

File No. 091158

Committee Item No. 4

Board Item No. 22

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Government Audit and Oversight Date November 12, 2009

Board of Supervisors Meeting Date November 24, 2009

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Completed by: Alisa Somera Date November 6, 2009

Completed by: Alisa Somera Date November 10, 2009

An asterisked item represents the cover sheet to a document that exceeds 25 pages.
The complete document can be found in the file and the online version.

39

1 [Board response to the 2008-2009 Civil Grand Jury Report entitled "Nonprofits, The Good,
2 The Bad, The Ugly"]

3 **Resolution responding to the Presiding Judge of the Superior Court on the findings**
4 **and recommendations contained in the 2008-2009 Civil Grand Jury Report entitled**
5 **"Nonprofits, The Good, The Bad, The Ugly," and urging the Mayor to cause the**
6 **implementation of accepted findings and recommendations through department heads**
7 **and through the development of the annual budget.**

8
9 WHEREAS, Under California Penal Code Section 933 et seq., the Board of
10 Supervisors must respond, within 90 days of receipt, to the Presiding Judge of the Superior
11 Court on the findings and recommendations contained in Civil Grand Jury Reports; and

12 WHEREAS, In accordance with Penal Code Section 933.05(c), if a finding or
13 recommendation of the Civil Grand Jury addresses budgetary or personnel matters of a
14 county agency or a department headed by an elected officer, the agency or department head
15 and the Board of Supervisors shall respond if requested by the Civil Grand Jury, but the
16 response of the Board of Supervisors shall address only budgetary or personnel matters over
17 which it has some decision making authority; and

18 WHEREAS, The 2008-2009 Civil Grand Jury Report entitled "Nonprofits, The Good,
19 The Bad, The Ugly" is on file with the Clerk of the Board of Supervisors in File No. 090844,
20 which is hereby declared to be a part of this resolution as if set forth fully herein; and

21 WHEREAS, The Civil Grand Jury has requested that the Board of Supervisors respond
22 to Finding Nos. 4, 7, 8, 9, 11, 12, 13 and 14 as well as Recommendation Nos. 7, 8, 9, 10, 13
23 and 15 contained in the subject Civil Grand Jury report; and

24 WHEREAS, Finding No. 4 states: "The magnitude of money and the lack of tracking
25 and coordination of grants provide a potential for abuse in the allocation of grants;" and

1 WHEREAS, Finding No. 7 states: "Sole Source Waivers issued are tracked by number
2 of waivers issued to a department and not to whom the waivers were given or for what
3 purpose;" and

4 WHEREAS, Finding No. 8 states: "Targeted Addbacks to the city budget are taking
5 place, even though they are against Procurement Rules: City Charter (2.114. Non
6 Interference in Administration);" and

7 WHEREAS, Finding No. 9 states: "Targeted Addbacks are often a result of lobbying by
8 special interest groups;" and

9 WHEREAS, Finding No. 11 states: "Targeted Addbacks negate the expertise of the city
10 departments;" and

11 WHEREAS, Finding No. 12 states: "Targeted Addbacks do not follow the budget
12 amendment process established by the City Charter and circumvent the regular competitive
13 solicitation processes that City departments must follow, sometimes causing departments [to]
14 enter sole source contracts;" and

15 WHEREAS, Finding No. 13 states: "Targeted Addbacks impede the ability of city
16 departments to hold nonprofit contractors accountable for poor performance. (Partnering with
17 Nonprofits in Tough Times: Recommendations from SF Community Based Task Force, April
18 2009);" and

19 WHEREAS, Finding No. 14 states: "The Board of Supervisors has violated the Charter
20 by making direct contracting decisions through targeted Addbacks. Through this procedure,
21 the Board of Supervisors has continued the longstanding practice of allocating some City
22 funds directly to specific contractors;" and

23 WHEREAS, Recommendation No. 7 states: "The practice of targeted Addbacks should
24 be stopped"; and

1 WHEREAS, Recommendation No. 8 states: "The City Charter (2.114. Non-Interference
2 in Administration) should be enforced to prevent district supervisors from directing funds to
3 specific nonprofits through circuitous means. (For example, naming a street where a nonprofit
4 exists or specifying a service offered only by a specific nonprofit);" and

5 WHEREAS, Recommendation No. 9 states: "The Supervisors can have a greater role,
6 in the process, by submitting budget proposals and funding priorities during a department's
7 normal budget preparation process, e.g. hearings, commissions and/or citizen advisory
8 committee meetings rather than last-minute adjustments through the targeted add-back
9 process;" and

10 WHEREAS, Recommendation No. 10 states: "To comply with the San Francisco
11 Charter and encourage the use of competitive processes, and to strengthen the requirements
12 for the content of City contracts, the Board of Supervisors should no longer direct funds
13 toward specific City contracts or contractors through the targeted addback process or
14 otherwise;" and

