

STANDARD MONITORING FORM

Nonprofit Contractor Fiscal Monitoring
Fiscal Year 2025-2026

This form includes fiscal and governance standards that will be reviewed by City staff through the Citywide Nonprofit Monitoring and Capacity Building Program. All City departments funding nonprofit contractors identified for fiscal monitoring will conduct a coordinated Citywide monitoring process each year and apply the standards as documented through this form.

- Monitoring includes all standards included in this form and applies to all nonprofits identified through the annual risk assessment process to receive fiscal monitoring.
- Monitoring can be conducted virtually (with nonprofits supplying all documents electronically) or in-person at the Monitoring Team's discretion with advance notice to nonprofits (nonprofits supply most documents electronically with some document review on-site). An exit conference between nonprofit and City staff is required in cases where there are questions or findings.

Standards Required for Monitoring

Monitoring Standards	Monitoring Guidance for Departments
1. Invoices <i>Items a. and b. are not required if Department reviews during payment processing</i> ☐ 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 ☐ b. Contractor follows its policies for writing checks, credit card use, petty cash use, and/or reimbursement for expenses tested on invoices ☐ c. Contractors have submitted timely invoices to departments in alignment with contract requirements.	Items a. and b. are only required for funding departments that have not tested supporting documentation at the time of payment processing. Departments should not request supporting documentation from the contractor if it has already been gathered by the department via invoice procedures. When items a. and b. are applicable, select two months of invoices to test, gather supporting documentation and test all expenses on selected invoices, requesting explanation from the contractor as needed. When a nonprofit is funded by two or more departments, departments must request the same months for invoice review to better test for cost allocation, per instructions in the Cost Allocation section in this form. If all funding departments have reviewed invoice documentation at the time of payment, items a. and b. are not applicable, but all funding departments must determine whether contractor has met item c. For item c., Review Contractor's dates of invoice submission. Determine if the submissions are less than 60 days or within the timeframe detailed in the agency's contract.
2. Payroll ☐ a. State DE 9 and federal 941 payroll tax returns were filed by the end of the month following the end of the quarter for monitoring months under review ☐ b. Employees paid with City funds listed on invoices checked as part of monitoring above are listed on the DE 9C for the quarter(s) that includes the monitoring months under review	Request and review the Contractor's DE 9 and 941 returns, payroll tax verification, bank statements, and payroll register/journal for the months under review. If departments have already requested payroll or timesheets for the months under review as part of invoice processing, do not request documents again; share relevant payroll documents to the monitoring team as needed. For item b.: When reviewing invoices (Standard Category 1-Invoices) that charge staff time to the City, monitors should confirm that those employees are reported on the DE 9C for the relevant quarter during on-site visits only. This review is especially important when

