



OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

Greg Wagner
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MEMORANDUM

TO: Mayor London N. Breed
Board of Supervisors
City Department Heads

FROM: Controller Greg Wagner

DATE: December 9, 2024

SUBJECT: **Summary of Controller's Office Policies and Tools for Nonprofit Oversight**

INTRODUCTION

In Fiscal Year 2023-2024, 37 City and County of San Francisco (City) departments entered into over 3,300 contracts with more than 700 nonprofit organizations. By the end of the year, the nonprofits delivered over \$1.5 billion in services to San Franciscans. Departments that contract with nonprofits are responsible for overseeing and monitoring the delivery of those services. While the majority of nonprofits provide high quality services, some high-profile exceptions have shone a spotlight on the City's oversight of these contracts.

In March 2024, the Board of Supervisors passed legislation directing the Controller's Office to:

- Develop policies to improve nonprofit contract monitoring and oversight practices across departments.
- Revise the existing Citywide Nonprofit Corrective Action Policy to establish criteria for escalation when there are issues of poor performance.
- Establish policies and procedures regarding financial audit requirements for nonprofits.
- Review publicly available information on the City's business with nonprofits and create a website informing the public how to find that information.

This memo provides an overview of the Controller's Office's work to develop policies, documents, and webpages fulfilling the mandate of the legislation and supporting general improvements to nonprofit oversight. This body of work represents a major step forward in setting a baseline of expectations for nonprofit oversight across City departments.

As of 2003, the San Francisco Charter has assigned the Controller the authority to perform regular oversight of the City's contracting procedures. Since that time, the Controller's Office has taken a lead role in improving and coordinating nonprofit contracting and oversight practices, including coordinating joint fiscal monitoring via the Citywide Nonprofit Monitoring and Capacity Building Program, creating new policies and guidance to ensure contracting and monitoring practices are consistent across departments, convening and coordinating with nonprofit organizations, conducting audits of nonprofit contracts and department contracting procedures, and issuing reports regarding the challenges nonprofit contractors face.

The portfolio of products published today addresses the requirements of the March 2024 legislation, and also includes related guidelines, policies and tools beyond the original scope of that legislation. All together, these products create a framework for department oversight of their contracts and expand the Controller's Office's role in coordinating departments to respond when issues arise.

