not provide programmatic technical assistance to contractors through the Monitoring Program, though many departments provide this type of assistance themselves.

Based on FY15 monitoring, the following contractors received technical assistance during FY16:
1. Community Living Campaign – complete
2. Community Technology Network – complete
3. Mental Health Associates of San Francisco – ongoing
4. Mission Language & Vocational Services – ongoing
5. Mission Neighborhood Center (continued from FY14) – complete
6. Potrero Hill Neighborhood House – ongoing
7. Renaissance Parents of Success – complete
8. Bayview Hunters Point Foundation for Community Improvement – ongoing

Additionally, based on FY16 monitoring results, the following contractors were referred to (and most also began) technical assistance:
1. African American Arts and Culture Complex – initiating
2. Bernal Heights Neighborhood Center – ongoing
3. Centro Latino de SF – initiating
4. Collective Impact – ongoing
5. Community Works West, Inc. – complete
6. Eviction Defense Collaborative – initiating

The technical assistance for these contractors focuses on fiscal issues: improving financial reporting and use of QuickBooks to develop financial reports, implementing cost allocation procedures, developing City-compliant budgets, clarifying fiscal policies and procedures, and strengthening fiscal management and oversight, including board oversight and understanding of finances.

While some of the technical assistance requests were for contractors who had never received consulting services via the Monitoring Program, other requests were to continue assistance that had begun in the previous monitoring cycle. The agencies that received technical assistance for the second year had several things in common, including a recent significant change in leadership that made it more challenging to create and implement new financial systems. Additionally, many of these organizations have complex and overlapping issues that can take significant time for the contractor and consultants to address.

Training for City Monitors and Contractors

Each year, the Controller's Office organizes a Fall Training Series for City monitors participating in the Monitoring Program and a Spring Training Series for nonprofit contractors. In FY16, the Controller's Office surveyed both groups to assess capacity building need, and developed the training offerings in partnership with FMA and SPRA. Training for City monitors focused on how to assess the monitoring standards and issues related to nonprofit finance, such as reviewing budgets and cost allocation plans and understanding audited financial statements. The Controller's Office offered similar trainings regarding nonprofit finance to nonprofit contractors, and also provided training about board governance and developing logic models to support internal evaluation efforts.

Twenty-nine City monitors attended one or more of the fall sessions, and staff members from 42 contractors attended one or more sessions of the Spring Training Series. Overall, attendees were pleased with the workshop content and instructors and they particularly appreciated the real life examples and hands-on group work.

In addition to these standard offerings, in August 2015, the Controller's Office organized a training session for over 200 nonprofit contractors who are subrecipients of federal funding to review new and revised monitoring and oversight requirements required by the federal Office of Management and Budget's Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards ("Uniform Guidance"). Information about these trainings can be found on the Controller's Office website.[16]

For the second year, the Controller's Office organized a series of "All Monitor Meetings" to provide a forum for peer learning, networking, and creating a common and consistent understanding about the program and its guidelines among City monitors.

Assessment of Capacity Building Efforts

The Controller's Office surveys nonprofit contractors in the Monitoring Program at the close of each fiscal year. Based on the FY16 survey, 100% of contractors who had experience with training and support provided through the Monitoring Program agreed that the City has offered quality training and support regarding the monitoring process. Of the different types of support, agencies mentioned the contract officer or other City staff as the most helpful.

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[16] See www.sfcontroller.org/nonprofits.

Figure 13:
Percent of Contractors Rating the Resources Provided as Very or Somewhat Helpful
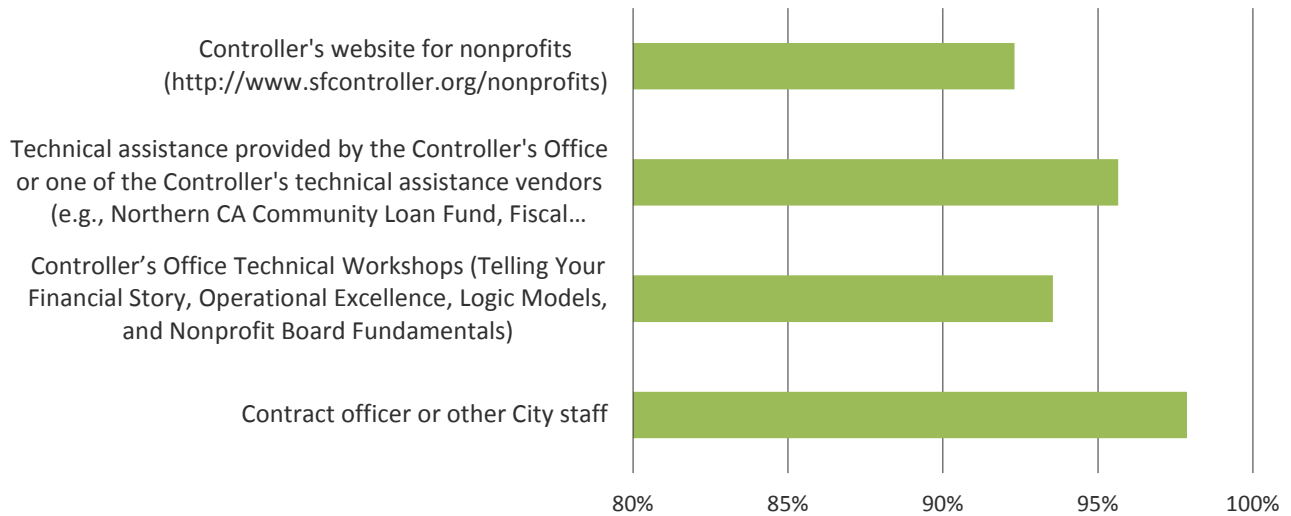
Survey respondents expressed interest in trainings on subcontractor relationships and the cost of monitoring on the lead agency, understanding audit results and how this could impact funding opportunities, financial management (e.g., cost allocation plans, paperless bill pay, invoice processing), personnel (e.g., payroll allocation, labor policy, and/or time studies), collaboration and partnership building to name a few. Some agencies would like more notice of upcoming trainings. One contractor commented that the Controller's Office should train contractors in new monitoring requirements before rolling them out.

IV. CORRECTIVE ACTION POLICY

As an outgrowth of the Monitoring Program, the City initiated a Corrective Action Policy[17] in 2011. This policy encourages accountability, compliance with government funding requirements, and reliable service delivery for San Francisco residents. It ensures that the City as a funder acts appropriately when a nonprofit contractor fails to meet standards and that the nonprofit has a plan in place and work underway to correct deficiencies. As part of this policy, a funding department or the Controller's Office may place nonprofit contractors on an "elevated concern" or a "red flag" status if the organization meets the specified criteria and does not respond to the City's efforts to bring it into compliance with standards. City departments or the Controller's Office can designate elevated concern or red flag status to a nonprofit organization for fiscal, compliance, and/or programmatic reasons, or when a nonprofit fails to complete any step in the Monitoring Program's joint monitoring process.

Elevated Concern Status
Designation of elevated concern status results in the provision of mandatory technical assistance to support the nonprofit in establishing sound fiscal and management practices. Elevated concern will not result in defunding, though if the nonprofit is unresponsive to technical assistance and remains out of compliance with monitoring requirements, the status may be heightened to red flag, for which de-funding is an option.

Elevated concern status can occur when a nonprofit has not done any or all of the following by City department deadlines:
- Responded to the City's request for monitoring documents
- Responded to the City's request for corrective action
- Provided a corrective action plan that is acceptable to the City
- Complied with the implementation of a corrective action plan

In particular, multiple years of high-priority findings can signal a contractor's noncompliance with a prior year's corrective action plan.

The Corrective Action Policy specifies certain monitoring findings that trigger the Controller's Office to identify a contractor for elevated concern status. Based on FY16 monitoring results and activities, the Controller's Office and City departments placed the following FY16 contractors on elevated concern status:
- African American Arts and Culture Complex
- Collective Impact
- Mental Health Association of San Francisco
- Mission Language and Vocational School
- Potrero Hill Neighborhood House

All of these contractors began receiving technical assistance from the City during FY16, and designation of elevated concern will ensure that this technical assistance will continue until the contractor can sustain financial management practices that meet City standards.