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☐ c. Documentation that payroll taxes due were actually paid ☐ d. If employee time is paid by more than one source, it is recorded by funding source or program on timesheets, or tracked separately via time study ☐ e. Employee & supervisor signatures on timesheets (e-timesheets are acceptable, with demonstration or verification of e-signature, written procedures about how e-timesheets are signed or any verifiable approval) ☐ f. All changes to timesheet are initialed by supervisor and employee (e-timesheets are acceptable with demonstration or verification of the approval process for changes, written procedures about how e-timesheets are changed or any verifiable approval) ☐ g. Timesheets of employees paid with City funds listed on invoices checked in Category 1 above list hours worked that are consistent with (close to amount charged in) invoices	the nonprofit allocates staff costs across multiple funding sources (Standard Category 4 – Cost Allocation). In these cases, the DE 9C serves as verification that employees listed on invoices have legitimate payroll costs and are being properly allocated to City contracts. By tying the review back to DE 9C during site visits, monitors ensure both accuracy (employees exist on payroll) and compliance (allocations are supported by actual payroll records). For item c., the contractor should provide either a canceled check (when the organization does not use payroll services) or the invoice/statement from a payroll preparation company that indicates they paid the payroll tax for the quarter. If monitors uncover evidence elsewhere in financial documents that payroll taxes had not been paid for quarters other than the one being reviewed, mark this as a finding. <u>Failure to pay payroll taxes is criteria for placement on Tier 2 of the Corrective Action Policy.</u> Departments with federal funding in their contracts may choose to request timesheets at any point to validate payroll expenses on invoices. For item d., contractors should provide a Staffing Allocation Plan and functional timesheets with employee time broken down by program rather than a summary reporting of total hours worked. Functional timesheets should include program-level detail such that staff hours can be charged to specific programs based on timesheets. If contractor does not use functional timesheets, a time study is <i>required</i>. Monitors should request a copy of the time study completed for the sampled employees. If a valid time study cannot be provided, this is a finding. Timesheets should be prepared monthly or more frequently, represent actual time and effort (i.e., after-the-fact, by program staff), be distributed by program or funding sources, and encompass all activities performed by employee (i.e., account for 100% of an employee’s time). For salaried staff, time studies should be conducted on a regular basis, though frequency may be based on the degree of task variability experienced by staff. Visit https://www.sf.gov/sites/default/files/2022-05/Timesheet_Time_Study_Guidance.pdf for more about timesheets and time studies.
3. Agency-wide Budget ☐ a. Current (fiscal or calendar year) ☐ b. Shows income and expense by program ☐ c. Shows allocation of shared and indirect costs by program ☐ d. Shows fundraising separate from program expenses ☐ e. Clearly distinguishes City, state, federal, and other revenue sources separately include foundations, donors, etc. ☐ f. 15% of funding from non-City sources or contractor can demonstrate non-City fundraising efforts, where applicable ☐ g. Includes annual cash flow projections and updated	Request and review cash flow projections and the detailed agency-wide budget (not a consolidated or roll-up budget) in initial letter. Budgets do not need to be by funding source, but income sections should show all revenue sources. Item b. asks that budgets 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 the standard. Contractors should review training materials about budgeting under Resources: <i>Training for Nonprofit Organizations</i> at www.sfcontroller.org/nonprofits.

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projections reflecting changes during the budget year	Item e. asks that budgets list revenue sources separately at a detailed contract or grant level. Consolidated/roll-up budgets are not acceptable. For item f., a list of funders may include private foundations, individual donors, state, or federal revenue sources, documented in-kind services, or documented volunteer hours and might be verified through the budget, letters of intent, board fundraising committee notes, or other descriptions of solicitation efforts. For item g., a basic cash flow statement should include opening cash balance, monthly revenue/expense, resulting monthly cash balance, with tracking throughout the fiscal year. Straight-line projections of cash flow are not generally considered reasonable or sufficient. To assess cash flow statements, ask Contractor about the following areas: Verify the date of a planned fundraising event, and the timing of expenditures and revenues associated with the event. • Verify that the timing of invoicing to the department matches receipt of funds projected in the cash flow budget (e.g., there can be delays in invoicing at the start of a new fiscal year). • At a high level, assess whether the contractor has updated prior months with actual revenue and expenditure. • If the contractor cannot provide reasonable explanation for these considerations, the standard is not met.
4. Cost Allocation Procedures ☐ a. Cost allocation procedures and plan for shared costs are documented in a written narrative or in the footnotes of the current approved agency-wide budget ☐ b. Process for allocating shared program costs is consistent and reasonable ☐ c. Cost allocation procedures and plan for indirect costs are documented in a written narrative or in the footnotes of the current approved agency-wide budget ☐ d. Process for allocating indirect costs is consistent and reasonable ☐ e. Procedures for cost allocation match actual cost allocation found in agency-wide budget and financial documents such as financial reports, contracts or invoices ☐ f. Invoiced costs shared across departmental contracts are allocated consistently and appropriately and are reasonably aligned to program and funding source in the agency-wide budget.	The agency should have an overall budget and reasonable cost allocation plan based on how shared or common costs are distributed across programs. The agency's approach to allocating shared costs by funding source might vary according to organizational size, complexity, and other public compliance standards. If needed, ask the Contractor to clarify its process (e.g., spreadsheets or additional narrative). Request Contractor include calculations and equations in submission of the cost allocation plan to help monitors understand how the methodology has been applied within the budget. <u>Intent of cost allocation standards:</u> • Ensure that Contractors understand the full cost of each program to support effective management decisions. • Ensure that City contracts do not pay for more than the cost of the program that they are supporting. <u>Reasonable</u> = makes sense and is appropriate to the type of program, e.g., square footage for rent, FTEs for salaries, etc. <u>Consistent</u> = same methodology for the same types of costs across all programs (e.g., method for allocating rent is the same across all programs). <u>Inconsistent</u> = using highly variable bases, e.g., number of participants in a program, salaries without monthly reconciliation. For items e. and f., to test that cost allocation is occurring according to documented procedures, all funding departments participating in the monitoring should select 2