15 WHEREAS, Recommendation No. 13 states: "The Nonprofit Review/Appellate Panel
16 should be given the directive to study the compliance rate on joint monitoring within and
17 among all City departments and to make recommendations to bring compliance to 100%;" and

18 WHEREAS, Recommendation No. 15 states: "The Board of Supervisors should give
19 the Nonprofit Review/Appellate Panel responsibility for developing a monitoring and
20 performance measurement system based on a taxonomy of nonprofit outcomes for human
21 and health services' programs provided by nonprofits and their indicators as developed by the
22 Urban Institute/The Center for What Works or a similar system;" and

23 WHEREAS, In accordance with Penal Code Section 933.05(c), the Board of
24 Supervisors must respond, within 90 days of receipt, to the Presiding Judge of the Superior
25

1 Court on Finding Nos. 4, 7, 8, 9, 11, 12, 13 and 14 as well as Recommendation Nos. 7, 8, 9,
2 10, 13 and 15 contained in the subject Civil Grand Jury report; now, therefore, be it

3 RESOLVED, That the Board of Supervisors reports to the Presiding Judge of the
4 Superior Court that it agrees with Finding No. 4 and Recommendation No. 9 of the 2008-2009
5 Civil Grand Jury Report entitled "Nonprofits, The Good, The Bad, The Ugly;" and, be it

6 FURTHER RESOLVED; That the Board of Supervisors reports that it disagrees with
7 Finding No. 7 because the Office of Contract Administration's (OCA) standard waiver request
8 form already requires departments to identify vendors and to describe the products or
9 services to be sole sourced. The Board also disagrees with Recommendation No. 13
10 because the Controller's Office is already studying the compliance rate on joint monitoring
11 within and across City departments; and, be it

12 FURTHER RESOLVED, That the Board of Supervisors reports that Recommendation
13 No. 15 requires further analysis; and, be it

14 FURTHER RESOLVED, That the Board of Supervisors reports to the Presiding Judge
15 of the Superior Court that regarding Finding Nos. 8, 9, 11, 12, 13 and 14 and
16 Recommendation Nos. 7, 8 and 10, the Board of Supervisors adds programmatic funding to
17 the City's annual budget in major policy areas, such as public safety, transportation and
18 affordable housing, but it leaves administration of such funding to the Mayor and his/her
19 department heads in accordance with the San Francisco Municipal Code and City Charter;
20 and, be it

21 FURTHER RESOLVED, That the Board of Supervisors urges the Mayor to cause the
22 implementation of accepted findings and recommendations through his/her department heads
23 and through the development of the annual budget.

Nonprofits

The Good, The Bad, The Ugly

2008-09 Civil Grand Jury of San Francisco Report

The Purpose of the Civil Grand Jury

The Civil Grand Jury is a government watchdog made up of volunteers who serve for one year. The Civil Grand Jury reports with findings and recommendations resulting from its investigations. The investigated agencies, departments or officials are required by the California Penal Code to respond publicly within at most 90 days.

The nineteen members of the Civil Grand Jury are selected at random from a pool of thirty prospective jurors. San Francisco residents are invited to apply.

More information can be found at:

http://www.sfgov.org/site/courts_page.asp?id=3680, or by contacting the Civil Grand Jury at 400 McAllister Street, Room 008, San Francisco, CA 94102

State Law Requirement

Pursuant to state law, reports of the Civil Grand Jury do not identify the names or provide identifying information about individuals who spoke to the Civil Grand Jury.

Departments and agencies identified in the report must respond to the Presiding Judge of the Superior Court within the number of days specified, with a copy sent to the Board of Supervisors. For each finding of the Civil Grand Jury, the response must either (1) agree with the finding, (2) disagree with it, wholly or partially, and explain why. Further, as to each recommendation made by the Civil Grand Jury, the responding party must report either that (1) the recommendation has been implemented, with a summary explanation of how it was implemented; (2) the recommendation has not been implemented, but will be implemented in the future, with a time frame for the implementation; (3) the recommendation requires further analysis, with an explanation of the scope of that analysis and a time frame for the officer or agency head to be prepared to discuss it (less than six months from the release of the report); or (4) that recommendation will not be implemented because it is not warranted or reasonable, with an explanation of why that is. (California Penal Code, sections 933, 933.05).

Nonprofit Report

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Nonprofits, The Good, The Bad, The Ugly

Executive Summary

The 2008-09 Civil Grand Jury, (the Jury) investigated the nonprofit grant making process knowing the City and County of San Francisco (the City) had directed nearly \$500 million dollars to nonprofits last year, 41% of the discretionary budget.

The Jury conducted interviews primarily with the Department of Public Health (DPH), Department of Human Services (HSA), and the Department of Children, Youth and Families (DCYF). The Jury selected these departments because they are the largest funders of nonprofits followed by the Mayor's Office.