Red Flag Status
Red flag status is for service providers at imminent risk of being unable to perform services per their contract. The designation is determined by City department or division heads, with recommendations made by the Controller's Office, and in these cases, the department heads also prescribe specific corrective action. For

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[17] See Appendix G for full policy.

contractors participating in the Monitoring Program, the Corrective Action Policy specifies certain monitoring findings that trigger a recommendation for red flag status by the Controller's Office. Nonprofit organizations designated with red flag status are less competitive (or may be ineligible) in Requests for Proposal (RFP) processes for new grants and contracts.

Based on FY16 monitoring results and activities, City departments did not place any contractors on red flag status.

V.   MONITORING PROGRAM PERFORMANCE MEASURES

The Controller's Office evaluates the Monitoring Program using a variety of process and satisfaction measures derived from year-end surveys of City monitors and contractors. The Controller's Office also evaluates whether monitors adhered to Monitoring Program guidelines. Trends for all performance measures can be found in Appendix E. Full results of the surveys are included in Appendix F.

The Monitoring Program has many goals, but of particular interest to the Controller's Office is whether the program is efficient (i.e., it saves time) and whether it is effective (i.e., it strengthens nonprofit fiscal practices). Figure 14 shows that City monitors and contractors largely see the value of the Monitoring Program, though contractors are more likely than City monitors to agree that the program positively impacts service delivery and that it decreases the administrative burden of individual monitoring.

Figure 14:
Contractors and Monitors that Agree or Strongly Agree with Statements about Program Efficiency and Effectiveness

Legend: ■ Contractor Response (n=55)   ■ Monitor Reponse (n=14)
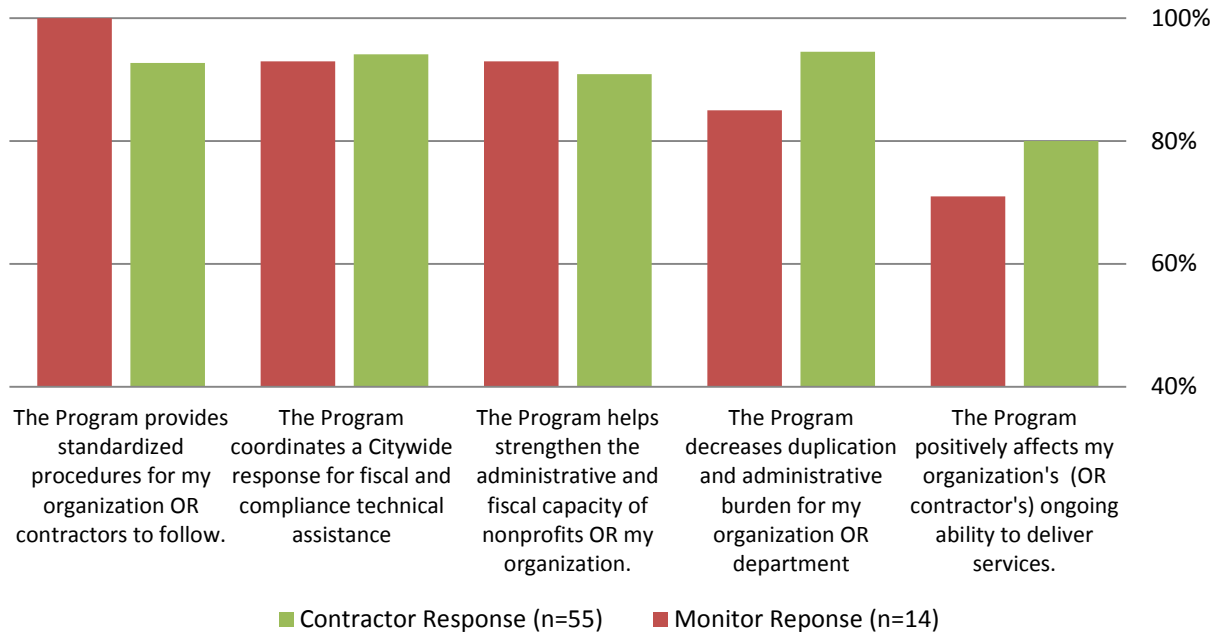
With 95% of respondents agreeing that the Monitoring Program saves them time compared to individual monitoring by each department, it's clear that the process is efficient for the contractors; 91% of respondents indicated that the Monitoring Program strengthens their administrative and fiscal capacity.

VI. NEW INITIATIVES

Financial Health Assessment Pilot

Financial Management Associates (FMA) developed a tool called the Financial Health Assessment (FHA) to provide nonprofit leaders with increased insight into their agencies' financial health. The FHA uses audited financial statements and year-to-date unaudited financial statements to to evaluate the agency's financial health over three years (though additional years could be added in subsequent years).The Controller's Office modified the tool to assist monitors within the Monitoring Program in their analysis of nonprofit contractors' finances by providing key financial ratios and showing trends through multi-year variances.

Since October 2015, the Controller's Office tested the FHA with a sample of current nonprofit contractors and on-site during two site visits. Additionally, the Controller's Office convened a group of monitors to test and analyze the tool and to provide feedback about its utility. In its review, the Controller's Office assessed the tool for its ability to describe several key areas of nonprofit financial management:

- Revenue reliability
- Consistent surpluses
- Full coverage of cost
- Ability to manage debt
- Ability to steward finances
- Appropriate liquidity

Throughout the testing process, the Controller's Office collected feedback about the utility of the tool and options for integration with the Monitoring Program. In general, the Controller's Office considers the FHA valuable for its ability to show trends in financial health and trigger important conversations with contractors. As such, the Controller's Office recommends using the tool in the Monitoring Program in some way, and developed several recommendations for its use. The Monitoring Program's Steering Committee received these recommendations and will consider the best uses for the tool in the coming year.

For a complete summary of this pilot project, see Appendix D.

SharePoint Workflow Implementation

In FY15, the Controller's Office contracted with a vendor to develop an online workflow and file repository for the Monitoring Program using SharePoint; FY16 marked the first year of implementation for this system. The Controller's Office offered training on its functionality during the fall "All-Monitors" meeting, and developed a user guide, training videos and other tools to support City monitors in their adoption of the tool.

During or after a monitoring site visit, City monitors use the workflow to select any findings a particular contractor may have, and the workflow will automatically generate the monitoring report letter. The letter can be jointly edited by members of the monitoring team, and is saved in a central file repository.

In the year-end survey of monitors, the Controller's Office found that 93% of respondents used SharePoint in the last monitoring cycle. Of those, 77% were moderately or very comfortable with SharePoint while 23% were moderately or very uncomfortable, citing the following challenges:

- Customizing form letters to meet the needs of a particular site visit
- Formatting the contents of the letters onto departmental letterhead
- Experiencing difficulty logging on to the system
- Navigating through multiple links to find content
- Reading or writing within small data fields

Nearly all respondents (91%) said that the Controller's Office was responsive or very responsive in answering concerns and issues with SharePoint. One monitor suggested that s/he supports a long-term goal of using the SharePoint workflow in the field during site visits for ease of documentation.

While the roll-out of any new system can be challenging, the Controller's Office hopes that the automation and central storage of documents will save City monitors time and effort on program administration, and thus they can spend more time supporting contractors.

Citywide Audit Policy

Members of the Monitoring Program and City leadership requested that the Controller's Office explore developing a standard policy on when to require nonprofit contractors to receive an external audit other than a federal A-133 audit.[18] The main reasons for this request were as follows:

- Each department has a different method of determining when to require audits of nonprofit contractors that do not meet requirements for an A-133 audit. As a result, nonprofits that receive funding from more than one department are subject to varying audit requirements, which often results in confusion and process inefficiencies for both the City and the contractor. A standard citywide policy would alleviate such problems.
- Departmental staff members are often expected to use discretion in deciding when to require audits of nonprofit contractors that do not meet requirements for an A-133 audit. The lack of a standard policy to rely on in such cases can lead to inconsistent application of the requirement, which may be perceived as unfair or inequitable, and may also leave the City at financial risk if such discretion was applied in error.
- Several departments do not systematically require audits or financial reviews of nonprofit contractors that do not meet requirements for an A-133 audit. It is important for the City to systematically assess the financial integrity of all nonprofit contractors to ensure effective and appropriate use of City funds.