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	months of invoices to review and compare these invoices to each other and to the agency-wide budget and the cost allocation plan. Examine salaries and rent first, as these line items are most commonly applicable to many funding sources and programs. Review the staffing allocation plan and determine if any staff are shared across programs. If issues are uncovered, the monitors may choose to expand the examination to additional months and/or additional cost items.
5. Audited Financial Statements ☐ a. Completed and complete: all sections and statements included opinion and other audit letters are signed; sections include: - Opinion Letter - Statement of Financial Position (Balance Sheet) - Statement of Activities (Income Statement) - Statement of Cash Flows - Statement of Functional Expenses - Footnotes - Management Letter ☐ b. Unmodified opinion ☐ c. No material weaknesses mentioned in the audit or management letter ☐ d. No going concern stated in the notes to the financial statements ☐ e. No current audit findings, significant deficiencies and/or questioned costs mentioned within the audit or management letter ☐ f. Audit completed within nine months of the close of the contractor's fiscal year Financial Assessment: ☐ g. Total unrestricted net income (change in net assets) is positive over the sum of 2 consecutive years, or the contractor provides a reasonable explanation for how it will be positive by the end of the fiscal year Change in net assets = ☐ h. Total change in cash is positive over the sum of 2 consecutive years, or agency has a reasonable explanation and/or plan to reverse cash outflow Change in cash = ☐ i. In current audit, agency has at least 30 days of operating cash	Apply these standards when Contractor meets the standards to receive an audit per the Controller's Office policy (see link). Per the policy, City monitors should first use the City Administrator's public list (see link) of webpages as part of the Annual Economic Statement reporting requirement to find each organization's audit. If not posted, then the department should request it directly from the nonprofit. All standards in this section apply regardless of whether a Contractor received a standard audit of financial statements or a single audit. If Contractor has been required to receive an audit of its financial statements but has not done so, monitors should mark 5a and 5f as findings; no other standards in this category apply. All other standards in this category apply only when reviewing actual audit documents. Item a.: The management letter is not a part of the publicly issued audit. Monitors must request the Contractor submit a management letter for the monitoring. If the contractor did not receive a management letter, they should state this in writing when providing documents for the monitoring. When a contractor receives a standard audit of financial statements, and if there are any audit findings, deficiencies or questioned costs, the auditor documents these issues via a management letter instead of the audit itself (as is done for Single Audits). Use the management letter to review of Items c. and e. Item b.: An Unmodified Opinion includes wording such as, "In our opinion, the accompanying financial statements present fairly the financial position of ABC agency at the fiscal year ending June 30, 2025, in conformity with generally accepted accounting principles." This standard applies whether the contractor received a standard audit of financial statements or a single audit. Item c.: Material weaknesses may be mentioned directly within a single audit. In a standard audit of financial statements, some information about current year weaknesses may only be included in the management letter. Item d.: A footnote is required when auditors identify a going concern, whether this is a standard audit of financial statements or a single audit. Item e.: When a contractor receives a standard audit of financial statements, the auditor will document any audit findings, significant deficiencies and/or questioned costs via a