The Jury interviewed relevant city departments regarding the procurement process, the City Budget process and the budget process known as "Addbacks", consolidation of grants, joint monitoring of grants and the corrective action process. The Jury's investigation and recommendations serve to underline the importance of the work of previous Civil Grand Juries, the Controller's Office and various other reports, as well as the need for administrative and legislative action.

The Jury's recommendations include:

- A citywide tracking and monitoring system for grants that are awarded by all City departments should be developed using DCYF's Contract Management System (CMS) as a model.
- Nonprofits that receive money from the City should be required to disclose in writing each time they meet with the Board of Supervisors (BOS) to discuss matters that may influence allocation of funds to their agencies.
- The Board of Supervisor's role in the budget process should be submitting budget proposals and funding priorities during a department's normal budget preparation process, e.g. hearings, commissions and/or citizen advisory committee meetings rather than last-minute adjustments through the add-back process.
- The Nonprofit Review/Appellate Panel should develop a monitoring and performance measurement methodology for health and human services' programs provided by nonprofits.

Background

San Francisco looks to nonprofit agencies that reach deeper into the City fabric than many government offices to provide a myriad of

services to the public. City employees do not do all City functions. The City uses nonprofits because of their program effectiveness, comprising cultural competency, expertise, and smaller budgets. Of San Francisco's discretionary budget, which is approximately \$1.2 billion, almost \$500 million is distributed to nonprofits from the City's General Fund. The City also administered state and federal grants of nearly 1.1 billion during the 2007-2008 fiscal year.

In the course of this investigation, the Jury interviewed staff at all levels, primarily with the three departments that distribute the most money to nonprofits, Dept of Public Health (DPH), Human Services Agency (HSA) and the Dept of Children Youth and their Families (DCYF). The Mayor's Office is the next largest funder of nonprofits.

The Jury chose to review the entire procurement process as to how grants and contracts are awarded to nonprofits, what sort of efficiencies are evident, whether the process is fair to all parties and whether departments are making best use of city money. The Jury reviewed the extensive process that has developed in the larger departments, over many decades of distributing federal and state grants, with layers of fair practice rules, required public input, competitive bidding and much more. We reviewed many studies and reports on the crisis faced by nonprofit organizations during tough economic times. In the course of the Jury's investigation they examined oversight and monitoring practices, as well as how the city budget process relates to funding nonprofit agencies.

Many credible studies have recently made the same recommendations that grant "programs" be consolidated and coordinated across and within departments to reduce administration costs and minimize duplicate services or expenses. The City's per capita spending on public health services is more than double the average of our surveyed peer counties (see Controller's BIP report 2009¹). Spending is triple in support services, in large part, due to the City's ability to secure grant and other federal funding. The City's per capita discretionary General Fund spending is greatest in supportive housing, homeless services, and adult and aging services, when compared with our peer counties.

Individual departments of the City government have grown into multi-million dollar enterprises, rightfully territorial of the funding sources and programs they have developed over the years, and competing between themselves for limited public funds. The City Charter defines the powers of departments and their intended independence from elected officials. The Jury found that the City was not adequately

utilizing numeric performance management techniques. How the City distributes nonprofit grants is a great example of how complicated it can be without numeric tracking of performance and monies.

The Procurement Process

Procurement is the action or process of acquiring or obtaining materiel, property, or services, for example, purchasing, contracting, and negotiating directly with the source of supply.

The procurement process begins with a Community Needs Assessments and considerable public input. Federal, State and other funding agencies require and participate in these needs assessments. Some grants are on multi-year cycles, but each year commitments need to be reconsidered as a part of the City's annual Budget process. Contracts are supposed to be in place, ready to sign in time for the July budget.

Individual City departments have contract divisions that supervise and execute the mandatory, competitive bidding requirements and ensure all the special requirements of the Municipal Code are incorporated into the Request for Proposal (RFP) or Request for Qualifications (RFQ). Department have their own special requirements and they also include provisions to ensure compliance with their source of funds.

A Request for Proposal (RFP) is a formal competitive solicitation process used by City departments to obtain proposals from potential providers¹. A RFP or Request For Qualification (RFQ) defines the goals and criteria of the grant, and solicits evidence as to the capacity of applicants and the nonprofit's proposal. Some RFPs take months to a year to prepare because Federal funding have many restrictions. Once the RFP is issued, potential applicants have a relatively short time frame to respond, so nonprofits need to know when to expect RFPs.

A panel of "experts" is assembled for each solicitation and uses a numeric ranking system in evaluating the written proposals. The experts are generally at least three people drawn from the public or professionals familiar with the RFP's service area. Experience is not always a factor; "capacity," is the primary criterion when considering a proposal. Every attempt is made for the RFP process to be fair, competitive and transparent. The Departments try to be open for innovative approaches from local and or new organizations.

The upper management of departments that solicited the RFPs ultimately makes the selection of the winning grant. Once the nonprofit agency is selected, a contract including a scope of work and deliverables is negotiated between the department and the nonprofit.

