A Guide for Nonprofits Receiving Fiscal and Compliance Monitoring

Citywide Nonprofit Monitoring and Capacity Building Program

Table of Contents

I. **What is the Purpose of the Program?**

Every day, nearly 700 nonprofit contractors provide critical services on behalf of the City and County of San Francisco. Nearly 40 City departments fund the essential work these contractors perform, with most of the funding, close to $1 billion, coming from the 12 City departments currently participating in the Citywide Nonprofit Monitoring and Capacity Building Program ("Monitoring Program").

Participating Departments

The Controller's Office convenes the departments, coordinates program operations, and reports on outcomes. Department participation has evolved since the program began, and new departments may be added in the future.

Monitoring Program Goals

The Monitoring Program intends to have the following impacts:
- Public funds are spent in alignment with the City's financial and administrative standards.
- Nonprofit contractors have strong, sustainable fiscal operations.

To achieve these impacts, the Monitoring Program has established the following operational goals:

The Monitoring Program ensures that fiscal and compliance monitoring of nonprofit contractors is:	The Monitoring Program delivers capacity building services that are:
- Consistent across City departments - Efficient and reduces duplication across City departments and nonprofit contractors - High quality - Aligned with best practices in financial management	- High quality - Responsive to City and nonprofit contractor needs - Coordinated among City departments

Departments engaged in the Program use a Standard Monitoring Form to ensure nonprofits adhere to contractual and City policies, and to promote best practices in nonprofit financial management.

II. How Does the Program Support Nonprofits?

Beyond monitoring, the program supports nonprofit sustainability by providing the following resources:

1-on-1 Technical Assistance with Financial Coaches

City monitors may refer a contractor for Technical Assistance. Contractors can receive fiscal and organizational coaching and support from a qualified nonprofit finance specialist. Using an individualized action plan based on the unique needs of the agency, coaches assist nonprofit finance staff, executive leadership, and board members improve financial management and oversight practices.

Technical Assistance activities may include strengthening internal controls, refining the cost allocation plan, or developing comprehensive financial reports and learning how to review them, as well as a variety of other financial, administrative, governance or evaluation issues.

To participate, nonprofits must be referred by their City monitor. Referrals are usually related to findings during the monitoring process. Occasionally, nonprofits may request Technical Assistance outside of the monitoring process, but the action plan must be approved by funding departments and the Controller's Office. Technical Assistance projects are generally short-term, with fewer than 30 hours of support provided during the engagement.

Spring Nonprofit Training Series

Every year, the Controller's Office hosts a series of free training events, with priority given to nonprofits participating in the Monitoring Program. The series covers a variety of topics related to nonprofit finance and governance. Past sessions included:

- **Telling Your Financial Story**: using the audit and financial reports to understand and convey information about the financial health of the agency to the board or funders.
- **Operational Excellence**: understanding staffing models needed to sustain a strong nonprofit and developing systems and tools to ensure appropriate controls are in place.
- **Logic Models**: developing a vision for the agencies intended impact and strategies to achieve that vision.
- **Nonprofit Board Fundamentals for Ensuring Impact**: supporting board members and directors to understand their roles in governance of the agency.
- **Building Better Budgets:** the basics of building a budget, cost allocation plan, and cash flow projection for more accurate financial planning.

III. What is Fiscal and Compliance Monitoring?

The Program includes two types of monitoring:

Expanded Monitoring: A monitoring team reviews financial and compliance documents at your location or virtually. Before and during the in-person or virtual meeting, City monitors will review your financial documents, written policy and procedure manuals, and other items to ensure your agency meetsCity standards.

Core Monitoring: You will submit financial and compliance documents to your City monitor. Learn more aboutthe difference on the following page.

Each year, participating City departments assess the contractors in the pool using a process called **Risk Assessment** to assign each contractor an Expanded Monitoring, Core Monitoring or Waiver.

Departments answer a series of questions about each contractor, including whether the contractor had had turnover in key positions in the prior year, had repeated and unresolved findings, or were noncompliant in any programmatic or administrative areas.