The Controller's Office is currently in the process of developing the requested citywide nonprofit contractor audit policy, in consultation with the Monitoring Program's Steering Committee. Once approved, the Accounting Operations and Systems Division (AOSD) of the Controller's Office will publish this policy in its Accounting Policies and Procedures.[19] Departments would be expected to apply it to nonprofit contractors that do not meet requirements for an A-133 audit.

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[18] Any contractor that expends $750,000 or more of federal funding from any source during a fiscal year is required to complete an A-133 audit.

[19] For the 2016 version of this document, see:
http://sfcontroller.org/sites/default/files/Documents/AOSD/Accounting_Policies_Procedures_2016-02-17_FINAL_Grant_Update.pdf

APPENDIX A: CONTRACTORS WITH NO FINDINGS AT THE CLOSE OF FY16 MONITORING CYCLE

Stars (*) denote contractors with no findings in both FY16 and FY15. This list includes contractors with no initial findings, with findings only in piloted or best practice standards, and contractors that corrected all findings during the monitoring cycle.

Contractors with No Findings, FY16	
APA Family Support Services	First Place for Youth*
Asian Neighborhood Design*	Gum Moon Residence Hall
Asian Women's Shelter*	Hamilton Family Center, Inc.*
Bay Area Community Resources*	HealthRight 360*
Bay Area Legal Aid	Homebridge*
Bay Area Video Coalition*	Homeless Children's Network
BAYCAT*	Homeless Prenatal Program*
Bayview Hunters Point Multipurpose Senior Services*	Horizons Unlimited of San Francisco, Inc.
Booker T. Washington Community Service Center	Huckleberry Youth Programs*
BRIDGE Housing Corp	Instituto Familiar de La Raza, Inc.*
Catholic Charities CYO*	International Child Resource Institute
Causa Justa - Just Cause	Japanese Community Youth Council*
Center on Juvenile and Criminal Justice*	Jewish Community Center of San Francisco
Central City Hospitality House*	Jewish Family and Children's Services*
Children's Council of San Francisco*	Jewish Vocational Service*
Chinatown Community Development Center*	Justice and Diversity Center-SF Bar Association*
Chinese for Affirmative Action	La Casa de las Madres*
Chinese Progressive Association	Larkin Street Youth Services*
Community Awareness and Treatment Services	Lawyers' Committee for Civil Rights of the San Francisco Bay Area
Community Housing Partnership*	Legal Assistance to the Elderly*
Community Initiatives*	Lutheran Social Services of Northern California*
Community Youth Center of San Francisco*	MAITRI
Compass Family Services*	Mary Elizabeth Inn
Conard House, Inc.*	Mercy Housing California
Curry Senior Center*	Mission Asset Fund
Dolores Street Community Services*	Mission Hiring Hall*
Donaldina Cameron House*	Mission Housing Development Corporation*
Episcopal Community Services of San Francisco, Inc.	Mission Neighborhood Centers, Inc.*
FACES-SF*	Mt St Joseph-St Elizabeth*
Felton Institute	Mujeres Unidas y Activas*

Contractors with No Findings, FY16 - continued	
My Path*	San Francisco Sheriff's Department 5 Keys Charter School
Nihonmachi Legal Outreach DBA APILO	Self-Help for the Elderly
Northeast Community Federal Credit Union	Seneca Center*
Northern California Presbyterian Homes and Services*	Southeast Asian Community Center*
Performing Arts Workshop*	Success Center SF*
Portola Family Connections*	Sunset District Community Development - Sunset Youth Services*
Prevent Child Abuse California*	Swords to Plowshares Veterans Rights Organization*
Project Open Hand	Tenderloin Housing Clinic, Inc.*
Providence Foundation of San Francisco*	Tenderloin Neighborhood Development Corporation
Richmond District Neighborhood Center*	The Arc Of San Francisco*
San Francisco AIDS Foundation	Tides Center
San Francisco Child Abuse Prevention Center*	Toolworks, Inc.*
San Francisco Conservation Corps	Wu Yee Children's Services
San Francisco Food Bank	YMCA of San Francisco*
San Francisco Network Ministries Housing Corporation*	

APPENDIX B: CONTRACTORS WITH REPEATED FINDINGS BETWEEN FY15 AND FY16

African American Art and Culture Complex

Agency-wide Budget

b. Shows income and expense by program

c. Shows allocation of shared and indirect costs by program

Cost Allocation Procedures

b. Process for allocating shared program costs is consistent and reasonable

d. Process for allocating indirect costs is consistent and reasonable

Bernal Heights Neighborhood Center

Cost Allocation Procedures

b. Process for allocating shared program costs is consistent and reasonable

d. Process for allocating indirect costs is consistent and reasonable

Invoices

a. Expenses tested on invoices have supporting documentation and reasonably tie to the cost allocation plan

c. Tested expenses on invoices appear to be reasonably associated with the program budget

Brava For Women in the Arts

Public Access

b. At least two meetings with quorum status are open to the public each year

c. These two meetings are announced to the general public at least 30 days in advance through the SF Public Library and the Clerk of the Board of Supervisors

Collective Impact

Invoices

a. Expenses tested on invoices have supporting documentation and reasonably tie to the cost allocation plan

c. Tested expenses on invoices appear to be reasonably associated with the program budget

Institute on Aging

Financial Reports

b. Balance Sheet: Working capital ratio is greater than 1

Mental Health Association of San Francisco

Audited Financial Statements

g. [For Contractors with a management letter] For any prior year findings, the Contractor has provided you with a reasonable explanation of how the Contractor has corrected all the findings

Cost Allocation Procedures

e. Procedures for cost allocation match actual cost allocation practices found in the agency-wide budget and financial documents

Financial Reports

b. Balance Sheet: Working capital ratio is greater than 1

f. Profit and Loss Statement: Year-to-date net income is either a positive number or the Contractor provides a sound explanation of how it will be positive by the end of the fiscal year

Invoices

a. Expenses tested on invoices have supporting documentation and reasonably tie to the cost allocation plan

    b. Contractor follows its policies for writing checks, credit card use, petty cash use, and/or reimbursement for expenses tested on invoices

    c. Tested expenses on invoices appear to be reasonably associated with the program budget

Payroll

    g. Timesheets of employees paid with City funds listed on invoices checked in Section 7 above list hours worked that are consistent with invoices

Mission Language and Vocational School

Agency-wide Budget

    c. Shows allocation of shared and indirect costs by program

    d. Shows fundraising separate from program expense

Cost Allocation Procedures

    b. Process for allocating shared program costs is consistent and reasonable

    d. Process for allocating indirect costs is consistent and reasonable

    e. Procedures for cost allocation match actual cost allocation practices found in the agency-wide budget and financial documents

Potrero Hill Neighborhood House

Audited Financial Statements

    c. No material weaknesses mentioned or going concern stated in the notes to the financial statements

Financial Reports

    b. Balance Sheet: Working capital ratio is greater than 1

    f. Profit and Loss Statement: Year-to-date net income is either a positive number or the Contractor provides a sound explanation of how it will be positive by the end of the fiscal year

Renaissance Parents of Success

Financial Reports

    f. Profit and Loss Statement: Year-to-date net income is either a positive number or the Contractor provides a sound explanation of how it will be positive by the end of the fiscal year

United Playaz

Agency-wide Budget

    c. Shows allocation of shared and indirect costs by program

APPENDIX C: CHANGES TO THE MONITORING STANDARDS IN FY16

FY15-16 Changes to Standards

Category	FY15-16 Standard	What's Different	Explanation
1. Agency-wide Budget	b. Shows income and expense by program	The FY14-15 standard included "and funding source."	While contractors should have a budget related to each funding source (e.g., the contract budget), organizing the agency-wide budget by both program and funding source is cumbersome for many nonprofits. Budgets do not need to be organized by funding source, but income sections should still show all revenue sources.
3. Audited Financial Statements	b. Unmodified opinion	The FY14-15 standard used the term "unqualified opinion."	Standard terminology for audits changed recently, with "unmodified" replacing "unqualified." The core meaning of the standard remains the same.
3. Audited Financial Statements	e. Audit completed within six months of the close of the contractor's fiscal year	The FY14-15 pilot standard required that the Board of Directors "approve" an audit within six months. The wording has changed, and this is no longer a pilot.	While Boards must review an audit, many do not officially "approve" one, so this terminology has been removed. Timely completion of the audit remains an important financial indicator, and failure to meet the standard will be a finding in FY15-16.
5. Fiscal Policies & Procedures	a. Upon turnover of executive director and/or fiscal manager, policies and procedures are reviewed within one year and updated if necessary	The FY14-15 standard was that the policies be "current" within 2 years. This has become a best practice, and the new standard takes its place.	Nonprofits should regularly review policies and procedures, but the priority for review is at times of executive leadership change, as new managers must become familiar with policies and adjust them to altered management structures.
5. Fiscal Policies & Procedures	b. Complete	In FY14-15, each element of the policies formed its own standard, where in FY15-16, just one standard assesses completeness.	The City has made adjustments to this category in recent years in an attempt to shift the focus from simply having a policies and procedures document to testing that it is being implemented consistently by the agency.
5. Fiscal Policies & Procedures	d. Implementation of policies and procedures demonstrates appropriate internal controls, including segregation of duties.	The form no longer includes the internal controls checklist. Instead, Item d tests whether the agency has set and follows its own policies for internal controls. The guidance includes recommended controls for monitors to test during the visit.	A strong system of internal controls is one of the most important elements of good financial management, but the specific controls may vary based on the structure and needs of an agency. Rather than testing that a contractor use specific controls, the City has changed the standards to test that the contractor has established reasonable policies and actively and consistently follows them.