An appeals process exists but is rarely used. The Jury learned that nonprofit agencies often turn to the Board of Supervisors when their applications are not selected. Last minute lobbying by nonprofits during the annual Budget hearing process has proven to be a winning strategy to secure funding for special programs, but creates many other problems for the City (see page 7 for Addback process).

The Department assigns a Program Manager after it's signed to oversee the contract, both fiscally and programmatically for each grant. Periodic site visits are scheduled to ensure contract compliance. Agencies with compliance problems are given considerable latitude and technical assistance from the departments to correct poor performance. Many of the program officers consider the nonprofit agencies to be their clients and work to correct problems and maintain funding.

Facts

1. City government has established a broad system of collecting community input, with opportunities to provide input regarding goals and priorities for funding of local discretionary dollars.
2. Each department has its own community meetings, sets its own priorities, in line with outside funding sources. Many have their own Commissions and Citizen Advisory Committees that bring diverse perspectives.
3. The City "leverages" local money to obtain more federal and state dollars. Many grants come from outside funding sources with their own priorities that may not be in line with local goals and objectives. Most federal and state grants require matching funds from the City.
4. The Controller maintains a database of nonprofits that do business with the City. Contracts with nonprofits fall under the jurisdiction of the Office of Contract Administration, whereas grants to nonprofits are not tracked citywide.
5. Only DPH has authority to issue Sole Source Waivers from the competitive bidding requirements of the City without previous consent of the City. The Clerk of the Board of Supervisors has a list by department of the number of Sole Source Contracts.

6. A contract and scope of work are negotiated with the nonprofit after it has been selected to receive a grant.
7. Past experience and performance on previous grants are not always considered during the selection process.
8. DPH has a billing method based upon a Unit of Service reimbursement, while other city departments operate under Line Item Cost reimbursement of actual expenses incurred.
9. The lack of coordination and different reporting and compliance procedures for each department (even within departments) was identified as a key problem in the report of the Nonprofit Contracting Task Force (2003) because it adds time and overhead to non-profit work. Progress was later made to make fiscal compliance methods more consistent between departments.
10. The Controller expressed concern about the procurement process in the 2003 report "Sole Source Contracts", page 5.

Findings

1. There is no coordinated effort to determine overall citywide needs or strategies for distributing funds to nonprofits, other than the Community Development Block Grant (CDBG) funds distributed through the Mayor's Office.
2. There are no formal qualifications for individuals serving on the panels that rank competitive grant proposals.
3. Unlike contracts there is no systematic tracking of grants.
4. The magnitude of money and the lack of tracking and coordination of grants provide a potential for abuse in the allocation of grants.
5. Lack of coordination and different procedures for each department within and among departments adds to time and overhead for departments and nonprofits.
6. Billing by Unit of Service could allow budgeted costs, which were not actually spent, to be included in the invoice charged to the City, because the invoice is based on number of clients served (at agreed estimate of cost) not by the actual cost of serving those clients.

7. Sole Source Waivers issued are tracked by number of waivers issued to a department and not to whom the waivers were given or for what purpose.

Recommendations

1. The Mayor's Office of Budget and Policy should develop and coordinate a strategy for utilizing nonprofit services.
2. Each RFP should specify the qualifications for panel members selected to rank the proposals.
3. The Office of Contract Administration (OCA) should develop a tracking system for grants.
4. The Nonprofit Review/Appellate Panel should develop with each Department a uniform set of procedures for nonprofit grant administration.
5. Departments should use Cost of Reimbursement instead of Units of Service as the method of payment in every RFP.
6. A database of sole source waivers including all cost should be maintained under the oversight of the OCA.

The Procurement Process

Findings	1	2	3	4	5	6	7
Board Of Supervisors				90 days			90 days
DPH	60 days	60 days	60 days	60 days	60 days	60 days	60 days
HSA	60 days	60 days	60 days	60 days	60 days	60 days	60 days
DCYF	60 days	60 days	60 days	60 days	60 days	60 days	60 days

Recommendations	1	2	3	4	5	6
Mayor's Office	60 days					
DPH		60 days	60 days	60 days	60 days	60 days
HSA		60 days	60 days	60 days	60 days	60 days
DCYF		60 days	60 days	60 days	60 days	60 days

Addbacks

As part of the City's annual budget process, the Board of Supervisor's Budget Analyst recommends to the Board line-item cuts that could be made in various departments. Near the end of the budget process, the Board has the opportunity to add back to the budget the amount that has been cut. These additions have become known as "Addbacks".

In order to better understand the Jury's evaluation of the process of the Budget:

- The Mayor issues instructions to the departments for their budgets.
- The departments, after having decided on priorities and evaluating non-profits that best meet objectives, write a budget.
- The Controller unifies the departmental budgets.
- The Mayor makes changes.
- The BOS assesses cuts and, in response to political maneuvering, ignores the competitive process for non-profits and essentially orders sole-source contracts with the favored non-profits.