If the results of these questions show that the nonprofit contractor is "low risk," that contractor may receive a Core Monitoring instead of an Expanded Monitoring. There are certain factors that may require that the contractor receive an Expanded Monitoring regardless of the criteria above:
- Expanded Monitorings are required if the contractor received a Waiver in the prior year or if the contractor received a Core Monitoring for the prior two years.
- Some programs or funding sources require fiscal and compliance Expanded Monitoring on site/in-person annually.

Departments may request a Waiver when there have been no findings in the external audit and in the Monitoring Program for the last two years; there has been no turnover in key leadership positions within the last two years; and the contractor has not received a Waiver in the last three years.

The **Monitoring Team** comprises City contract monitors from all City departments that fund your agency and participate in the Monitoring Program. The Lead Monitor is your main contact and organizes the rest of the team. Teams may comprise two to eight City monitors, depending on the number of contracts your agency has with the City.

The Monitoring Team will use a **Standard Monitoring Form** to ensure consistency across all contractors. The Standard Monitoring Form covers topics including the agency-wide budget, audited financial statements, and board oversight practices.

After the monitoring, the City will send you a **letter** either detailing any findings or documenting your agency's full conformance with the standards.

Your agency will have time to remedy any findings or develop a plan to meet the standard and report back to the City before the monitoring cycle closes and a final letter is issued.

V. What is the Expanded Monitoring Timeline?

OCTOBER TO DECEMBER ANNUALLY

The Lead Monitor will reach out to your agency to find a mutually agreeable time for the in-person visit/virtual meeting.

AT LEAST 20 DAYS BEFORE THE EXPANDED MONITORING

The Lead Monitor will send an Expanded Monitoring Letter (described below) documenting the date and time of the upcoming in-person visit/virtual meeting.

BEFORE THE EXPANDED MONITRING

You should send the documents requested by the Lead Monitor in the Expanded Monitoring Letter.

The Monitoring Team needs extra time to examine certain documents. Make sure to send these documents by the date listed in the letter to save time on-site during an in-person visit.

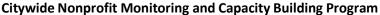Familiarize yourself with the Standard Monitoring Form.

DURING THE EXPANDED MONITORING

The Monitoring usually takes up to four hours. After the City monitors review documents, they will hold an exit conference to summarize any findings and explain next steps.

Citywide Nonprofit Monitoring and Capacity Building Program

WITHIN 6 WEEKS FOLLOWING THE MONITORING

The Lead Monitor will send you a Monitoring Report Letter documenting findings and proposed corrective actions. If you have no findings, this letter documents full conformance and closes the process.

30 DAYS AFTER RECEIVING MONITORING REPORT LETTER

If you had findings, you will have 30 days to submit a response letter to the Lead Monitor. This letter is your opportunity to share documents that bring you into conformance with standards. You may also send a corrective action plan that demonstrates how your agency will work to meet standards before next year's monitoring.

30 DAYS AFTER CONTRACTOR'S RESPONSE

The Lead Monitor will incorporate your response into the Final Status Letter. The Final Status Letter indicates whether your agency is in conformance or not yet in conformance with the standards, and it formally closes the fiscal and compliance monitoring cycle for the year.

AUGUST-SEPTEMBER ANNUALLY

At the end of the monitoring cycle, the Controller's Office will publish an annual report documenting the results of the prior year's monitoring and other program activities.

This report is disseminated to the San Francisco Board of Supervisors, City Department Heads, the Mayor's Office, participating nonprofits, and the Public Library.

Annual Report

Citywide Nonprofit Monitoring and Capacity Building Program

VI. What Documents Are Needed for an Expanded Monitoring?

City monitors request documents in advance of the monitoring date to allow sufficient time tofamiliarize themselves with these documents and to be more efficient with the time spent at the actual in-person visit/virtual meeting. The Lead monitor makes this request via the Expanded Monitoring Letter.