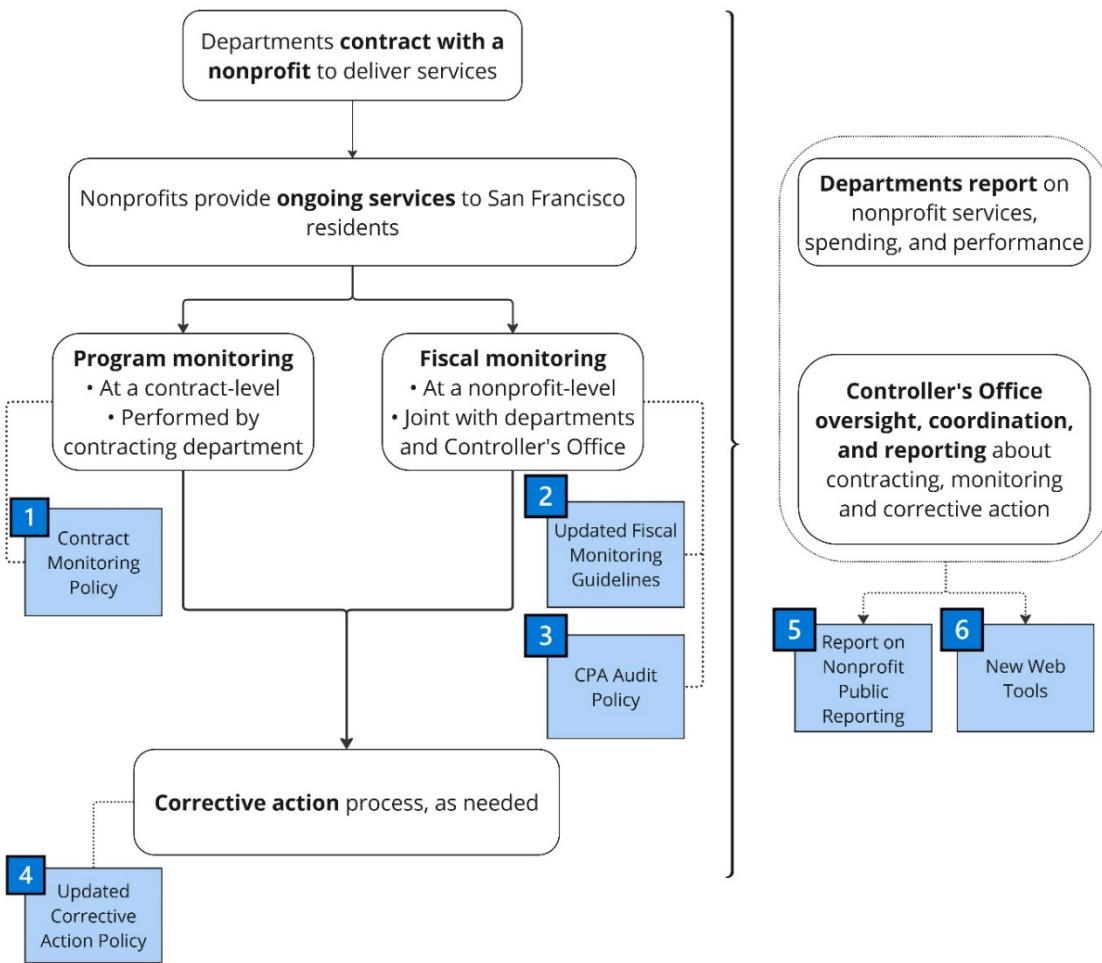
OVERVIEW OF NEW POLICIES AND TOOLS

This portfolio includes the following products:

- 1) **Contract Monitoring Policy**: Policy establishing Citywide requirements and guidance for departments in monitoring the performance of contracts with nonprofit service providers.
- 2) **Updated Fiscal Monitoring Guidelines**: Updated document providing guidance for departments on requirements for fiscal monitoring.
- 3) **CPA Audit Policy**: Policy operationalizing the requirements for nonprofit submission of audited financial statements to the City when they receive threshold funding in a given year.
- 4) **Updated Citywide Nonprofit Corrective Action Policy**: Policy directing the Citywide corrective action process when nonprofit contractors are not meeting City standards for service delivery or financial management and ensuring the City provides appropriate support and oversight to address these issues.
- 5) **Report on Nonprofit Public Reporting**: Report providing an overview of the current state of public reporting on nonprofit contractor spending, performance, and services, including recommendations to improve access to and utility of available information.
- 6) **New web tools that support this legislation**: Collection of new and updated web pages that collect all Controller's Office work on nonprofit contracting policy and oversight and enable users to more easily find, access, and understand available information.

As a whole, these products support the governance and accountability of the nonprofit contract oversight process, as detailed in the figure below.

Contract Oversight Processes and Controller's Office Products



Contract Monitoring Policy

Required by legislation

This policy establishes Citywide requirements and guidance for departments in monitoring the performance of contracts with nonprofit service providers. This policy applies to all departments who enter into agreements (including both contracts and grants) with nonprofits to deliver services to the public.

The purpose of this policy is to create baseline requirements for consistent and appropriate monitoring practices that all departments must follow when contracting with nonprofits that deliver direct services. The policy integrates certain best practices currently in place among departments that do large-scale contracting with nonprofits, and institutes specific requirements for such practices where reasonable. The policy includes a robust implementation guide in the appendix to support departments and nonprofits to understand the core elements.

The policy includes required and recommended components in five key areas:

- Performance Measures
- Reporting
- Program Monitoring
- Ongoing Engagement
- Department Policies and Procedures

City departments that contract with nonprofits must establish policies and procedures by June 30, 2025, and must incorporate necessary elements into contracts or contracting processes for any agreement initiated as of June 30, 2025.

The Controller's Office will develop its own implementation plan throughout the coming fiscal year, including expanding the scope of the existing Citywide Nonprofit Monitoring and Capacity Building Program to account for the Controller's Office's role in overseeing compliance with the new Contract Monitoring Policy, as well as developing new annual reporting procedures.

