

Citywide Nonprofit Monitoring and Capacity Building Program

Risk Assessment Policy

Pilot policy for Fiscal Year 2019-2020

Purpose of the Policy: Risk Assessment is the process by which the Monitoring Program defines which nonprofits are included in the annual monitoring process (i.e., “in the monitoring pool”), and determines what type of monitoring (i.e., site visit, self-assessment or waiver) each nonprofit should receive based on a variety of risk factors.

Phase 1: Development of the Monitoring Pool

Policy:

1. Nonprofits providing services to the community are included in the pool.
 - a. Nonprofit consultants providing services to the City directly, or consultants funded to provide services to nonprofits (e.g., program evaluators, technical assistance providers, etc.) are excluded from the pool.
2. The following types of nonprofits are excluded from the pool due to financial complexities beyond the scope of Monitoring Program criteria:
 - a. Public schools, colleges and universities, e.g., SFUSD, SFSU, UCSF, City College
 - b. Hospitals and health plans, e.g., Dignity Health, St. Mary’s
 - c. Banks and credit unions
 - d. Nonprofit housing developers that operate primarily as a developer and not a service provider (nonprofits that develop housing but have service provision as a primary business model remain in the pool).
 - i. Such nonprofits are determined explicitly by the Steering Committee as excluded. Current exclusions in this category are Bridge Housing, Mercy Housing and Tenderloin Neighborhood Development Corporation.
3. Nonprofits receiving \$1m or more from a single department are included in the pool regardless of whether they are jointly funded by another City department.
 - a. “Singly funded” nonprofits receiving less than \$1m from a department are excluded from the pool, but should receive some form of risk assessment and monitoring from the funding department, particularly those receiving \$200,000 - \$1m which would be monitored via the Monitoring Program if jointly funded.
4. To be considered “jointly funded,” nonprofits must receive at least \$50,000 from each funding department.
 - a. A department that does not have grants with a nonprofit above the \$50,000 minimum threshold will not participate in the monitoring for that nonprofit.
 - b. Departments have discretion to include nonprofits receiving below \$50,000, if deemed necessary by that department.
5. Jointly funded nonprofits with total City funding from participating departments greater than \$200,000 are included in the pool.
 - a. E.g., a jointly funded nonprofit receiving two \$75,000 grants totaling \$150,000 would be excluded from the pool, but a jointly funded nonprofit receiving two \$100,000 grants totaling \$200,000 would be included in the pool.
 - b. Departments have discretion to include nonprofits receiving below \$200,000 in the pool, if deemed necessary. However, because these nonprofits are below the threshold,

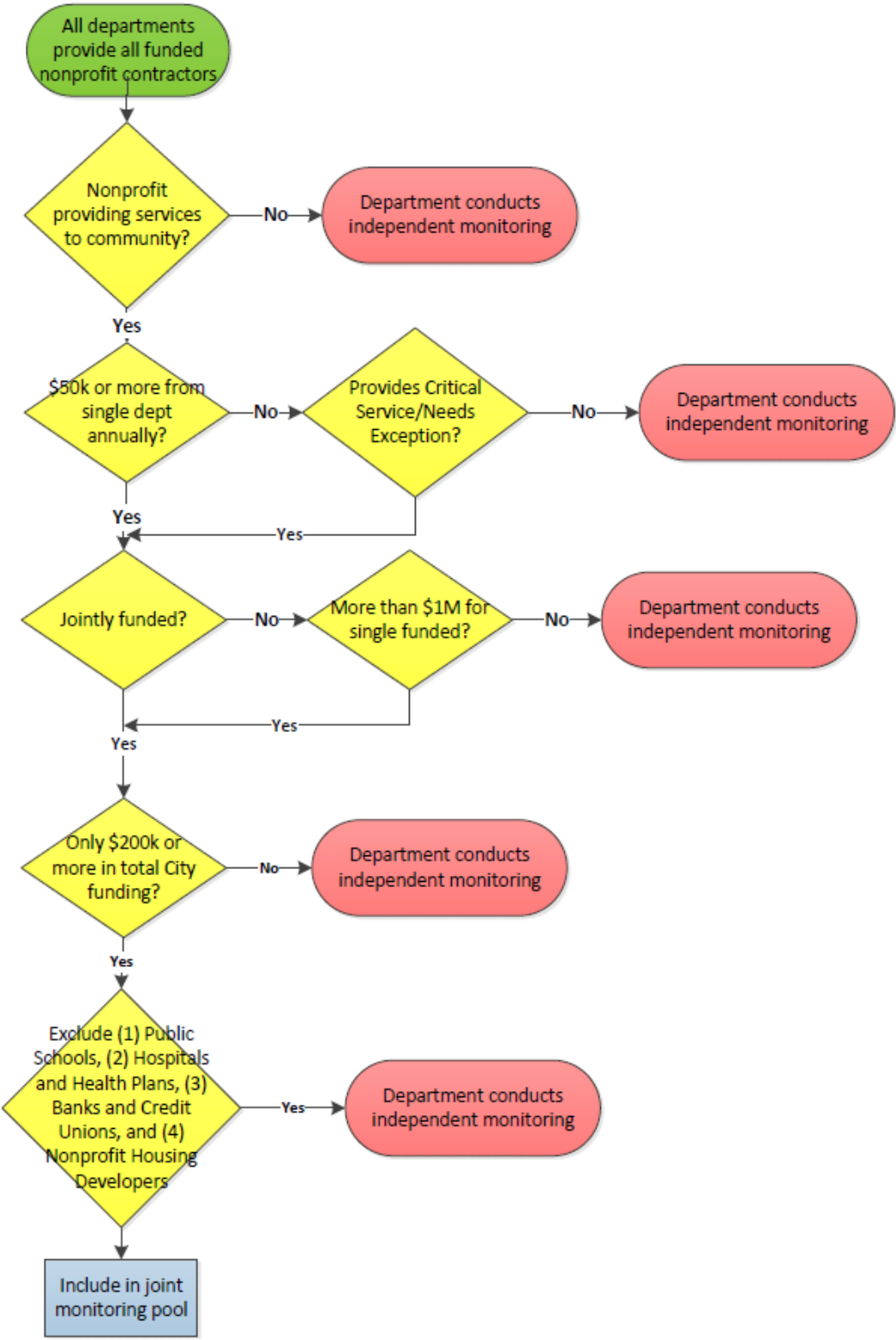
only the department(s) requesting the monitoring will be required to participate on the monitoring team.