In general, City monitors ask for financial documents in advance of the scheduled monitoring date, and will wait to review policy manuals, personnel files, invoice documentation, etc., during the visit/meeting. The first section below outlines many of the documents the City monitors will request in advance, and the subsequent section outlines additional documents to be reviewed during the visit/meeting.

During an in-person monitoring, you will need to provide private space (e.g., a conference room) that can accommodate two to eight individuals and with a clear table or desk to allow City monitors to manage all the documents being reviewed.

The pages below discuss which documents City Monitors will request as well as:

- Which standards City Monitors will check in each document.
  - The numbering of the standards in this guide is based on the Standard Monitoring Form for Fiscal Year 2021-2022, available online at https://sfcontroller.org/fiscal-and-compliance-monitoring

Standards Checked

- Tools and tips to help you better understand why the monitors are requesting the documents and how to improve them to meet the City's standards, if necessary.

Tips for Preparing Your Document

- This guide provides links to many tools to help your agency meet the standards. These tools and more can be found at the Monitoring Program's website at www.sfcontroller.org/nonprofits - follow the link to the "Resources for Nonprofits" page.

Templates & Resources

Agency-Wide Budget

Standards Checked

Standards
1a. - 1g.

Tips for Preparing Your Document

- The standards require that your agency budget expenses by program and show allocation of Shared and Indirect expenses across programs.
- The standards require your budget to be "program-based." Budgets should reflect the total revenue and expense for each program, including when one program has multiple funding sources. Budgets only organized by funding source may not meet standards. Review training materials about budgeting (links below) to find examples.
- The standard monitoring form also includes a best practice that asks for a cash flow projection. Straight-line projections are generally inaccurate and will not meet the best practice. Consider when funding is expected to arrive and when major purchases may show up on your books. Find training materials below to understand how to develop a cash flow projection.
- Monitors will request both a roll-up of your budget (e.g., a summary budget) as well as a detailed budget to show expenses by program.
- You can send an Excel file in advance, and monitors may request a print-out to view the Excel budget during the visit to ask questions. It is useful to provide a document that allows monitors to see and test your formulas.
- Monitors may compare invoiced expenses to your budget, or may use your budget documents to test that your Cost Allocation Plan has been applied appropriately.

Templates & Resources

Example Budget Template:
https://sfcontroller.org/sites/default/files/Documents/Auditing/Session%203%20Nonprofit%20Budgeting%20.pdf

Standards Checked

Standards
2a. - 2e.

Tips for Preparing Your Document

- The City reviews cost allocation procedures in order to ensure that contractors understand the full cost of each program to support effective management decisions, and to ensure that City contracts do not pay for more than the cost of the program that they are supporting.
- Cost allocation plans may be a separate narrative or included as footnotes in the budget document.
- Allocation of costs should be reasonable and consistent.
  - Reasonable methods of cost allocation may include FTE or square footage, based on the types of expense being allocated.
  - Consistent means allocating the same type of expense (e.g., rent) across multiple programs using the same methodology (e.g., square footage used by that program).
- It is useful to provide a document that allows monitors to see and test your formulas.
- City monitors will check whether you use the same cost allocation practices across all financial transactions. This means they will test invoices to ensure the allocations of specific program costs align with the budget.

Templates & Resources

Cost Allocation Guidance:
https://sfcontroller.org/resources-nonprofits-2#nonprofit

Audited Financial Statements

Standards Checked

Standards
3a. - 3m.

Tips for Preparing Your Document

- While most contractors will be required to conduct a formal audit, each department has a different threshold for when an audit may be required (e.g., as opposed to a financial review). If you have not conducted a formal audit previously, check with funding departments at the start of the fiscal year to understand whether an audit will be needed in the coming year.
- Standards 3e. – 3g. only apply to contractors that spend $750k/year in federal funding and must receive an A-133 audit.
- A complete audit includes:
  - Opinion Letter
  - Statement of Financial Position
  - Statement of Activities
  - Statement of Cash Flow
  - Statement of Functional Expenses
  - Footnotes
- Audits must be completed within six months of the close of your fiscal year. A timely audit is an important tool for financial management and internal controls.
- City monitors will request your most recent audit as well as the prior year's audit. This allows the Monitoring Team to assess important trends over time using the ratios and formulas described in the Standard Monitoring Form.