Updated Fiscal Monitoring Guidelines

The Citywide Nonprofit Monitoring and Capacity Building Program routinely publishes guidance on how departments should conduct fiscal and compliance monitoring of nonprofit contractors. In August 2024, the Controller's Office updated and published a revised version of the Fiscal Monitoring Guidelines. These updated guidelines clarify expectations around fiscal monitoring for all City departments that contract with nonprofit suppliers, whether the department participates in the joint Fiscal Monitoring Program or conducts fiscal monitoring independently.

The guidelines include:

- Expectations around monitoring and invoice documentation review for all departments
- Overview of the Fiscal Monitoring Program
- Explanation of the types of monitoring, risk assessment, and the monitoring process
- Summary of department staff roles and responsibilities related to fiscal monitoring

In the coming fiscal year, the Controller's Office will produce additional tools and training to support department staff to perform accurate, consistent, and high quality fiscal monitoring of nonprofits in alignment with these guidelines.

CPA Audit Policy

Required by legislation

This policy operationalizes the requirements for nonprofit submission of audited financial statements to the City when the nonprofit receives threshold funding in a given year.

The policy specifies:

- The funding threshold for audit requirements and exceptions
- The City's authority to request additional documents

- Fiscal period for required reporting
- Timeline for audit completion
- Submissions requirements

This year, FY24-25, represents the first year when threshold funding levels identified in this policy may be met, and this policy establishes a first submission due date of March 2026.

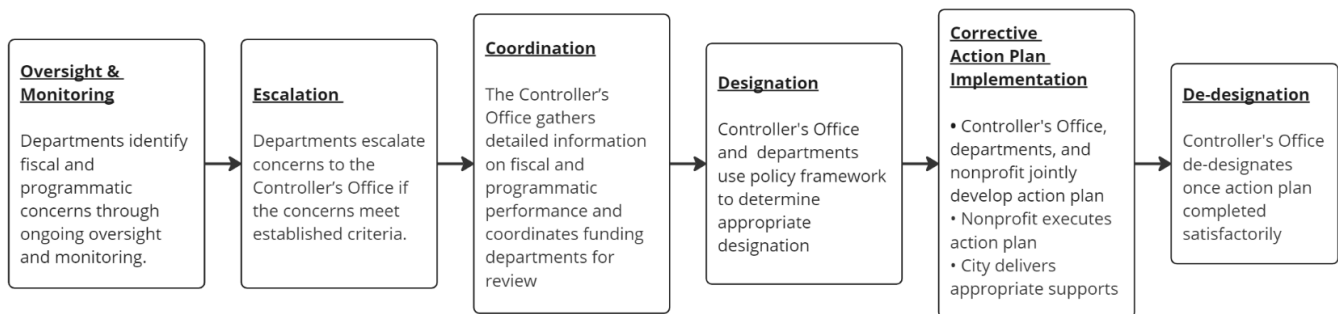
Updated Citywide Nonprofit Corrective Action Policy

Required by legislation

This policy helps identify nonprofit contractors that are not meeting City standards for service delivery or financial management. The policy also ensures that the City provides appropriate support to nonprofits and oversight to address these issues.

The purpose of this policy is to create criteria and a structured process for how the City addresses poor contractor performance. The Controller’s Office last updated the policy in 2014 to add more specific criteria for fiscal issues. The purpose of this 2024 update is to make the escalation and designation process clearer and to establish more specific programmatic criteria for corrective action.

This policy establishes a six-step collaborative process and workflow for identifying and resolving financial, administrative, and programmatic issues in nonprofit contracts. The figure below illustrates the process:



In addition to explicitly outlining the monitoring and corrective action process, the policy includes the following components:

- Criteria for fiscal and programmatic issues that departments should escalate to the Controller’s Office if they cannot be resolved through internal corrective action processes.
- Process and criteria for determining the severity of financial, administrative, and programmatic issues that departments or other parties have escalated to the Controller’s Office. This process determines what designation tier, if any, is appropriate.
- Designation tiers that indicate the severity of issues and determine what level of support or intervention may be needed.
- The process for de-designation upon a nonprofit’s successful completion of a corrective action plan, or further actions should the nonprofit not resolve the issues.