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Days of operating cash = days	Management Letter, which must be requested separately. In a single audit, the auditor will note these issues in the public version of the report. If the auditor notes “findings,” “significant deficiency” or “questioned costs” either in a management letter or within the single audit, then mark Item e. as a finding. Item f.: If monitoring occurs prior to the 9-month deadline (e.g., in November, when audit is due March), review the prior fiscal year’s audit, and determine if it was completed within 9 months of the prior fiscal year’s close. This standard is interested in timeliness of audit completion, to be more effective as a management tool. This standard applies whether the contractor received a standard audit of financial statements or a single audit. Items g. through i.: These standards may indicate problems in agency’s financial health and apply whether contractor received standard audit of financial statements or single audit. Item g.: Using the Statement of Activity, document the change in net assets (unrestricted net income) in the highlighted field. If negative, include minus sign (-) to indicate negative change. Net income should be positive over the sum of two consecutive years. If the number is negative, it could mean that the organization is relying on debt or investments to fund its day-to-day operations. Item h.: Using the Statement of Cash Flows, add amounts in the line item “Increase (decrease) in Cash and Cash Equivalents” for current year and prior year. Document the calculation of change in cash in the highlighted field. If negative, include minus sign (-) to indicate negative change. The number should be positive, or agency should have a reasonable explanation. Item i. Operating Cash = $\frac{(\text{Cash} + \text{Investments})}{[(\text{Operating Expenses} - \text{Bad Debt} - \text{Depreciation}) / 365]}$ Document the result (number of days of cash) in the highlighted field. If the result is less than 30 days, the standard is not met and should be marked as a finding. The numerator is found on the Balance Sheet. If an agency has investments, they are generally documented as such, either separately or incorporated into the “cash” section. The denominator items are found on the Statement of Functional Expenses and are labeled in those terms. Note: Review the audit to identify where the auditor highlights nonprofit funding sources. This may support the monitor’s assessment of the organization have at least 15% from non-City sources per standards in the Agency-Wide Budget section of this form.
6. Financial Reports Balance Sheet (aka Statement of Financial Position): ☐ a. Balance Sheet is current (as of the last three months, at least) ☐ b. Working capital ratio is greater than 1	Contractors only need to supply the most recent YTD Balance Sheet and Profit and Loss Statement. To meet the standards, both should be current (i.e., updated and reconciled within the last three months).

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Working capital ratio = Bank Statements: ☐ c. Current bank reconciliation (as of the last three months, at least) Profit and Loss Statement (aka Statement of Activity): ☐ d. P&L Statement is current (as of the last three months, at least) ☐ e. Shows year-to-date (YTD) income and expense by program, contract or funding source, including indirect costs ☐ f. 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 Year-to-date net income = 	Item b. Working Capital = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ <u>Document the calculated working capital ratio in the highlighted field.</u> Divide Current Assets (all assets that could be converted to cash in less than 1 year) by Current Liabilities (all money owed by the agency and due within 1 year). A ratio greater than 1 signals the short-term capacity to pay all current liabilities from current asset sources. This measure shows the capital needed to carry out the day-to-day work and should always be positive. <u>Current Assets</u> = Cash + Cash Equivalents + Accounts Receivable + Inventory + Marketable Securities <u>Current Liabilities</u> = Accounts Payable + Grants Payable + Accrued Salaries + current long-term debt Item e.: Request the chart of accounts (cross check the general ledger) to better understand the agency's structure and confirm no co-mingling of funds has occurred when reviewing the income and expenses by program or funding source. Item f.: <u>Document the year-to-date net income (from the P&L statement) in the highlighted field.</u> If negative, include minus sign (-) to indicate negative change
7. Fiscal Policies & Procedures ☐ a. Upon turnover of executive director and/or fiscal manager, policies and procedures are reviewed within one year of the change, and updated every two years [if applicable] ☐ b. Policies are current (updated within the past two calendar years or to reflect monitoring/audit recommendations) ☐ c. Complete (contains policies and procedures related to: - <u>Internal controls</u> (including safeguarding of assets, authorization of transactions, reconciliation of accounting records) [per Standard 6c.] - <u>Financial reporting</u> [per Standards 6a., 6d., 9a-c.] - <u>Accounts payable</u> [per Standards 1a-c.] - <u>Accounts receivable</u> [per Standards 7d.] - <u>Payroll</u> (including accounting for leave, signature requirements, documentation of salary levels) [per Standards 2e-f., 12c.] - <u>Procurement of goods and services</u> [per 1e-g., 11a-c.] (policy covers process for entering into agreements with fiscally sponsored programs) - <u>Conflict of Interest</u> - <u>Subcontracts and Monitoring</u> [per Category 11]	Items a-b.: Policies must be reviewed when leadership changes, and should be assessed every two years, even if no changes are necessary. Agencies can meet the standard by creating a version history to show reviews occurred and when policies were last updated. If the Contractor does not meet the standard, <u>document the date when the Fiscal Policies and Procedures were last updated in the Monitoring Report Letter.</u> Item c.: The document should address ALL items in the list with sufficient detail to be actionable, and should be specific to the agency, not generic. Cross-reference manual to the specific standards listed in item c. to ensure actions match written procedures, per item d. Note: While not all policies may be consolidated within a single "Fiscal Policies and Procedures" document, monitors should request any relevant policies that are maintained separately (e.g., record retention, travel, etc.) for review. Item d.: Actual implementation may vary based on internal operations. The following are examples of reasonable practices, and monitors should test whether each agency's policies are reasonable and implemented consistently. • Disbursements are made by pre-numbered checks or through a secure electronic system [test: check register or e-check register] • Expenses are pre-approved [test: signed approval forms] • Someone prepares a daily list of all cash and checks immediately upon receipt [test: ledger/list]