Templates & Resources

Understanding Audited Financial Statements:
https://sfcontroller.org/modules/showdocument.aspx?documentid=3230

Citywide Nonprofit Monitoring and Capacity Building Program

Balance Sheet
(i.e., Statement of Financial Position)

Standards Checked

Standards
6a. – 6c.

Tips for Preparing Your Document

- Your financial system (e.g., QuickBooks) may produce this report automatically, if your chart of accounts is accurate.
- The balance sheet should reflect your most current bank reconciliation. You don't need to provide monthly balance sheets; just share the most recent year-to-date reconciliation. To meet the standard, it should have been completed within the last three months.
- City monitors will divide assets by liabilities to identify your agency's working capital ratio, a measure that shows how much capital is needed to carry out day-to-day work. To meet the standard, this ratio needs to be positive (e.g., more assets than liabilities).

Templates & Resources

Resource to help you understand balance sheets:
https://sfcontroller.org/Modules/ShowDocument.aspx?documentid=613

Profit and Loss Statement
(i.e., Statement of Activities)

Standards Checked

Standards
6d. – 6f.

Tips for Preparing Your Document

- The profit and loss statement should reflect current bank reconciliation. You don't need to provide monthly profit and loss statements; just share the most recent year-to-date reconciliation. To meet the standard, it should have been completed within the last three months.
- City monitors may compare your financial documents, like the Profit and Loss Statement, to your budget and cost allocation plan to see whether cost allocation practices are consistent.

During the Expanded Monitoring

Invoices

Standards Checked

**Standards
7a. – 7g.**

Tips for Preparing Your Document

- You may request advance notice of the two months of invoices the City monitors will review during the Visit/ Meeting. Email your Lead Monitor, and s/he will inform you which months will be monitored two days prior to your visit/meeting.
- The Monitoring Team will establish that expenses appearing in invoices align with the contract budget, the agency-wide budget, and cost allocation plan, and that all invoices have appropriate supporting documentation (e.g., receipts).
- The Monitoring Team will also use these invoices to test those fiscal policies and procedures are being followed, including sound internal controls regarding check-writing and credit card use.

Templates & Resources

Resources to understand the construction and uses ofInvoices: https://www.compasspoint.org/sites/default/files/documents/Guide%20to%20Fiscal%20Policies%20and%20%20Procedures.pdf (Page 7)

Standards Checked

Standard
4a.

Tips for Preparing Your Document

- Nonprofits must complete the federal tax form annually. The submission requirements are on page 9 of the form. To be "on time," the letter must be sent four and a half months after the close of the fiscal period:
  - Calendar year = May 16
  - Fiscal year = November 16
- Agencies may show an extension letter to meet the standard, but it must have been sent to the IRS by the deadline.
- The Monitoring Team will review the most recent closed tax year.
- If your agency received an extension, you must submit the completed 990 to your Lead Monitor when it has been submitted to the IRS.

Templates & Resources

IRS information about the 990:
https://www.irs.gov/uac/about-form-990

Standards Checked

Standard
5a. – 5d.

Tips for Preparing Your Document

- The primary purpose of this document is to establish internal controls and support continuity of operations.
- This document should be reviewed whenever leadership changes, particularly when a new CFO takes over agency finances. It is also a best practice to conduct a regular review (e.g., every two years) to ensure the policies and procedures are effective and being followed by staff.
- Beyond simply establishing that your agency has a manual, the Monitoring Team will test certain internal controls to ensure your agency follows its documented procedures.

Templates & Resources

Sample Fiscal Policies and Procedures:
https://sfcontroller.org/modules/showdocument.aspx?documentid=3230

Standards Checked

Standards
8a. – 8c.

Tips for Preparing Your Document

- Most of these documents are found in your state and federal payroll tax returns.
- The Monitoring Team will check to see that the payroll tax returns were filed by the end of the month following the end of the quarter, and that employees paid with City funds are listed on the DE-9 and DE-9c.