During this process and under the direction of the Board of Supervisors, the Budget and Legislative Analysts perform research and analysis on behalf of the Supervisors. While the hearings are underway the Board of Supervisors can and does amend the budget. These amendments are called Addbacks.

Supervisors have been able to restore funding which may have been cut, or add new funding to programs favored by the Supervisors by reallocating money from one budget category to another. This Addback process does not increase or decrease the overall dollar

amount of the budget. Before the July 1st deadline of the new budget year, the Board of Supervisors, concluding a seven-month process, approves the finalized budget.

In the City's 2007-08 budget, approximately \$42 Million was added back to the budget for nonprofit organizations. These Addbacks frequently occur due to intense last minute lobbying by the nonprofit or its clients that reside within a supervisor's district, without regard to the departmental Request for Proposal (RFP) process. The Supervisors are overriding a decision made by the City Department in the course of normal business with no recourse for that department. The potential risk is that a nonprofit is included in the budget because it used its political clout even though it has not been effective, dropped for poor performance, does not meet the department's greatest needs or another nonprofit was deemed more able to meet the grantors criteria. This sentiment was echoed by many of the individuals interviewed and in several reports. In fact the only positive feedback regarding Addbacks came from the nonprofit agencies that are beneficiaries of the monies that go directly to them.

Although the San Francisco Charter prohibits the Board from prescribing or making suggestions regarding any City contract, the Board sometimes specifies organizations to receive City funds when money saved through line-item cuts is added back into the budget. The City has a contracting system that relies on and gives much responsibility to departments to select and monitor contractors. Each department has contracting officers that make front-line decisions about the competitive solicitation process, and the selection of contracts to meet the department's specific needs. This level of contracting responsibility rightly belongs with City departments, not the Board.

When the BOS targets Addback funds for specific organizations, it circumvents the City's normal competitive solicitation process and the City loses the benefits that such process provides. The City Attorney's opinion states that, under Charter Section 2.114, the BOS may not direct or compel a City officer or department to contract with a particular person or organization as a part or condition of an Addback, but the Board may appropriate Addbacks to the various departments for general purposes or for specific programs. The BOS does this by not naming the nonprofit but by specifying a program at particular location or by providing a particular service. Further, if the Board identifies a particular contractor in an Addback, a department may not use this as an excuse not to allow other contractors to compete for a

contract where the law otherwise requires a competitive process. The City Attorney affirmed that violations of the Charter's non-interference provisions might constitute official misconduct. Although we now know that the Board's distribution of targeted Addbacks to specific organizations violates the Charter, this has been a long-standing practice in the City's budget process.

During the Jury investigation several department heads and city officials stated that the targeted Addback process has increased and become a problem since district elections were again instituted in 2000. With district elections, members of the Board of Supervisors are more susceptible to political pressure from specific district voting blocks that may not represent citywide interests. The nonprofits that provide services to local communities are able to marshal constituents to lobby a Supervisor of their district without regard to the impact such lobbying could have on citywide needs. And, since Board members most often wish to be re-elected or have higher political aspirations, they respond to the pressure by adding money to the budget targeting a particular program or nonprofit. All of this is done, not by naming a specific nonprofit or contract, which is not permitted under the City Charter, but by increasing the money to the department with an informal understanding of where the additional monies should be spent.

The Community Budget Reform Council (CBRC), among others, in their draft report dated 2/26/09, recommends that before funding for a nonprofit is added back to the budget, it should go through a formal review process by the relevant department. The Jury does not agree with this approach because of the cumbersome process of approving grants. The Jury agrees with the Draft Recommendations of the Budget Reform Council dated February 6th 2009, section I.1.a which recommends to "Shift the focus from a one-month cut and addback role in June to a four month collaborative role driven by values, public input and long term-policy goals". The Addback Process delays, thwarts or stops the Budget Process. In addition, the departmental review process initiated by Addbacks can take months to complete and can sometimes cost more than the grant itself in administrative expenses.

Facts

1. Targeted Addbacks continue to be part of and contribute to the delay of the budget process.
2. Targeted Addbacks violate City Charter rules.

3. Targeted Addbacks circumvent the selection of nonprofits by City Departments.
4. Targeted Addbacks bypass competitive bidding.
5. Targeted Addbacks do not allow weeding out poor performing nonprofits.

Findings

8. Targeted Addbacks to the city budget are taking place, even though they are against Procurement Rules: City Charter (2.114. Non Interference in Administration)
9. Targeted Addbacks are often a result of lobbying by special interest groups.
10. Targeted Addbacks circumvent the contract process established by the city departments.
11. Targeted Addbacks negate the expertise of the city departments.
12. Targeted Addbacks do not follow the budget amendment process established by the City Charter and circumvent the regular competitive solicitation processes that City departments must follow, sometimes causing departments enter sole source contracts.
13. Targeted Addbacks impede the ability of city departments to hold nonprofit contractors accountable for poor performance. (Partnering with Nonprofits in Tough Times: Recommendations from SF Community Based Task Force, April 2009)
14. The Board of Supervisors has violated the Charter by making direct contracting decisions through targeted Addbacks. Through this procedure, the Board of Supervisors has continued the longstanding practice of allocating some City funds directly to specific contractors.