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- <u>Record Retention</u> - <u>Travel and Travel Reimbursement Policy</u> ☐ d. Implementation of policies and procedures demonstrates appropriate <u>internal controls</u>, including segregation of duties	• Someone performs spot-checks of fiscal practices to test policies are being followed • Bank statements are opened/reviewed by staff or board member who does not have accounting responsibilities [test: bank statement showing address] • Two people count all cash, and/or unannounced counts of petty cash are made by someone other than the fund custodian [test: signed cash counting forms] • Checks over threshold amount (e.g., \$500) are signed by two staff [test: canceled checks] • Agency follows its own (and funders') policies for timely invoicing • Agency conducts a biannual equipment inventory [per federal requirements, if applicable]
8. Board Oversight Fiscal Standards: ☐ a. Minutes show that the Board approved the current agency-wide budget within at least three months of the start of the fiscal year ☐ b. Minutes show that financial reports are shared with the Board (or finance committee) at least quarterly, or more regularly when financial concerns warrant it ☐ c. Minutes show that the Board reviewed the most recent audit within the fiscal year ☐ d. Minutes show that the Board reviewed the most recent IRS Form 990 (or is distributed to members) ☐ e. Conflict of Interest policy is signed by employees, officers and board members involved in City contracts ☐ f. Minutes show that if a City employee or City commission member is on the Board, he or she did not vote on items related to City contracts with their affiliated City department (excluding vote on Agency-Wide Budget) ☐ g. If a paid City employee or City commission member is on the Board, Contractor provides documentation showing that board member signed a Conflict-of-Interest Policy ☐ h. Minutes show that if the Executive Director is a member of the Board, s/he does not vote on his or her compensation ☐ i. Board conducts a performance review of the Executive Director annually ☐ j. Contractor maintains a current Board Manual (Updated every two years)	Board minutes will be reviewed to assess both Fiscal and Compliance standards. Board minutes may also be used in Category 10. Public Access (below), as needed. The monitoring letter should indicate that board meeting minutes will be used to assess these standards so that the contractor can pull the appropriate meeting minutes in advance. Items a.-c.: Minutes should show the board approved the budget. Boards do not need to "approve" the financial reports or audit, but minutes should show that they conducted a review. Review by a finance subcommittee is acceptable. If the minutes are not detailed, request additional supporting documentation that could indicate such a review. The intent of these standards is to assess board oversight, not to assess the quality of minutes. Items e.-g.: When reviewing for conflict of interest, request a copy of the Contractor's current board roster and check whether any members are City staff or commissioners. If a City staff member or commissioner is identified, request documentation showing that the individual has signed or otherwise agreed to the organization's Conflict-of-Interest Policy. The policy may be provided as a separate document or included within a broader board manual or agreement, as long as it contains clear guidance on conflicts of interest for board members. In addition, review the board meeting minutes to confirm that any paid City employee or commissioner serving on the board did not participate in votes related to City contracts with their affiliated City department, with the exception of votes on the organization's overall agency-wide budget. Contractors are required to review and update the board manual every two years. This process ensures that all policies, procedures, and guidelines remain current and effective.
9. Subcontracts and Fiscal Sponsorships ☐ a. If applicable, Contractor has documented procedures for entering into and managing subcontracts and/or fiscal	Standards apply to both subcontracts and fiscal sponsorships funded by the City where the recipient provides direct services to clients. Vendor or consultant subcontracts (e.g.,