Standards Checked

Standards
8d. – 8g.

Tips for Preparing Your Document

- City monitors will review timesheets for a sampling of employees whose time was billed during the two months of invoices the Monitoring Team reviewed for standards 7a. – 7g.
- Documentation from regular time studies is also allowed unless timesheets are required by other funders or federal pass-through.
- You should provide the Monitoring Team with a printed version of time sheets to examine during the scheduled monitoring. However, e-timesheets are allowed. If you use e-timesheets, consult with your Lead Monitor toidentify the best way for monitors to review the information they need.

Guidance on Time Studies:
http://sfcontroller.org/sites/default/files/Documents/Audi

Templates & Resources

Standards Checked

Tips for Preparing Your Document

Standards
9a. – 9p.

- Boards have important fiduciary responsibilities over the agency and review of board minutes helps establish that the board is conducting appropriate oversight.
- City monitors will request board minutes from a variety of meetings, including when:
    - Board approved the annual budget within three months of the start of the fiscal year
    - Board (or finance committee) reviewed financial statements (quarterly)
    - Board (or finance committee) reviewed the most recent audit
    - Board conducted an annual performance review of the Executive Director
- Minutes from other meetings may also be reviewed, e.g., if the Executive Director is also on the board, minutes must show the director did not vote on his or her compensation.
- If minutes do not show these actions, you may submit supporting documents to show the appropriate review occurred.
- City monitors may also request a board roster to ascertain membership. If City staff or commission members sit on the board, you must show evidence that board member signed a conflict-of-interest policy.

Board of Directors Best Practices
- The manual can help board members to understand their roles and responsibilities.
- A policy manual will typically include, at minimum, the following information:
    - Bylaws that define term limits, quorum, committee structures, and voting/decision-making process.
    - Policy on board members assisting with the raising of funds and annual giving.
    - Board members' responsibilities in financial oversight, including reviewing financial statements and the IRS Form 990 and approving the annual

budget.

- o How board leadership positions are filled and how the board conducts active recruitment to fill vacancies.
- o Conflict of interest policy.
- Standards 9h. – 9p. are best practices only. Best practices are encouraged by City monitors to help contractors learn industry standards. City monitors will provide a Board Governance checklist prior to the visit and will review your responses during the visit.

Templates & Resources

Guidance on Board Governance:
https://sfcontroller.org/resources-nonprofits-2#nonprofit

Public Access Policy, Bylaws, and Notice of Board Meetings

Standards Checked

Standards
10a. – 10d.

Tips for Preparing Your Document

- Standards 10a. – 10d. only apply to contractors receiving at least $250,000 in City funding, per Administrative Code Sec. 12L, the "Sunshine Ordinance."
- To show proof that at least two board meetings in the prior year were open to the public, you can print or save a PDF copy of an email to the Public Library and Board of Supervisors requesting the posting of the notice. The date of the email should be 30 days in advance of the meeting.
- Agency bylaws should indicate that the agency will require or make good faith efforts to include clients on its board.
- Your agency should have a written policy (which can be a part of larger policies and procedures manuals) that outlines the requirements of the Sunshine Ordinance to make certain financial documents (budget, tax returns, audits) publicly available.

Templates & Resources

Sample public access policy template:

Sample Policy Regarding Public Access (Word)

Standards Checked

**Standards
11a. – 11c.**

Tips for Preparing Your Document

- Standards 11a. – 11c. only apply if your agency uses City funding to contract with other service providers to deliver a portion of services. This includes areas of fiscal agency (or being a fiscal intermediary) fiscal sponsorship.
  - Vendor or consultant services (e.g., evaluation services) do not apply.
  - Collaborative grants do not require procurement procedures.
- The Monitoring Team will review the procurement procedures outlined in your agency's fiscal policies and procedures manual and check whether these procedures were followed for applicable subcontracts.
- Your agency should have an established process for monitoring subcontracts, such as validating supporting documentation for invoices submitted to you by the subcontractor. These processes for monitoring should be documented in the fiscal policies and procedures manual, and City monitors will test whether the procedures are being followed.