This policy and process go into effect immediately; however, certain components, such as how the Controller’s Office will report on designations and de-designations, will be designed in the coming

months as part of broader program design considerations for the Citywide Nonprofit Monitoring and Capacity Building Program.

Report on Nonprofit Public Reporting

Required by legislation

This report supports transparency by identifying what information is currently available and proposing recommendations to improve public access to information on nonprofit contracting.

The report provides an overview of currently available information on nonprofit contractor spending, services, and performance and identifies challenges with accessing that information. It also provides recommendations to improve access, and also explains how new web tools the Controller's Office has created (see below) address some key barriers to accessing information.

New Website and Online Tools

Some components required by legislation

The Controller's Office developed this new set of websites and online tools to promote transparency across City departments and contractors around nonprofit contracting policies and guidelines and to frame the work that the Controller's Office performs related to nonprofit policy-setting and oversight.

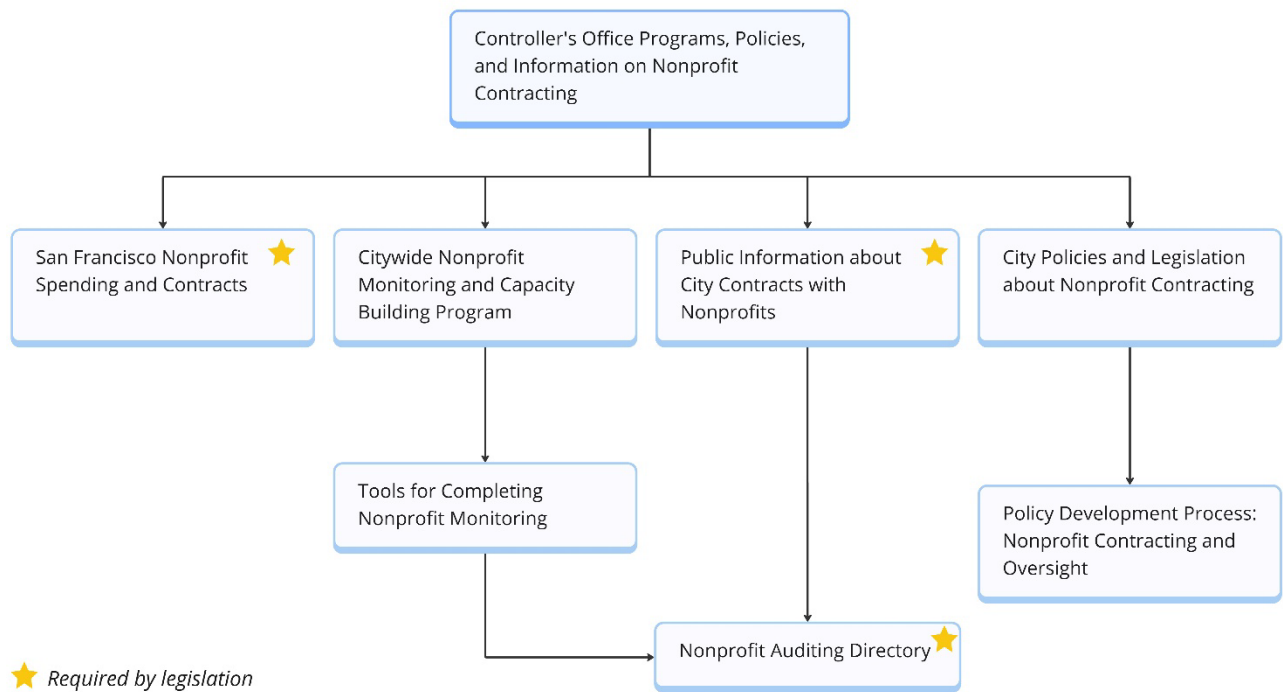
The updated website gathers information about the Controller's Office's work on nonprofit policy, programs, and oversight in one central set of related websites. It also includes new tools that support the public in finding and using existing information on nonprofit spending, performance, and services.

In addition to revising existing content related to the Citywide Nonprofit Monitoring and Capacity Building Program, the Controller's Office developed a series of pages, including several that explicitly comply with the March 2024 legislation's requirements, per the list and the figure below.