Monitoring Standards	Monitoring Guidance for Departments
sponsorships, and documentation that contractor follows such procedures. ☐ b. Signed agreements between Contractor and subcontractors and/or fiscal sponsorships are current, and include scope of work/deliverables and payment requirements ☐ c. Documentation that the Contractor follows its policy related to monitoring fiscal and programmatic performance of subcontractors and/or sponsored programs providing direct services to clients, including monitoring of invoices (e.g., validating receipts) ☐ d. Subcontractor is authorized by the City via the City's contract with the prime contractor or in subsequent authorization. ☐ e. Contractor paid its subcontractors' and/or sponsored program's invoices per the schedule established in the subcontracting agreement and/or prior to receiving City reimbursement for the services delivered ☐ f. Subcontractor and/or sponsored program invoices show basis for work billed as performed (units of service, hours, reimbursable costs)	evaluation services) do not need to be monitored in these ways. This category applies in the following cases: • Prime Contractor is subcontracting portions of its own scope of work with clients • Prime Contractor is a fiscal sponsor or a fiscal agent of a "sponsored program" (i.e., sponsored program performs entire scope of work; prime contractor may receive a fee for managing funding) Item c: Contractors serving as a prime Contractor have an obligation to monitor fiscal and programmatic performance of subcontractors and sponsored programs. This includes ensuring funds are spent on the intended purpose. Category 7 (above): Fiscal Policies and Procedures require contractors to have a policy for procuring subcontractors and/or entering into fiscal sponsorship agreements, and for monitoring subcontractor performance and/or activities of sponsored programs. Monitors should use Item c. to test whether the contractor follows its established policies. This may include reviewing materials the contractor generated in a recent review of the subcontractor or sponsored program. Though not required, monitors may request financial documents pertaining to the sponsored program, such as a budget, an audit, or financial reports, should they deem them necessary to fully evaluate the effectiveness of the prime Contractor's ongoing fiscal monitoring of the program.
10. Preparedness/Responsiveness ☐ a. Contractor was prepared with documents submitted by the monitoring date as requested in Monitoring Initiation letter	Preparedness will be assessed based on contractor's timely provision of documents listed within the Monitoring Initiation Letter in accordance with the schedule specified in the monitoring initiation letter (i.e., by the Monitoring Date). A finding in Category 10 may be prompted by issues such as: • Documents were not submitted within required timeline • Contractor was not responsive and not prepared for requested meeting
11. Nonprofit Registry Status ☐ a. Nonprofit is in good standing with the California State Attorney General Registry of Charitable Trusts.	In addition to departments' existing review of a nonprofit's California Attorney General Registry status when initiating a new contract or amendment per City policy, the Controller's Office will monitor this standard during the fiscal monitoring cycle and provide information about the status to departments for inclusion in the monitoring report letter if there are findings. Department monitors do not need to conduct an additional review of Registry status during the monitoring cycle. Nonprofits that are in good standing with the California Attorney General's Registry of Charitable Trusts are not required to submit IRS Form 990 for purposes of fiscal monitoring. Verification of good standing with the Registry shall be accepted as the applicable compliance standard showing the nonprofit has completed and submitted the Form 990 to the State per State law. If needed, monitors may confirm an organization's status by reviewing the Registry directly.