9. Board Oversight[20]	c. Minutes show that the Board reviewed the most recent audit within the fiscal year	In FY14-15, the category was called "Board Minutes." The standard is new in FY15-16, though a similar standard was piloted in FY14-15 under category 3. Audited Financial Statements.	The standard was added because Board review of the audit is a critical component of this governance. The standard was piloted in FY14-15, but a Board's failure to review the audit will result in a finding in FY15-16.
9. Board Oversight	e. Minutes show that if the Executive Director is a member of the Board, s/he does not vote on his or her compensation	In FY14-15, the standard stated that if the Executive Director is a member of the Board, s/he is a non-voting member.	Certain agencies have valid reasons for structuring Board membership to include the Executive Director as a voting member. The new standard ensures that the agency abides by conflict of interest policies dictating that the director recuse him or herself in matters of executive compensation.
9. Board Oversight	f. Board conducts a review of the Executive Director annually	In FY14-15, this was a Governance Best Practice.	The City changed this item from a Governance Best Practice because the Board's role in oversight of the agency should be a standard practice for all nonprofits. This item had been a standard prior to the development of the Governance Best Practices list.
13. Subcontracts	c. Documentation that contractor regularly monitors fiscal and programmatic performance of subcontractors providing direct services to clients, including monitoring of invoices (e.g., validating receipts)	In FY14-15, the standard did not explicitly state that invoices of subcontractors be monitored.	In FY14-15, the City tested a pilot standard (formerly 13d.) that specified the type of monitoring an agency was required to do. The new wording incorporates some of that direction into the existing standard that requires nonprofits to monitor their subcontractors.

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[20] The Monitoring Program changed the category title from "Board Minutes" to "Board Oversight" to reflect the rationale and purpose for reviewing board minutes, which is to assess the strength of governance in both fiscal and compliance areas.

FY15-16 Changes to Pilots and Best Practices

Category	FY15-16 Standard	Type	Explanation
5. Fiscal Policies & Procedures	b. Current (updated with the past two calendar years or to reflect monitoring/audit recommendations)	Best Practice	One of the most effective internal controls is regular review of policies and procedures, as this creates an atmosphere of being alert to potential fraud or mismanagement. Even if no changes are needed, policies should be reviewed biannually and procedures assessed for their continued functionality. However, failure to meet the standard will not be considered a finding beginning FY15-16.
19. Board of Directors Best Practices	d. Board reviews IRS Form 990 (or is distributed to members)	Best Practice	This is a new best practice. The 990 is a good tool for assessing the financial health of an agency, and Boards should be aware of its contents.
19. Board of Directors Best Practices	g. Board is conducting active recruitment to fill vacancies (if applicable)	Best Practice	The best practice had been that the Board conducts recruitment annually, but stable Boards may go through periods where recruitment is unnecessary. The indicator has been changed to indicate that recruitment only be conducted when there are vacancies.

FY15-16 Changes to Monitoring Frequency

Beginning in FY14-15, the City identified certain standards that only require monitoring at site visits (not through self-assessments). In FY15-16, the City has expanded the number of standards that will only be monitored during site visits. Additionally, certain standards require that the contractor develop various types of policies and procedures. Once complete and verified by monitors, these standards will not need to be monitored again unless the City's monitoring team requests it, or there are major changes to the organizational structure of the nonprofit, which would trigger a review of all its policies and procedures.

Category	FY15-16 Standard	Frequency
5. Fiscal Policies and Procedures	All	Site Visits Only
7. Invoices	All	Site Visits Only
8. Payroll	b. Employees paid with City funds listed on invoices checked in Section 7 above are listed on the DE 9 and DE 9C for the quarter(s) that includes the monitoring months under review *[All other standards in this category are monitored Annually.]*	Site Visits Only
8. Payroll - Timesheets	All	Site Visits Only
10. Public Access	a. Contractor has a written policy that it must maintain and make available for public	At First Monitoring

	inspection within 10 days of the request [certain public documents] *[All other standards in this category are monitored at Site Visits only.]*	(and as needed)
15. Personnel Policies	a. Written and current personnel/ employee manual *[All other standards in this category are monitored at Site Visits only.]*	At First Monitoring (and as needed)
16. Emergency Operations Plan	a. Written emergency operations plan b. Plan contains contingency planning, including an alternate site, if needed *[All other standards in this category are monitored at Site Visits only.]*	At First Monitoring (and as needed)
17. Americans with Disabilities Act (ADA)	a. Written policies and procedures to allow people with disabilities to benefit from services and containing an agency-wide ADA grievance procedure *[All other standards in this category are monitored at Site Visits only.]*	At First Monitoring (and as needed)
18. Data Universal Numbering System (DUNS)	a. Demonstration of registered DUNS number if contractor receives federal or state funds.	At First Monitoring (and as needed)

APPENDIX D: FINANCIAL HEALTH ASSESSMENT PILOT PROJECT

Introduction

Financial Management Associates (FMA) initially developed the Financial Health Assessment (FHA) to provide nonprofit leaders with increased insight into their agencies' financial health. The Controller's Office modified the tool to assist monitors within the Citywide Nonprofit Monitoring and Capacity Building Program in their analysis of nonprofit contractors' finances by providing key financial ratios and showing trends through multi-year variances.

Since October 2015, the Controller's Office tested the FHA with a sample of current nonprofit contractors and on-site during two site visits. Additionally, the Controller's Office convened a group of monitors to test and analyze the tool and to provide feedback about its utility.

Description of the FHA

The FHA combines a contractor's revenue, expenses, assets, and liabilities through fifteen equations to evaluate the agency's financial health over three years (though additional years could be added in subsequent years). To complete the tool, monitors use audited financial statements and year-to-date unaudited financial statements.

The tool can be used to simplify comprehension of contractors' often difficult-to-read audits, tax forms, and financial statements. For example, the tool automatically illustrates negative variances in bright red to alert the reader of possible financial concerns. The Controller's Office added a variance column to the tool to show a contractor's financial movement between fiscal years. If the trend shows financial growth, the percentage remains in bold, black font, but if there is a negative financial difference, the percentage shown is in bright red.

In its review, the Controller's Office assessed the tool for its ability to describe several key areas of nonprofit financial management:
- Revenue reliability
- Consistent surpluses
- Full coverage of cost
- Ability to manage debt
- Ability to steward finances
- Appropriate liquidity

As originally designed, the FHA did not assess whether the reviewed agency can cover its full costs or its ability to manage debt. The Controller's Office customized the tool to incorporate some new elements and align the tool with the Standard Monitoring Form. Monitors and the Controller's Office found several elements of the original tool confusing or not helpful, and the customized tool removed items (e.g., the Revenues section) based on this feedback.

The Controller's Office included and highlighted two standards and three best practices from the program's Standard Monitoring Form within the modified FHA.

Feedback about the Utility of the Tool

The monitors that tested the FHA shared that the tool can help start a discussion with contractors about the meaning in their financial reports, and that the tool could be used to help communicate with the City's Board of Supervisors, to predict viability based on financial trends, and to be shared with the contractors' own board. They agreed that the tool forces a monitor to spend more time with the audit and financial information, and

that the information provided through the tool could be used to influence decision making in the future.