Recommendations

7. The practice of targeted Addbacks should be stopped.
8. The City Charter (2.114. Non-Interference in Administration) should be enforced to prevent district supervisors from directing funds to specific nonprofits through circuitous means. (For example, naming a street where a nonprofit exists or specifying a service offered only by a specific nonprofit).
9. The Supervisors can have a greater role, in the process, by submitting budget proposals and funding priorities during a department's normal budget preparation process, e.g. hearings, commissions and/or citizen advisory committee meetings rather

than last-minute adjustments through the targeted add-back process.

10. To comply with the San Francisco Charter and encourage the use of competitive processes, and to strengthen the requirements for the content of City contracts, the Board of Supervisors should no longer direct funds toward specific City contracts or contractors through the targeted addback process or otherwise.

Addbacks

Findings	8	9	10	11	12	13	14
Board Of Supervisors	90 days	90 days		90 days	90 days	90 days	90 days
DPH			60 days	60 days		60 days	
HSA			60 days	60 days		60 days	
DCYF			60 days	60 days		60 days	

Recommendations	7	8	9	10
Board Of Supervisors	90 days	90 days	90 days	90 days
DPH			60 days	
HSA			60 days	
DCYF			60 days	

Back Office Operations

Back office operations refer to any non-program functions performed by the nonprofit, such as payroll, accounting and purchasing.

Nonprofit grants may require all or some of these non-program functions. The size of the grant and the number of functions may require only a part-time staff position at each nonprofit, some large and small.

If back office operations of nonprofits were consolidated by centralizing payroll, purchasing and accounting for nonprofits, assuming administrative costs of 10% of the present \$487M in grants to nonprofits there would be a significant saving to the City.

Fact

1. Interviews with a variety of city officials by the Civil Grand Jury and the report "Partnering with Nonprofits in Tough Times"¹ published in April 2009 by the Mayor's Community Based Organizations Task Force support the idea of the consolidation of back-office operations.

Finding

15. Consolidation of backroom operations would save the City money.

Recommendation

11. A Consolidated Backroom Unit should be set up with the Office of Contract Administration (OCA) to provide back-office operations for nonprofits.

Back Office Operations

Findings	15
DPH	60 days
HSA	60 days
DCYF	60 days

Recommendations	11
DPH	60 days
HSA	60 days
DCYF	60 days

Monitoring and Performance Measurement

The Jury investigated the monitoring and performance measurement of nonprofits, both fiscally and programmatically. It is crucial that city residents' taxes and fees are being spent both efficiently (fiscally sound) and effectively (programmatically meeting service goals).

Fiscal Monitoring

The Jury chronology of fiscal monitoring began with a report by the 2000-2001 Civil Grand Jury. It found that the contract systems at the time were too decentralized and placed heavy administrative burdens on nonprofit organizations, often to the detriment of services to the City's residents.¹ In October 2001, the City Nonprofit Contracting Task Force was created by the Board of Supervisors in response to the request by the SF Human Services Network, a coalition of health and human services nonprofits serving the City, to address the issues raised in the 2000-01 report.

In September 2002, the Task Force submitted its report to the Board of Supervisors. Its recommendations focused on improving contracting procedures for nonprofit human and health services. The Board of Supervisors approved the Task Force's recommendation that it be extended until June 30, 2003 to provide time to develop an implementation plan for the recommendations.

The following are two of the Task Force's recommendations (See Appendix A) and the ensuing results:

- To create a review/appellate process to implement and oversee substantive changes in standardized requirements.
 - The Nonprofit Review/Appellate Panel consisting of City departments and representatives from nonprofit organizations was created to oversee the implementation of the Task Force milestones.
 - By November 2006, 29 out of 41 established milestones were completed with 8 in process (See Appendix A).
- To consolidate contracts, where appropriate, across or within departments.
 - The Interdepartmental Working Group consisting of representatives from the DPHP, HSA, DCYF and the Mayor's Office of Community Development drafted best practices for the consolidation of grant agreements both internally and across departments. Their best practices

recommendations were submitted to the Review/Appellate Panel.

- In September 2007 a letter (See Appendix B) was issued to other non-participating City departments urging implementation of these procedures; to do fiscal monitoring of programs jointly when a nonprofit is receiving grants from more than one City department. Such action has been a good start toward needed reform in contracts with nonprofits.
- There appears to be a spotty response to this recommendation for consolidation according to those city department and nonprofit staff interviewed by the Jury.

Many of the City department staff who were interviewed spoke highly of DCYF's computer-based Contract Management System (CMS) and stated that, when joint monitoring is needed for a nonprofit also receiving funds from DCFY, they rely on the CMS.