Process:

1. Departments must submit all pending and confirmed contracts for the fiscal year to the Controller's Office upon initiation of the annual Risk Assessment process which starts in August of each year.
2. The Controller's Office will use submissions and criteria to determine which contracts should be within the Monitoring Pool for that year.
3. If a department's nonprofit is no longer in the Monitoring Pool, they should conduct an independent monitoring according to their department's policies.
4. The final Monitoring Pool list will only be finalized after the Steering Committee agrees on the list at the annual final risk assessment meeting which takes place in October of each year.

Visual Example of the Phase I Process for Development of the Monitoring Pool:

Nonprofit Monitoring Program's Development of the Monitoring Pool



Phase 2: Risk Assessment of Monitoring Pool

Policy:

1. Each nonprofit in the pool will be assessed by departments according to a set of risk factors.
2. Each risk factor has an assigned weight, per the table below, and the total weight attributed to the nonprofit will add up to a score for the year.

ID	Risk Factor	Weight
A	Unresolved fiscal findings in prior monitoring report 5 or more findings from list below – 15 points 3-4 findings from list below – 10 points 1-2 findings from list below – 5 points 1 or more findings of any type other than the list below – 4 points	4-15 pts
B	Executive Director and/or CFO turnover within the last year	10 pts
C	Contractor has less than two years of City funding from any source	5 pts
D	Agency had major programmatic or operational changes in prior year	3 pts
E	Contractor has new funding department and had findings in the previous monitoring	3 pts
F	Contractor moved to a new location in the past year	1 pt
G	Contractor implemented a new IT system in the past year (e.g., new financial system, new client tracking system, etc.)	1 pt
H	Areas of Concern Contractor has risk factors of significant concern to one or more departments that may not appear through prior monitoring results or other criteria above. Examples of areas of concern may include: Lack of preparedness for past site visits Invoicing discrepancies Fraud or other major concerns that have come to light since the prior monitoring visit	12 pts

Unresolved Fiscal Findings List	
Category	Standard
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 e. Clearly identifies all revenue sources (City, state, federal)
Cost Allocation Procedures	a. Cost allocation procedures and plan for shared costs is 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 is 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 invoices
Audited Financial Statements	a. Completed and complete: all sections and statements included; opinion and other audit letters are signed; b. Unmodified opinion c. No material weaknesses mentioned or going concern stated in the notes to the financial statements d. No current audit findings and/or questioned costs g. For any prior year findings, the Contractor has provided a reasonable explanation of how the Contractor has corrected all the findings For Organizations with a Single Audit: h. No material weaknesses mentioned or going concern stated in the notes to the financial statements i. No current audit findings and/or questioned costs j. For any prior year findings, the Contractor has provided a reasonable explanation of how the Contractor has corrected all the findings
Financial Reports	a. Balance Sheet is current (as of the last three months, at least) 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
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. 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	a. State (DE 9 and DE 9C) 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 in Section 7 above are listed on the DE 9 and DE 9C for the quarter(s) that includes the monitoring months under review c. Documentation that payroll taxes due were actually paid

3. Scores are placed on a risk scale, which correlates with a recommended type of monitoring for the year, per the table below.