Through the process of testing the tool and discussing its use with monitors, the Controller's Office found significant variance in how monitors could make use of the tool and their ability to assess nonprofit fiscal condition. Some monitors indicated that even if nonprofits are found to have a weak financial condition, there is little they can do to resolve the problems by way of City action. Having poor financial health does not necessarily trigger an action such as deployment of technical assistance or not renewing the contract.

While this is a valid concern, it is not a new one. The Standard Monitoring Form does not contain the FHA's level of financial detail, but does hold nonprofit contractors to certain standards and uses a Corrective Action Policy to identify appropriate actions when contractors do not meet those standards. Thus, to use the tool within the monitoring process, stakeholders would need to agree on benchmarks and standards, train monitors on these standards, and apply corrective actions as outlined in City policy. Due to increased level of detail provided by the FHA, formal adoption of the tool may require even clearer policies for how departments should respond when the tool reveals a deteriorating financial condition, for example.

A related challenge raised by monitors was the annual process of add-backs, in which the Board of Supervisors uses its discretion during the budget process to award funding to specific services outside of standard departmental prioritization and decision-making. This process limits departments' ability to tie financial condition to awards. Political pressures to fund specific agencies regardless of financial condition run counter to the Controller's Office's mission to ensure effective and efficient government services, but are a recurring challenge for departments charged with managing contracts. Monitors raised concerns about the true utility of the FHA when funding decisions may not be made based on the results of the assessment.

The Controller's Office experienced some difficulty using the FHA with housing organizations since they tend to have the most complicated finances, locked assets within owned property, and major debts within their mortgages. If the tool is adopted for use by monitors, those overseeing contractors in housing organizations may need extra support and training on how to use the tool.

Recommendations

In general, the Controller's Office considers the FHA valuable for its ability to show trends in financial health and trigger important conversations with contractors. As such, the Controller's Office recommends using the tool in the Citywide Nonprofit Monitoring and Capacity Building Program in some way. The Controller's Office developed the recommendations below as options for how the FHA could be used in FY16-17. These recommendations are based on several discussions with the Steering Committee and through testing the tool internally and at site visits.

New Staff Onboarding
The FHA can be used as a training instrument for onboarding new monitors and other related staff. The current version of the Standard Monitoring Form has 84 standards and best practices, but these are largely written as "yes/no" questions with little additional context about fiscal health of a contractor. The FHA tool can help new monitors learn how to assess their contractors' finances.

Add to Current Monitoring Process
The tool can be embedded into the monitoring process. The Controller's Office could create an integrated monitoring form that includes existing fiscal and compliance standards as well as FHA data points, and monitors would use this combined FHA and monitoring form during site visits and self-assessments to identify and discuss the financial condition of contractors. Using the tool within the regular monitoring process enhances current practice, and presents a clear picture to both the monitoring team and the

contractor about the agency's strengths and challenges.

Controller's Office Review
The Controller's Office, given dedicated hours, could use the tool to conduct an annual review from a sample of contractors. This annual review, using the FHA tool as the measure, could provide a "state of the sector" analysis, showing financial trends of the nonprofit contractors receiving City funding. The Controller's Office may also use the analysis to identify agencies at risk of financial instability and target technical assistance or training resources accordingly.

Follow-up Monitoring
At the end of each monitoring cycle, contractors with a certain number or type of findings during the current fiscal year or over several years can be required to have a meeting with the monitors to discuss financial concerns. The FHA tool can be used to show year-to-year trends of their financial health. This option opens up a larger dialog with the contractor, and may result in better communication between the City monitors and their contractors.

Quality Assurance Checks
The FHA tool can be used as a spot check for a sample of contractors each year. The Controller's Office and Steering Committee may choose a select number of contractors who have no findings and/or significant or consistent findings to participate in deeper review using the FHA. The review will help illustrate consistency or variance between the monitoring report letter and the agency's general financial health demonstrated by the FHA. Quality assurance review would also help ensure appropriate action, such as referring the contractor to the Controller's Office for technical assistance or encouraging them to attend training sessions, has been taken in cases when the FHA or Standard Monitoring Form indicates risk factors.

APPENDIX E: MONITORING PROGRAM PERFORMANCE MEASURES

| #	Category	Measure	Target	FY14 Actual	FY15 Actual	FY16 Actual	% Point Change
1	Monitoring Team Feedback	% of Monitoring Team respondents who state their monitoring teams worked well together always or most of the time	95%	77%	80%	100%	+20%
2	Lead Department Representative Feedback	% of Lead Department Representatives reporting that they were always or most of the time confident about their findings	95%	89%	89%	91%	+2%
3	Lead Department Representative Feedback	% of Lead Department Representatives who felt they had adequate support, tools, and training to perform their responsibilities always or most of the time	95%	78%	78%	82%	+4%
4	Monitoring Processes	% of monitorings are scheduled in the online calendar by December 15, 2015	95%	94%	97%	77%	-20%
5	Monitoring Processes	% of the year's Monitoring Report Letters sent to the contractor/ posted to centralized repository within the deadline	80%	88%	84%	73%	-11%
6	Monitoring Processes	% of City staff reporting that the monitoring process among multiple departments saves City staff time	85%	79%	73%	85%	+12%
7	Monitoring Processes	% of City staff reporting that consistent standards and a shared monitoring process between City departments increases the City's ability to hold nonprofits accountable	85%	87%	100%	93%	-7%
8	Monitoring Processes	% of City staff reporting that the Non-profit Monitoring Program helps improve your Department's non-profit fiscal and compliance practices	85%	86%	73%	79%	+6%
9	Contractor Feedback	% of Contractors who report a clear understanding of the fiscal and compliance elements to be monitored in their contracts	95%	95%	100%	88%	-12%
10	Controller's Resources	% of City monitors who rate the training series as very helpful or somewhat helpful (of those who attended)	95%	89%	100%	100%	0%
11	Controller's Resources	% of City contractors who rate the training series as very helpful or somewhat helpful (of those who attended)	95%	100%	100%	94%	-6%
12	Capacity Building	% reduction in findings for Nonprofits that received technical assistance in the previous fiscal year	80%	68%	66%	31%	-35%

APPENDIX F: SUMMARY OF YEAR-END SURVEY RESULTS

City Monitoring Staff Survey Responses

The Controller's Office asked City monitors to respond to questions about the Citywide Nonprofit Monitoring and Capacity Building Program at the close of the FY16 monitoring cycle. Sixteen monitors (36%) from seven of the nine departments responded. Of those who responded, 44% have less than two years of experience with fiscal and compliance monitoring, and 56% have six or more years' experience.

City monitors that responded to the survey generally believe the program is successful at standardizing monitoring processes and providing coordinated technical assistance services, as shown in the responses below. Monitors were less clear about the role of the program to affect contractors' ability to deliver services, though one monitor noted that the Monitoring Program has begun to do a better job of communicating how standards increase the administrative and fiscal capacity of nonprofits and how that capacity is correlated to program delivery. Respondents also expressed less confidence in the ability of the program to affect the contract renewal cycle due to the timing of the monitoring process is relation to the budget.