In addition to questions related to grant goals and objectives, the monthly CMS report tracks the following fiscal information: payment of staff, line item expenses, year to date expenses and the balance on line items (See Appendix C) This system enables DCYF to monitor fiscal matters on a monthly basis and to identify problems early and as they develop in the management of the funds related to the grants.

Facts

1. The Board of Supervisors responded positively to the recommendations of the 2000-2001 Civil Grand Jury by establishing the City Nonprofit Task Force.
2. The City Nonprofit Task Force's recommendations were accepted by the Board of Supervisors with the establishment of the Nonprofit Review/Appellate Panel.
3. Seventy percent of milestones of the Nonprofit Review/Appellate Panel were completed and 19.5% were in progress by November 2006.
4. Documentation of contract consolidation among departments is not apparent.
5. Joint monitoring by the Controller's Office is limited to the fiscal portion of the grant and compliance monitoring.

6. Multiple nonprofits receive multiple grants or contracts with and among multiple City departments. (See Appendix D)
7. In response to the Nonprofit Contracting Task Force recommendation a letter from the Mayor was sent to departments not participating in joint monitoring recommending they comply with the findings.
8. Program managers using the web interface of DCYF's CMS system can identify fiscal problems on a monthly basis.

Findings

16. The monitoring/oversight of the fiscal component of contract/grants between the City departments and nonprofits has improved since the 2000-01 recommendations identified the problems.
17. The City Nonprofit Task Force focused on the fiscal monitoring of the contracts/grants between the City departments and nonprofits. Joint monitoring of nonprofits in fiscal matters is efficient for both the City departments and the nonprofits in that staff time utilized is reduced.
18. The Office of Contract Administration does not track grants made to nonprofit organization.
19. DCYF's CMS is admired by other departments and could be incorporated into their monitoring of nonprofits.

Recommendations

12. The Office of Contract Administration should be given the task of tracking the compliance rate on nonprofit grant consolidation across all City departments.
13. The Nonprofit Review/Appellate Panel should be given the directive to study the compliance rate on joint monitoring within and among all City departments and to make recommendations to bring compliance to 100%.
14. The City should develop a comprehensive software system (modeled on DCYF's CMS) that can monitor and track all grants and contracts citywide. At a minimum, the system should contain three functions: fiscal tracking, program tracking and

performance metric tracking. Fiscal tracking and program tracking should be administered by departments but accessible citywide. Metric tracking should be the function of the Mayor's Office.

Program Monitoring

*"For most stakeholders in the nonprofit sector, measuring performance is elusive. ...there is increasing pressure on nonprofits to account for and improve results."*²

Much attention has been given by the City to fiscal management since the 2000-01 Civil Grand Jury Report. The current Jury decided it was as important to investigate what monitoring and evaluation (performance measurement) were being done on the service goals and objectives of each grant given out by the City departments to nonprofit organizations. If money is being given out for human and health services, taxpayers, as well as recipients of the services, should be able to evaluate whether the monies are being spent on effective programs.

DCYF again appears to be the City department that is most effective in monitoring the programs on which it is spending monies. The Contract Management System (CMS), which is completed monthly by each nonprofit, tracks the following items: activities that took place, any organizational changes, progress related to communication, strategies and accessibility goals and the number of "clients" served and their demographics (Appendix C).

In addition, DCYF has each nonprofit complete a yearly self assessment "Minimum Program Compliance Standards." The Out-of-School Time Minimum Program Compliance Standards describe what DCYF wants children, youth and families to experience in a program: safety, relationship building, youth participation, community involvement, skill building and special needs inclusion with 8 standards and 16 indicators. All nonprofits evaluate themselves in how each indicator is met by their programs. In addition, they can add how they are meeting a standard that is not captured by an indicator (Appendix E). Five sets of minimum standards were developed through partnership with an advisory group of funded agencies. Agencies represented five groups of nonprofits within clusters of nonprofits providing early childhood education, family support, health and wellness, youth workforce development and out of school time. Once nonprofits submit their self-assessment, their responses are reviewed

by their Program Officer, discussed at a site visit, and if, necessary, a plan is created to meet the standards not achieved.

These two monitoring and evaluation systems, CMS and Minimum Program Compliance Standards, produce the greater likelihood that comparing nonprofits can take place. The Department of Public Health Community Behavioral Health Services has the Community Program Corrective Action Policy and Procedure which is triggered when a nonprofit's standardized monitoring scores are lower than three in any monitoring category. (This process is done for nonprofit issues that are not related to the Controller's Citywide Fiscal and Compliance Monitoring.) The tracking report covers governance and operations, both fiscally and programmatically. It does not contain standards by which all nonprofits providing similar services are evaluated. The report is created by first identifying the problem areas of a specific nonprofit.