Score Range	Risk Level	Recommended Monitoring Type
0 – 3	Low Risk	Waiver
3 – 9	Moderate Risk	Self-Assessment
10 +	High Risk	Site Visit

4. Recommendations may be altered based on cyclical time factors for monitoring described below.

- a. Waivers are allowed for two years with annual risk assessment confirming that the nonprofit’s risk level remains “low.”
 - i. After two years of a waiver, a nonprofit must be monitored even if its risk level remains “low.”
 - ii. The monitoring immediately following the waiver can be a self-assessment (unless risk level is assessed to be “high”).
 - iii. A nonprofit must receive a site visit before another waiver is allowed.
- b. A nonprofit can receive a self-assessment for three years, with annual risk assessment confirming risk level is “low” or “moderate.”
 - i. After three years of a self-assessment, a nonprofit must receive a site visit on the fourth year, even if risk level remains “low” or “moderate.”

Time Factors	
Waivers	Up to two years given “low” risk each year.
Self-Assessments	Allowed following a waiver given appropriate risk level.
	Up to three years given appropriate risk each year, with a site visit required after the third year regardless of risk.
Site Visits	Required following three years of self-assessment.
	Required within a continuous four-year period.

- 5. The Controller’s Office will use this policy to provide recommendations for type of monitoring to the Steering Committee. Consensus of the funding departments will determine the final type of monitoring for each nonprofit in the pool for the year.

Process:

- 1. The Controller’s Office will compile the list of nonprofits determined to be in the pool or otherwise requested to receive a Risk Assessment starting in August of each year.
- 2. Prior to providing the list to departments, the Controller’s Office will populate the Risk Assessment with any known information, such as prior year findings, history of monitoring (e.g., recent waivers or history in the pool).
- 3. The Controller’s Office will provide a template and process for departments to answer questions about the nonprofits they fund. Departments are responsible for ensuring the information provided is accurate and current, which may include consulting internally with program staff to determine if there have been problems or major changes within the organization since the last monitoring visit. This process is typically from late September to October of each year.
- 4. The Controller’s Office will analyze the results of the Risk Assessment to apply the weights to various risk factors and develop a recommendation for a type of monitoring for the year. The recommendation will take into account any time frames policies, such as how often consecutive self-assessments are allowed. This process typically is in October of each year.
- 5. The Controller’s Office will convene departments to review and make final, consensus-based decisions about the type of monitoring each nonprofit in the pool will receive that year. Departments are responsible for ensuring a person with the ability to make decisions for the department attends the entire meeting. This process typically is in October of each year.

6. The Controller's Office will finalize and distribute the Master List for final changes prior to the launch of the annual monitoring cycle. This process typically is in late October to November of each year.
7. The Controller's Office will conduct a "Phase 3" review by the Quarter 2 Steering Committee Meeting to determine if any new nonprofits must be added to the pool and be assessed. If departments have added any new contracts since the start of the Risk Assessment process, they should be incorporated into the Master List at this time.

Policy Exceptions

Exceptions to Type of Monitoring:

The policy dictates the type of monitoring (or waiver) the nonprofit will receive based on the established criteria. Departments may request exceptions in the following circumstances:

- Funding source requires a site visit.
- Department is newly funding the nonprofit and wants a site visit.

In such cases when one (or more) department(s) wants a higher level of monitoring than the policy dictates, this becomes "discretionary" and does not require the entire monitoring team to participate.

- If the nonprofit has been granted a waiver but a site visit is desired, the discretionary department will conduct the monitoring alone (other departments may participate if they choose).
- If the nonprofit has been assigned a self-assessment but a site visit is desired, the discretionary department will become the lead department for the monitoring and will conduct the monitoring alone (other departments may participate if they choose). The department should use the Standard Monitoring Form designated for self-assessments (i.e., not monitoring "site visit only" standards).
- In all cases, the discretionary department should include the other funding departments in communication about the monitoring, including the issuance of the monitoring report letter and any subsequent correspondence. Non-participating departments agree to accept the results of the monitoring as performed by participating departments.

In such cases when one (or more) departments wants a lower level of monitoring than the policy dictates, all funding departments must agree to the exception and document rationale for the change in risk level.

Team Size Exceptions:

Program guidelines dictate that, for nonprofits in the pool, all departments participate in the joint monitoring process. When a nonprofit has **more than three** funding departments, the size of the team should be limited.

- The team should include members from at least **three** of the funding departments, with members beyond those three being discretionary based on departmental interest or need. The Controller's Office will develop a process to ensure the make-up of these teams is equitable and balanced across departments, as feasible.
- While the majority of standards apply to the organization as a whole, there are some standards that are tested using department-specific information (e.g., invoices, payroll, subcontracts).

Non-participating departments agree that their department-specific materials related to these items will not be explicitly monitored.

- Regardless of participation on a specific team, all funding departments will be included in communication about the monitoring, including the issuance of the monitoring report letter and any subsequent correspondence.
- Non-participating departments agree to accept the results of the monitoring as performed by participating departments.