- **[Controller's Office Programs, Policies, and Information on Nonprofit Contracting](#)**: This page serves as a landing page that frames the Controller's Office's programs, policies and information about nonprofit contracting.
- **[San Francisco Nonprofit Spending and Contracts](#)**: This page displays dashboards that make existing financial data from SF OpenBook, the City's financial transparency portal, easier to find and understand. The page includes a summary of spending, dashboards showing spending by department, and dashboards showing spending by nonprofit. ★ *This page is a direct result of the legislation.*
- **[Public Information about City Contracts with Nonprofits](#)**: This page serves as a "how-to" guide that summarizes available information about nonprofit contracting published across various City websites. It includes a description of what information is available and how to find it to help improve understanding of and access to this information. ★ *This page is a direct result of the legislation.*

- **Nonprofit Auditing Directory:** This page aggregates and posts information about CPA auditors interested in conducting audits for nonprofits that do business with the City to support nonprofits in fulfilling their audit requirements as outlined in the CPA Audit Policy.
★ *This page is a direct result of the legislation.*
- **City Polices and Legislation about Nonprofit Contracting:** This page aggregates and posts current policies, legislation, and executive directives governing the City's nonprofit contracting, as well as an archive of past policies for reference.

Site Map of Webpages on Controller's Office Nonprofit Policy Work



POLICY DEVELOPMENT PROCESS, STAKEHOLDER ENGAGEMENT AND FEEDBACK

Initial Policy Development

The Controller's Office initiated our work to develop new policies on nonprofit oversight in July 2023 and aligned this work to the Board of Supervisors' legislation when it was introduced in September 2023 and again when it passed in March 2024. Between July 2023 and June 2024, the Controller's Office engaged numerous staff from City departments and nonprofit organizations to gather input and to iteratively develop the new, published policies.

During initial policy development, the Controller's Office engaged the departments that conduct the largest volume of nonprofit contracting. We also outreached to a diverse array of nonprofits to invite

them to participate in the policy development process, considering nonprofit size, service area, funding departments, demographic mix, and other factors in identifying organizations to include.

From July 2023 through June 2024, we engaged these stakeholders from departments and nonprofits in a collaborative and iterative approach to policy development, using smaller group discussions to work through ideas and consider options and approaches. This approach included the following activities:

- **Interviews with program and executive staff from six City departments** to understand their current contract monitoring policies and procedures, including challenges and promising practices.
- **Input sessions with program and executive staff from 18 nonprofits** to understand their current experiences being monitored by the City, including challenges and promising practices.
- **Workshops with program, finance and executive staff from 17 nonprofits** to gather input on specific contract monitoring and corrective action policy content.
- **Workshops with program staff from six City departments** to gather input on contract monitoring and develop content and criteria for the corrective action policy.
- **Workshops with finance staff from 12 City departments** to develop content and criteria for the corrective action policy.

Broad Stakeholder Engagement

The Controller's Office used this considerable feedback process to develop draft versions of the policies. By July 2024, the Controller's Office pivoted our approach to focus on broad community engagement, using three strategies.

In August 2024, the Controller's Office conducted **three in-person input sessions** with nonprofit staff hosted at nonprofit organizations in the Tenderloin, Outer Mission, and Bayview neighborhoods. The sessions included a presentation about the draft Contract Monitoring Policy and the draft Corrective Action Policy followed by small group discussion and feedback from all attendees.

- Overall, 90 nonprofit staff from 72 different organizations attended these sessions.

In addition to in-person events, the Controller's Office held **two virtual information sessions** in September 2024 – one for City departments and another for nonprofit staff and the general public.

- The nonprofit information session included 162 attendees.
- The City department information session included 216 attendees from 22 City departments.

As a requirement of the legislation, the Controller's Office conducted a three-week **public comment period** from September 9 to September 30, 2024. The Controller's Office [created a website](#) to publicly post the draft policies, a feedback submission form for each policy, and helpful resources on the policy development process. The public comment period allowed any member of the public, including nonprofit staff and/or City employees, to provide anonymous feedback on the three draft policies. We received 45 form submissions with 207 total comments over the three-week period, plus some additional written feedback sent via email.

Consistent with the legislation requiring these policies, the Controller's Office conducted broad outreach to organizations reflecting the experiences of diverse communities. The virtual information session registration form and the public comment form both allowed commenters to select the communities they represent.