Figure F1:
Percent of City Monitors who Strongly Agree or Agree with the Following Statements about the Program in General (n=14)
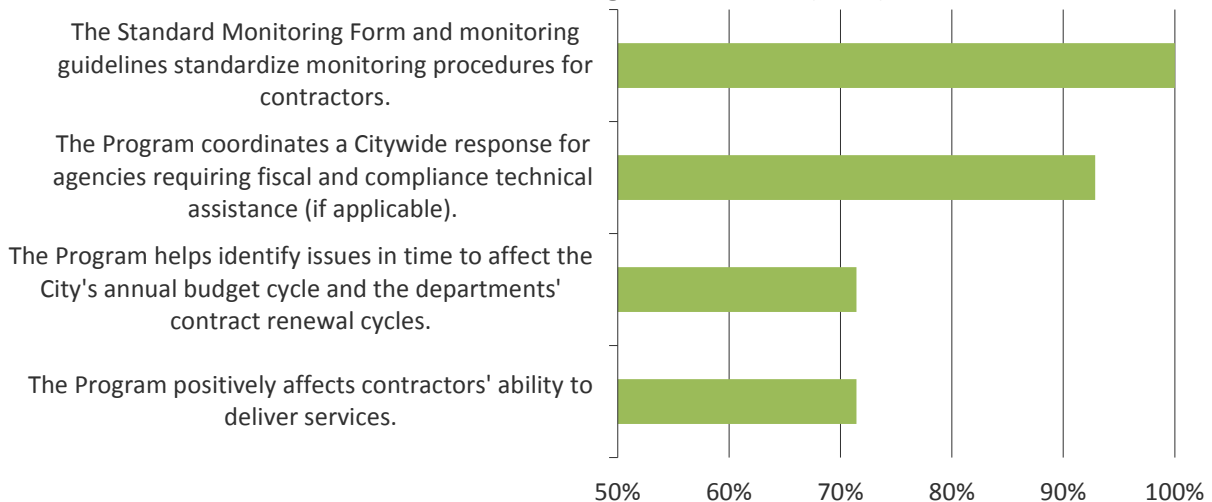
Lead Monitors take on the bulk of the duties related to arranging a site visit or self-assessment. Lead monitors cited that preparing for and conducting site visits generally required anywhere from a half day to full day of the monitors' time (73%), though more than a quarter of respondents (27%) required more than one full day to prepare for and conduct site visits. Although a slight majority (55%) of City monitors spent 1-4 hours to review self-assessments, 45% of City monitors required 5-12 hours to conduct a thorough review of the self-assessments submitted by contractors.

While both Lead Monitors and team members expressed high levels of confidence in their understanding of the monitoring procedures and in the monitoring findings they documented, survey respondents in both groups indicated low levels of confidence in coaching contractors when they have findings, and would like more support and tools in this area.

The program offers several types of resources to the monitors throughout the year, and the survey asked respondents to rate how helpful these resources proved. Monitors responded that Controller's Office staff members, written Monitoring Program guidelines, and all-monitor meetings were very helpful.

Figure F2:
Percent of Monitors Responding Always or Most of the Time
to the Following Statements

Team Member Monitor (n=13)   Lead Monitor (n=11)

The Controller's Office requested survey respondents consider the goals of the Monitoring Program, and activities that might help the Monitoring Program meet those goals. Respondents offered the following feedback:

- Provide additional training for monitors in analyzing audits and other financial statements.
- Provide a venue for departments to share best practices for measuring contractor performance.
- Create metrics to identify poor performing agencies, and build capacity building efforts into the budgeting process.
- Coordinate policy changes across the City affecting nonprofit fiscal health (e.g. indirect rates, data collection, livable wages, etc.).

Contractor Survey Responses
Each year, the Controller's Office solicits feedback from contractors engaged in the Monitoring Program using an online survey. In FY16, 67 contractors responded, representing 49% of the year's pool. The majority of the respondents (69%) received a site visit, while 29% received a self-assessment and 2% (one respondent) received a waiver.

Respondents were monitored by various lead departments, with the most common lead being DPH or MOHCD. Site visits generally required a half day of the contractors' time (74%), though nearly a quarter of visits (24%) required a full day or more.

Most respondents agree that joint monitoring saves time and helps strengthen the administrative and fiscal capacity of their organizations. Comments shared by nonprofit respondents show a mix of approval for the process, as well as some areas of confusion or dissatisfaction, such as continuing to see duplicative practices.

Figure F3:
Percent of Contractors that Agree or Strongly Agree with the Following General Statements about the Program (n=55)
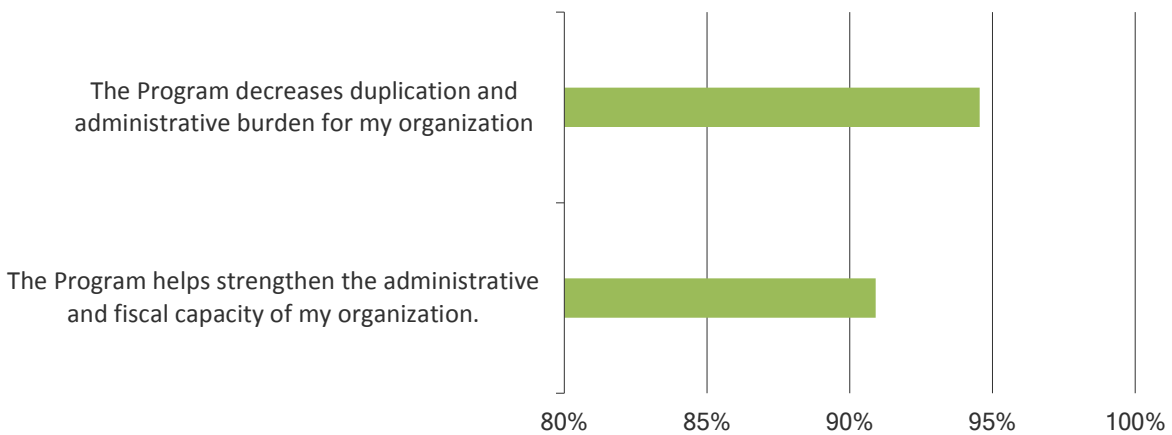
Respondents offered both positive and critical feedback about the program, both of which can be used to support program improvements. See Figure F4 for a summary. In general, agencies were very positive about the site visit and self-assessment experience, stating with over 95% agreement that City monitors provided a clear explanation of the monitoring process, that they received appropriate advanced notice and clear deadlines, and that City monitors were coordinated and responsive. Respondents also wrote that monitors were very supportive and pleasant to work with. Some respondents commented that noticing about the monitoring could be improved, for example providing a more complete list of documentation to prepare in advance of the site visit.

Figure F4:
Contractors' Feedback about Site Visits and Self-Assessments

A few respondents expressed appreciation for the program for the commitment to building capacity and coordinating across departments. One contractor said "*We implemented the findings and they were helpful to us going forward. The Board appreciated the recommendations as well, and have made changes as a result.*"

Some of the respondents stated that aspects of the Monitoring Program continue to duplicate other efforts, related both to the financial audit and other departmental monitoring. One said, *"We receive repeated requests over the fiscal year to send documents such as our annual audit. Couldn't you just share this or record that you already have it?"* Other comments also explored how the Monitoring Program could better use the audit in order to not duplicate efforts.

Three agencies disagreed that the Monitoring Program expanded their capacity for other work and individual agencies disagreed with some standards, thought there was inconsistency in applying the standards across years, and did not find benefit in the technical assistance. Finally, there was a desire to bring processes online when possible.

Several respondents encouraged the Monitoring Program to expand its scope, including sharing best practices through nonprofit learning cohorts or one-on-one venues. Others asked the Monitoring Program to create more consistency across departmental contracting processes and requirements (*"I think standardizing the detailed contract requirements across all City departments would be useful.*"), with additional attention given to standardizing invoicing processing and indirect cost rates.

Several agencies expressed a desire for the program to expand capacity building efforts through consultant time or more funding explicitly for capacity building. Some agencies said they would prefer more regular communication during the year (e.g., quarterly mini-monitoring visits) so the City monitors would better understand their organization and act preventatively before there are findings.

Several respondents asked for more opportunities to provide feedback during the monitoring process. For example one respondent stated, "*Ask us about each function … we have ideas to offer better support and processes.*" Another person commented that the Monitoring Program could work to reframe the purpose of the monitoring in order to improve the process. They stated, "*There must be a way to make the visits less adversarial even though they are perfectly amicable. The premise should be (a) you have proven that you do good work (b) you have spent down all or most of the funds and (c) here is how we can help you become more accountable on behalf of (a) and (b).*"

Two respondents mentioned that the Monitoring Program should share their findings more broadly. One person commented, "*Nonprofits should be encouraged to share a good rating/visit in newsletters and social media. I think agency donors and the community at large like to know that we are working together to provide good services and being good stewards of the public's money.*"

APPENDIX G: CORRECTIVE ACTION POLICY

City and County of San Francisco
Nonprofit Contractor Corrective Action Policy

I.   Introduction

The City and County of San Francisco's (CCSF) Nonprofit Contractor Corrective Action Policy is intended to ensure compliance with government funding requirements, accountability, and reliable service delivery for San Francisco residents.

This policy helps to identify, prioritize and support nonprofit contractors in need of technical assistance, workshops and/or other capacity building efforts. It provides the City with steps to act appropriately when a nonprofit contractor does not meet City standards, and does not comply with an established plan to correct deficiencies.