Standards Checked

Tips for Preparing Your Document

Standards
12a. – 12c.

- The manual should include the following sections:
  - Equal Employment Opportunity regulations
  - Harassment and discrimination policy
  - Reasonable accommodation policy
  - Grievance procedures
- Evidence that staff were trained regarding personnel policies may include a sign-in sheet or a signed acknowledgement form stored within the personnel file.
- The day of the Scheduled Monitoring, the Lead Monitor will inform you of the employees whose files will be reviewed during the meeting. Because personnel files contain sensitive information about employees, City monitors may requestsomeone on your staff to extract specific documents to be reviewed from the files:
  - Job description
  - Application or resume
  - Confirmation or letter of hire
  - Salary information including adjustments
  - Verification of employee orientation
  - Annual TB clearance (as applicable)
  - Fingerprinting (for children's services)

Standards Checked

Standards
13a. – 13b.

Tips for Preparing Your Document

- The Emergency Operations Plan helps you:
  - Prepare for emergencies, to the extent possible
  - Minimize and/or prevent harm and injury
  - Respond quickly and clearly to all constituents
  - Continue to offer essential programs
  - Resume full operations as soon as possible
- The plan should cover all sites where clients may be served, as well as administrative offices.
- Evidence that staff and volunteers were trained within the last 12-month period on the emergency plan may include a sign-in sheet from the training or an acknowledgment form signed by employees.

Templates & Resources

Emergency Preparedness:
https://sfcontroller.org/Modules/ShowDocument.aspx?documentid=874

IV. How is a Core Monitoring Different?

A Core Monitoring is meant to ease the burden of the annual monitoring for nonprofits with consistently good performance. The Risk Assessment process (described on page 5) is used to determine which agencies will receive a core monitoring. Some standards must be monitored annually, while others are not monitored at all during a core monitoring.

Standard Monitoring Form in a Core Monitoring

The following standards are **not** monitored during a core monitoring:
- 1. Invoices (a-g)
- 2. Payroll (b)
- 2a. Timesheets (d-g
- 3. Agency Wide Budget (g)
- 7. Fiscal Policies and Procedures (b-d)
- 9. Board Oversight (d-g)
- 11. Subcontracts (a-c)

If your agency has been designated to receive a Core Monitoring but had a finding in one of these expanded monitorings (formally site visit) standards in the prior year, City monitors will monitor that standard to verify that you have accomplished your corrective action plan to address the finding.

Core Monitoring Process

Your Lead Monitor will send a letter informing your agency about the Core Monitoring. It will include the Standard Monitoring Form and instructions to return the form and supporting documentation to the Lead Monitor by a specific date.

You will have at least six weeks to complete the form. During that time, you may call upon your Lead Monitor for support if there are any elements of the form you do not understand.

By the due date, send an email to your Lead Monitor with the completed form and supporting documentation. You will need to attach many of the documents discussed above (e.g., agency-wide budget, audit, financial statements, etc.). Consult with your Lead Monitor for any submission guidelines, such as zipping files or sending hard copies.

City monitors verify and validate the results of your Core Monitoring through a desk review of all materials. The Monitoring Team has six weeks to review your submission before it issues the Monitoring Report Letter, and during that time, your Lead Monitor may reach out to you with questions or to request additional documentation.

Following the issuance of the Monitoring Report Letter, all process steps, and timelines for Core Monitoring match those of an expanded monitoring.

VII. Who Should I Contact for More Information?

For monitoring-related questions, please contact your Lead Monitor directly.

For general questions about the Monitoring Program, please contact nonprofit.monitoring@sfgov.org.

Visit www.sfcontroller.org/nonprofits for details about the program, resources and training materials, and other tools to ensure your agency has a successful monitoring experience.

For monitoring tools, go to the Fiscal and Compliance Monitoring Page: http://www.sfcontroller.org/index.aspx?page=792.