The Urban Institute and The Center for What Works jointly issued a paper in December 2006, "The Nonprofit Taxonomy of Outcomes: Creating a Common Language for the Sector". It provides a resource for identifying quality indicators to assist nonprofits in developing outcome indicators and collecting outcome data.³

Basic criteria for quality indicators were identified as:

- Specific: unique, unambiguous
- Observable: achievable, practical, cost effective to collect, measurable
- Understandable: comprehensible
- Relevant: measure important dimension, valid, appropriate, related to program, of significance, predictive, timely
- Time bound
- Reliable: accurate, unbiased, consistent, verifiable

Too often quality indicators measure information (proxy) but not behavior change (outcome). " For example, while tracking the extent to which avoidance of a certain kind of behavior has occurred can be difficult, a client can be tested about the client's level of knowledge about why someone should avoid that behavior. However, the degree to which increased knowledge leads to the desired change in behavior needs to be known before this increased knowledge can be deemed a "good" indicator of the desired change in behavior. Without documentation that when knowledge increases, a behavioral change follows, a proxy may not be a useful and appropriate indicator of the outcome."⁴

Following the department's collection of outcomes and indicators for 14 different program areas, ranging from adult education and family literacy to prisoner re-entry, the taxonomy was developed⁵. The Jury read the Office of Controller's report *City Performance Measurement System* that identifies performance measures that each City department develops each year to evaluate its own performance. The report found that not one of the departments distributing grants to nonprofits was measuring its own performance in relationship to nonprofits.

Facts

1. DCYF has CMS that permits monitoring of nonprofit activities on a monthly basis, tracking progress towards goals and objectives.
2. DCYF has developed the Minimum Program Compliance Standards that enables it to evaluate nonprofits using common indicators.
3. Program monitoring and performance measurement is being done in other City departments.
4. No monitoring and performance measurement systems are in use citywide.
5. A taxonomy system has been developed to monitor and evaluate nonprofits.

Findings

20. There are few performance measurement systems being used by City departments to monitor and evaluate nonprofits' goals and objectives.
21. DCYF has a system that tracks program goals and objectives on a monthly basis.
22. Systems have been developed that enable nonprofit performance to be evaluated using common outcome indicators.

Recommendations

15. The Board of Supervisors should give the Nonprofit Review/Appellate Panel responsibility for developing a monitoring and performance measurement system based on a

taxonomy of nonprofit outcomes for human and health services' programs provided by nonprofits and their indicators as developed by the Urban Institute/The Center for What Works or a similar system.

16. The City should develop a comprehensive software system (modeled on DCYF's CMS) that can monitor and track all grants and contracts citywide. At a minimum, the system should contain three functions: fiscal tracking, program tracking and performance metric tracking. Fiscal tracking and program tracking should be administered by departments but accessible citywide. Metric tracking should be a function of the Office of the Mayor.

Monitoring and Performance Measurement

Finding	16	17	18	19	20	21	22
Controller's Office		60 days					
Mayor's Office							60 days
Office Contract Adm.			60 days				
DPH	60 days	60 days	60 days	60 days	60 days	60 days	60 days
HSA	60 days	60 days	60 days	60 days	60 days	60 days	60 days
DCYF	60 days	60 days	60 days	60 days	60 days	60 days	60 days

Recommendations	12	13	14	15	16
Mayor's Office			60 days		60 days
Office of Contract Adm.	60 days				
Board Of Supervisors		90 days		90 days	
DPH	60 days	60 days	60 days	60 days	60 days
HSA	60 days	60 days	60 days	60 days	60 days
DCYF	60 days	60 days	60 days	60 days	60 days

Endnotes

Background

1. Office of the Controller, "Budget Improvement Project Report", March, 2009: http://www.sfgov.org/site/uploadedfiles/controller/BIP_Report_3-16-09_FINAL.pdf

Procurement Process

1. A Request for Proposal (RFP) is a formal competitive solicitation process used by City departments to obtain proposals from potential vendors or providers of needed services and to make a selection of a provider. Once the service provider is selected a contact price and Scope of Work is negotiated. The RFP or RFQ defines and outlines the goals and criteria of the grant and solicits evidence as to the capacity of applicants and the proposals themselves.

Addbacks

1. Office of the Controller, Sole Source Contracts, April 2003

Back Office Operations

1. Community Based Organizations Task Force, "Partnering with Nonprofits in Tough Times", April 2009
http://www.sfgov.org/site/uploadedfiles/mayor/PolicyFinance/CBO_Task_Force_Report.pdf

Monitoring and Performance Measurement

1. 2000-01 San Francisco Civil Grand Jury Report, "Nonprofit Contracting", http://www.sfgov.org/site/courts_page.asp?id=3726
2. "Building a Common Outcome Framework To Measure Nonprofit Performance": <http://www.urban.org/publications/411404.html>
3. "The Nonprofit Taxonomy of Outcomes: Creating a Common Language for the Sector":
http://www.urban.org/center/met/projects/upload/taxonomy_of_outcomes.pdf
4. See Endnote 2
5. See Endnote 3