This document includes the following sections:
- Background on CCSF's Correction Action Policy
- Definitions
- Standard Nonprofit Contractor Monitoring and The Controller's Office List
- Elevated Concern Status
- Red Flag Status
- City Response Options & Referrals

A.   Background

In response to a 2009 Community-Based Organization Task Force Report, City departments and nonprofits collaboratively drafted and adopted a corrective action policy in November 2010. In 2013, the Citywide Nonprofit Monitoring and Capacity Building Program (Monitoring Program) Steering Committee revised the policy in response to feedback from department contract monitors and the Mayor's Budget Analyst. In late 2014, the Controller's Office and the Monitoring Program Steering Committee revised the policy again to include more specific criteria for corrective action and ensure consistent policy implementation. This revised policy is used by the Controller's Office and City departments, both within and beyond the Monitoring Program, for situations when nonprofit contractors consistently fail to meet City monitoring standards or programmatic performance measures agreed upon by contract.

B.   Definitions

- **Corrective Action Plan** – A list of activities a nonprofit must perform within the context of the Citywide Nonprofit Monitoring and Capacity Building Program. All nonprofits with findings will be required to come into compliance through completion of activities detailed in their Corrective Action Plan. A Corrective Action Plan does not indicate overall poor performance or put a nonprofit's contract with the City in jeopardy. It should not be confused with the status of "elevated concern" or "red flag" described below in Sections III and IV.

- **Technical Assistance** – In cases where corrective action is required, City departments may also recommend or require technical assistance offered by the Controller's Office, an external contractor, and/or City departmental staff to assist nonprofits.

II.   Standard Nonprofit Contractor Monitoring & the Controller's Office List

A. Performance Standards and Monitoring

All City departments are responsible for performing risk-based monitoring and oversight on fiscal, compliance and programmatic aspects of nonprofits that receive City funding. Performance, programmatic, and monitoring standards, as well as reporting deadlines, must be clear and reasonable in all City grants and contracts. In addition to standard monitoring assessments, City departments must make as-needed site visits or inquiries to follow up on issues or concerns that may arise. Departments can also use the elevated concern and red flag designations detailed in this policy for noncompliance with program outcomes (as measured by units of service, stated contract or grant deliverables, contract compliance, client satisfaction data, and/or other indicators developed by departmental program staff).

B. Nonprofits Funded by More Than One City Department

City departments must follow the policies and procedures in the Controller's Office Citywide Nonprofit Fiscal and Compliance Monitoring Guidelines[21] for nonprofits that are part of the citywide monitoring pool.[22]

C. Annual Report of the Citywide Nonprofit Monitoring and Capacity Building Program

The Controller's Office annually reviews the monitoring and technical assistance outcomes for nonprofits in the citywide monitoring pool. It releases a public report documenting this analysis with tables that display, for example:
- The number, type, and status of findings for all nonprofits in the monitoring pool;
- A list of nonprofits with repeated findings (i.e., the same finding in consecutive years); and
- A list of nonprofits without any findings.

The report also documents, with supporting data, any nonprofit contractors that have been placed on Elevated Concern or Red Flag Status for that fiscal year. Departments are recommended to view these lists to consider how best to assist nonprofits with multiple findings and support nonprofits with no findings to maintain high performance.

III.   Elevated Concern Status

A. Definition

The City may designate Elevated Concern Status to a nonprofit City contractor when it fails to complete corrective actions by a designated deadline or is non-responsive during the fiscal and/or programmatic monitoring process. "Non-responsiveness" is defined as a pattern of late or no response to City monitors.

The Controller recommends Elevated Concern Status when:

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[21] See http://sfcontroller.org/fiscal-and-compliance-monitoring for current Monitoring Program Guidelines.

[22] Nonprofit contractors funded by more than one of the following CCSF departments enter the Citywide Nonprofit Monitoring and Capacity Building Program: Department of Children, Youth and Their Families; Department of Homelessness and Supportive Housing; Department on the Status of Women; First 5 San Francisco; Human Services Agency; Mayor's Office of Housing and Community Development; Office of Economic and Workforce Development; Department of Public Health; San Francisco Arts Commission; and the Sheriff's Department.

- A nonprofit contractor repeatedly ignores or is late in responding to the City's request for monitoring information and/or corrective action compliance by a designated deadline; and/or
- The number of nonprofit findings or repeated findings shows a pattern of noncompliance with City standards; and/or
- A nonprofit contractor does not comply with corrective action within the designated time period for the specific fiscal and compliance standards listed in Table 1.

B. Impact

Elevated Concern Status results in mandatory technical assistance to support the nonprofit in establishing sound fiscal and management practices in compliance with standards assessed in the monitoring program. *Elevated Concern Status does not result in defunding,* although if the nonprofit is unresponsive to technical assistance and remains noncompliant with monitoring requirements, the Controller's Office and funding departments may elect to heighten the designation to Red Flag Status, for which de-funding is an option.

C. Designation Process

Using the criteria listed above, the Controller's Office annually reviews the results of the joint monitoring process and identifies any nonprofits that should be placed on Elevated Concern. If the Controller's Office determines that a nonprofit should be placed on Elevated Concern, the Controller's Office will:
1. Inform and discuss with the Citywide Nonprofit Monitoring and Capacity Building Program Steering Committee;
2. Send a memo with the names of the nonprofits on elevated concern to the department head(s) that fund the nonprofit(s), the rationale for the designation, and a response deadline for department heads to indicate any questions or concerns with the designation;
3. Include the names of the nonprofit(s) placed on elevated concern in the Citywide Nonprofit Monitoring and Capacity Building Program annual report, which is widely distributed.

Any City department holding a contract with a nonprofit may also initiate an Elevated Concern Status designation based on the established criteria. If a City department elects to initiate Elevated Concern designation, the Steering Committee member for that department will contact the Controller's Office to discuss the proposed designation and the rationale. At that point, the Controller's Office follows steps 1 through 3 above.

Note that the process for designating a nonprofit contractor on Elevated Concern Status for *programmatic* non-compliance is the responsibility of the relevant funding departments, not the Controller's Office.

D. Internal City Communication

When considering Elevated Concern Status in instances of multi-department funding, a Controller's Office staff person will be responsible for coordination and information sharing with all of the department funders.

E. Nonprofit Notification & Technical Assistance

Once the City has determined that a nonprofit should be placed on Elevated Concern, the funding departments and Controller's Office will notify the nonprofit's Executive Director and President of the Board of Directors of the designation writing. The designation letter will include the issues leading to Elevated Concern and the process for removal.

The Controller's Office staff will coordinate an in-person meeting with the nonprofit leadership and the funding departments to explain the designation and begin the technical assistance process to help the nonprofit come into compliance with City standards. The lead City staff person will work with the nonprofit to identify capacity building needs and develop a Corrective Action Plan with deadlines for compliance.

F. De-designation

Elevated Concern Status is meant to be temporary. The nonprofit will remain on Elevated Concern Status until the nonprofit provides a satisfactory response to the City's requests for information or action. Upon submission of additional information or proof of activity by the nonprofit, the City will send a written response to the nonprofit within one month of submission. The City's response must detail either a de-designation of Elevated Concern Status or a clear plan outlining the remaining issues to be resolved and detailed steps the nonprofit must take to remove the status.

IV.   Red Flag Status

A. Definition

In rare cases, Red Flag Status may be applied when a nonprofit is at imminent risk of losing its funding for mismanagement or being unable to perform services per its grant or contract.

See Table I below for a list of specific standards that would trigger Red Flag Status if a nonprofit does not comply with corrective action within a designated timeframe.

Red Flag Status may occur regardless of a nonprofit's Elevated Concern Status. Nonprofits undergoing corrective action may be considered for Red Flag Status at any stage of the corrective action process if risk factors call for such action.

B. Impact

De-funding is a possible ultimate sanction for nonprofits that are out of compliance with the City's grant and contract conditions. Note that those City departments that provide contracts, not grants, to nonprofits must take disciplinary action per the default provisions in the contract, and defunding may require termination of the contract. Termination for default requires that the nonprofit be given appropriate notice and an opportunity to fix the contract breach.

Red Flag Status may also require a nonprofit to comply with mandatory technical assistance or fiscal sponsorship to strengthen the financial and management practices of the agency. Additional actions City departments may employ are detailed in Section V below.