- The virtual information session was attended by individuals representing a variety of groups, including Asian American (38%), African American (31%), and Latinx communities (31%).
- Form submissions similarly came from individuals representing a wide variety of communities including LGBTQIA+ (27%), Women (22%), and Latinx communities (16%).

Feedback Received

Several themes emerged throughout the broad community engagement phase:

- Participants across these settings asked a number of clarifying questions related to each policy, especially around policy applicability.
- Staff from both nonprofits and City departments expressed concern about the amount of time and resources it would take to implement these new policies, especially for new or small nonprofits and City departments that do not do a significant amount of nonprofit contracting.
- Most people who commented on the policies expressed some degree of support or agreement with one or more components of the documents (64%), such as indicating a policy component is clear, appropriate and/or fair.
- Some staff from nonprofits worried that these policies may result in a punitive response from departments for issues they perceive as outside of their control. Nonprofit staff expressed a need for a fair and balanced process for evaluating performance and responding to issues.
- Numerous nonprofit respondents indicated a need for more robust changes and improvements to City procurement and contracting processes, including commenting on the time it takes to get into contract, delays in invoicing while contracts are being modified or amended, operational constraints such as having to use multiple data systems or contracting information in multiple ways, etc. Several nonprofit respondents commented on a need for more accountability for City staff in contract management and execution.

The Controller's Office made a number of policy changes as a result of this feedback:

- We made numerous minor text changes to clarify the intent and requirements of certain provisions in the Contract Monitoring, Citywide Nonprofit Corrective Action, and CPA Audit Policies. For example, updates clarified the following:
 - That departments should provide a complete list of required documentation prior to a monitoring visit.
 - That departments must make relevant program monitoring and reporting requirements available to nonprofits during solicitations.
 - That the Controller's Office will evaluate nonprofits for de-designation from corrective action on the mutually agreed-upon timeline established in the corrective action plan, or annually at a minimum.
- We added "Questions and Current Guidance" sections to each of these policies to answer frequently asked questions and clarify areas of confusion.

- We made it explicit that City departments may establish different levels of monitoring based on past performance (e.g., establishing a "core" set of monitoring standards for all contractors and an "expanded" set of standards based on risk factors).
- We aligned the timeline requirements for departments to provide reasonable notice of a contract monitoring and fiscal monitoring, with four weeks as the benchmark.
- We added a requirement that departments communicate monitoring results within 60 days of a monitoring activity, and a recommendation that departments communicate results within 30 days.
- We reassessed every recommended component of the Contract Monitoring Policy aimed at limiting burden on nonprofits to determine whether any may be made required policy items. In many cases, we determined it was not possible due to necessary variation in department processes based on funding source requirements, different missions and program goals, or other considerations. However, throughout program implementation, the Controller's Office commits to assessing whether departments are adhering to the recommended activities and whether there is further opportunity to expand requirements that limit burden on contractors and City staff.
- We updated the dates by which departments must begin implementing the Contract Monitoring Policy from March 31, 2025 to June 30, 2025 (to develop internal policies and procedures) and June 30, 2025 (to begin incorporating requirements into all new or amended contracts).

NEXT STEPS

The Controller's Office is currently planning for policy implementation, including assessing support departments may need to implement these guidelines. We will also begin to design updates to the Citywide Nonprofit Monitoring and Capacity Building Program to include both a Fiscal Monitoring Program and a Contract Monitoring Program. The legislation requires annual reporting on the Contract Monitoring Program, and the Controller's Office will design and issue the first required report next fiscal year. As we proceed in our implementation, we will post any updates and guidance to our new webpages.

The Controller's Office would like to thank the numerous City staff across several departments that actively participated in interviews, workshops and review sessions. Additionally, the Controller's Office would like to thank the 100+ nonprofit staff who attended workshops and provided robust feedback to inform this work. And finally, appreciation goes to the Controller's Office staff who developed the policies, report and web content described in this memo:

- Joanna Bell, Senior Performance Analyst
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- Angela Pride, Senior Performance Analyst
- Alisha Singh, Performance Analyst
- Aya Kanan, Performance Analyst
- Wendy Lee, Project Manager
- Laura Marshall, Citywide Nonprofit Policy Manager