C. Designation Process

Using the criteria listed in Table I, the Controller's Office annually reviews the results of the joint monitoring process and identifies any nonprofit(s) that it recommends should be placed on Red Flag Status. If the Controller's Office recommends that a nonprofit should be placed on Red Flag Status, the Controller's Office will:
1. Discuss the recommendation with the Citywide Nonprofit Monitoring and Capacity Building Program Steering Committee;
2. Send a memo with the names of the nonprofits recommended for Red Flag Status and the rationale to

    the department head(s) that fund the nonprofit(s);

3. If the funding departments agree that Red Flag Status is warranted, the Controller's Office will include the names of the nonprofit(s) placed on Red Flag Status in the Citywide Nonprofit Monitoring and Capacity Building Program annual report.

City departments holding contracts with the nonprofit make the final determination whether a nonprofit is placed on Red Flag Status. Any individual funding department may also initiate the Red Flag Status designation process. When considering Red Flag Status in instances of multi-department funding, City departments jointly determine if a nonprofit should be on Red Flag Status.

Note that the process for designating a nonprofit contractor to be on Red Flag Status for *programmatic* reasons is the responsibility of the relevant funding departments, not the Controller's Office.

D. Internal City Communication

When considering Red Flag Status in instances of multi-department funding, a Controller's Office staff person will be responsible for coordination and information sharing with all of the department funders.

E. Notification & Contestation

Once a nonprofit is designated as being on Red Flag Status, the City will notify the nonprofit leadership, including the Executive Director and President of the Board of Directors, of this new status in writing. The designation letter will also include the issues leading to Red Flag Status, specific corrective actions required, the deadline for completion of each action item, the ramifications of the status, such as being less competitive for grants, and the process for removal from this status.

City departments that provide contracts, not grants, to nonprofits must take disciplinary action per the default provisions in the contract. This action includes providing the nonprofit with appropriate notice and an opportunity to correct issues as specified in the default and termination sections of the contract.

F. De-designation

The nonprofit will remain on Red Flag Status until the nonprofit has successfully implemented the required corrective action, or partially implemented corrective action to the satisfaction of the relevant City department(s). Upon submission of additional information or proof of activity by the nonprofit after the Red Flag designation, the City will send a written response to the nonprofit within one month of submission.

The City's response must include either a de-designation of Red Flag Status or a clear plan with any remaining steps the nonprofit still needs to take in order to be removed from Red Flag Status. The City may choose to dialogue with the nonprofit leadership, including the Board of Directors, to make progress on the implementation of corrective action and may consider technical assistance, as appropriate.

Table I: Triggers for Elevated Concern or Red Flag Status[23]

Standard		Elevated Concern	Red Flag
1. Agency-wide Budget			
a.	Current (fiscal or calendar year)		3+ years of finding
b.	Shows income and expense by program and funding source	2+ years of finding	
c.	Shows allocation of shared and indirect costs by program	2+ years of finding	
e.	Clearly identifies all revenue sources (City, state, federal)	2+ years of finding	
2. Cost Allocation Procedures			
a.	Process for cost allocation procedures and plan for <u>shared</u> costs is documented in a written narrative or in the footnotes of the current approved agency-wide budget	2+ years of finding	
c.	Process for cost allocation procedures and plan for <u>indirect</u> costs is documented in a written narrative or in the footnotes of the current approved agency-wide budget	2+ years of finding	
3. Audited Financial Statements			
a.	Complete	1 without an audit	2+ years of finding
b.	Unqualified opinion	1 year of finding	2+ years of finding
c.	No material weaknesses mentioned or going concern stated in the notes to the financial statements	1 year of finding	2+ years of finding
	For A-133 Audit (when applicable)		
h.	No material weaknesses mentioned or going concern stated in the notes to the financial statements	2+ years of finding	3+ years of finding
i.	No current findings and/or questioned costs	2+ years of finding	3+ years of finding
4. Tax Form			
a.	Federal 990 return filed for most recent tax year or request for extension submitted on time	2+ years of finding	3+ years of finding
7. Invoices			
a.	Expenses tested on invoices have supporting documentation: credit card charges and/or petty cash expenditures are all documented with an original receipt and reasonably tie to the cost allocation plan.	2+ years of finding	3+ years of finding
b.	Contractor follows its policies for writing checks, credit card use, petty cash use, and/or reimbursement for expenses tested on invoices	2+ years of finding	3+ years of finding
c.	Tested expenses on invoices appear to be reasonably associated with the program budget	2+ years of finding	3+ years of finding
8. Payroll			
c.	Documentation that payroll taxes due were actually paid	1 year of finding	2+ years of finding
d.	If employee time is paid by more than one source, it is recorded by funding source or program on timesheets	2+ years of finding	3+ years of finding
13. Subcontracts			
c.	Documentation that contractor regularly monitors fiscal and programmatic performance of subcontractor (e.g. copies of sub-contractor's fiscal documents and invoices)	2+ years of finding	3+ years of finding

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[23] Triggers are based on the Standard Monitoring Form of the Citywide Nonprofit Monitoring and Capacity Building Program. Elevated Concern Status may also be applied based upon a pattern of nonresponsiveness to the joint monitoring process or based on programmatic criteria specific to an individual department.

V.   City Response Options & Referrals

The City in its sole discretion may take all, some or none of the following actions in response to a nonprofit's corrective actions taken, Elevated Concern Status, or a Red Flag designation.

- **Dialogue with Nonprofit Leadership** - The City may choose to hold meetings with the nonprofit's leadership, including the executive committee of the Board of Directors, as needed and appropriate, to make progress on required corrective action. The department may provide the nonprofit's leadership with a reasonable opportunity to respond to the department's determination that serious deficiencies exist and warrant implementation of a required corrective action plan.

- **Technical Assistance** - The City may consider, on a case-by-case basis, whether technical assistance is appropriate and necessary in assisting the provider to become compliant. For guidance, tools and resources on fiscal, governance, and compliance technical assistance, contact the Citywide Nonprofit Monitoring and Capacity Building Program facilitated by the Controller's Office at nonprofit.monitoring@sfgov.org.

- **Identification of Alternative Service Providers** - City departments may choose to identify appropriate alternative service providers immediately upon designation of a nonprofit to Red Flag Status. City departments must follow all applicable procurement policies.

- **De-funding** – City departments may choose to de-fund a nonprofit that is continuously unresponsive and/or does not take appropriate steps to address a corrective action plan.

- **Funding Limitations** - City departments may choose to include in their solicitations that nonprofits on Red Flag Status do not meet minimum qualifications. City departments that do so should review the Red Flag Status list and perform appropriate due diligence in the scoring process and before awarding a grant or contract.

- **Incentives for Good Performance** – If appropriate and in alignment with the department's solicitation procedures, departments are encouraged to provide incentives for good performance by including the opportunity for nonprofits applying for City funding to describe their ability to successfully comply with the City's fiscal and compliance standards, and to award points for their past success, as part of the procurement scoring system. The Controller's Office will publish as part of its annual report a list of all nonprofit contactors in the joint monitoring pool that had no findings that year and nonprofits that corrected their findings during the monitoring cycle.

- **Whistleblower Referral** - In cases of suspected or alleged fraud (as opposed to fiscal mismanagement) City departments should contact the Controller's Office Whistleblower Program at www.sfgov.org/controller/whistleblower.

- **Human Rights Commission (HRC) Referral** - In cases of suspected or alleged discrimination, City departments should contact the Human Rights Commission at hrc.info@sfgov.org or (415) 252-2500.

- **Vendor Debarment** – In cases of egregious misconduct, City department heads should pursue debarment against any City-funded nonprofit that engages in any willful misconduct with respect to any City bid, request for qualifications, request for proposals, purchase order and/or contract. This includes failure to comply with grant or contract terms, unexcused delays, poor performance and providing false information. Debarment requires a hearing at which the vendor can be represented by

an attorney and present facts and evidence refuting the department's allegations of misconduct. The Controller's Office posts debarred nonprofits at http://www.sfgov.org/site/controller_index.asp?id=28412. See Chapter 28 of the San Francisco Administrative Code for more information.

- **Grievances** - Departments should inform their nonprofit service providers about their dispute resolution procedures as well as that of the Nonprofit Review/Appellate Panel: http://sfgsa.org/index.aspx?page=379.