



OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

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Policy on Financial Audit Requirements for Nonprofit Suppliers

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Background

In March 2024, the Board of Supervisors approved legislation outlining certain requirements related to monitoring nonprofit suppliers that do business with the City. In particular, that legislation (file [#230973](#)) states that nonprofit organizations that receive a specific amount of funding from the City in a fiscal year must submit to the City audited financial statements (or "CPA audit") for that fiscal year.

- The legislation directs that the first required submission of audited financial statements should occur by March 31, 2026 for activities that occurred in Fiscal Year 2024-2025 (FY24-25).
- The legislation does not limit the authority of the City to conduct a fiscal review or require alternate documents demonstrating sound financial controls in the absence of an audit.

The legislation directs the Controller's Office to establish procedures and deadlines for the submission of materials and distribution to relevant departments. In developing these procedures and guidelines, the Controller's Office will leverage the "Annual Economic Statement" as a key tool for defining submission procedures when audits are required. Second, the Controller's Office will align these procedures to new federal audit requirements. See the next two subsections for background information about these components.

Annual Economic Statement Reporting Requirements

In July 2023, the Board of Supervisors approved legislation updating the "Annual Economic Statement" requirements for City-funded organizations. That legislation (file [#230165](#)) states that every nonprofit receiving a total of at least \$100,000 in funding from or through the City in a given year must file or make publicly available an Annual Economic Statement that contains specific documents about the nonprofit.

The Annual Economic Statement rules state that when a nonprofit is required by federal, state or City law to prepare audited financial statements, that document must be included in the nonprofit's Annual Economic Statement submission. While the Annual Economic Statement itself does not create an audit requirement, the nonprofit monitoring legislation (file [#230973](#)) does create a new local requirement for when these audits must be included in the Annual Economic Statement.

The Annual Economic Statement legislation delegates the City Administrator to establish procedures for nonprofit suppliers to follow in providing required documents. In August 2024, the City Administrator [established procedures](#)¹ requiring that nonprofit organizations must post all required documentation to their own websites. This policy leverages these posting requirements as part of the submission guidelines below.

Federal Audit Requirements

In April 2024, the federal Office of Management and Budget (OMB) issued new [rules](#) on audit requirements for recipients of federal funding. These rules go into effect as of October 1, 2024, and state that “Single Audit” requirements now apply to a non-federal entity that expends \$1 million or more in federal awards during that non-federal entity’s fiscal year. The Controller’s Office will leverage these new rules in setting funding thresholds for City-required audits.

Funding Threshold for Audit Requirements

The legislation requiring submission of audited financial statements included a threshold value of City funding of \$750,000 per year with a goal to align to federal Single Audit requirements. In the time since the Board of Supervisors adopted this legislation, the OMB issued new regulations that raise the federal Single Audit threshold to \$1 million in annual expenditures of federal funds. The OMB has authority to periodically change its audit threshold based on robust public input and rule-making processes. Given the degree of federal funding received by the City and passed through to nonprofits via contracts and grants, City rules should align to federal regulations and cost principles as much as possible.

As such, the Controller’s Office establishes the following policies related to City funding thresholds for requiring audited financial statements from nonprofit suppliers:

- Nonprofit suppliers receiving \$1 million or more in City funding (“threshold funding”) from any source in a fiscal year are required to prepare and submit audited financial statements for that fiscal year.
- The threshold funding amount for this policy will be tied to the OMB’s Single Audit threshold moving forward. Should federal guidelines for audit requirements change in subsequent years, the Controller’s Office will update this policy accordingly.
- Nonprofit suppliers that are otherwise required to prepare audited financial statements, such as to comply with California Government Code section 12586.1 which requires an audit for nonprofits receiving \$2 million in gross revenues in a fiscal year, must also submit such audited financial statements to the City per Annual Economic Statement reporting requirements if they receive \$100,000 or more in funding from the City in that year.

¹ <https://www.sf.gov/post-your-nonprofit-annual-economic-statement>

Funding Threshold Exceptions

Nonprofit suppliers that receive \$1 million or more in City funding in a fiscal year, but do not receive \$2 million in gross revenues in that same year (i.e., are not subject to California Government Code section 12586.1) are **exempt** from the requirement to prepare audited financial statements, with specific guidelines for this exemption below.

Nonprofits that are exempted from preparing audited financial statements per this section **are required to prepare unaudited financial statements** for the fiscal year and submit these statements as part of the City’s Annual Economic Statement filings in place of audited financial statements. Unaudited financial statements should include the Profit and Loss Statement (also known as Statement of Activity) and Balance Sheet (also known as Statement of Financial Position).

The exemption for nonprofits with less than \$2 million in gross revenue **will not apply** if one or more City departments, at their sole discretion, fully covers the cost of preparing the audit via a direct allocation of funds.

- Audit costs are allowable expenses in City contracts and are typically funded through an organization’s indirect rate. City departments have discretion to provide direct funding through contracts, such as through a capacity building grant where the cost objective includes auditing services.
- This policy does not establish any obligation or expectation that City departments directly fund nonprofit audits, and departments should only do so if such funding aligns to the programmatic and budget priorities of the department.
- In these specific cases where a department has fully funded the cost of an audit for an otherwise-exempt nonprofit, the department(s) funding the audit must send a letter to the nonprofit notifying them of the audit requirement, and must copy the Controller’s Office at nonprofit.monitoring@sfgov.org to allow for central tracking of this exception to the policy. Departments should send a letter for each fiscal year when a nonprofit that is otherwise exempt has had its audit funded.

Summary of policy requirements by gross revenue and City threshold funding

	Annual City funding: Less than \$1M per year	Annual City funding: \$1M or more per year
Nonprofit’s gross annual revenue: Less than \$2M per year	<u>No audit required</u>	<u>Audit required</u> when a City department funds audit preparation - OR - <u>Exempt (no audit required)</u> when audit is not funded. Non-audited financial statements required in place of the audit.
Nonprofit’s gross annual revenue: \$2M or more per year	<u>Audit required</u>	<u>Audit required</u>

Authority of the City to Request Additional Documents

Nothing in this policy or the legislation restricts the authority of the Controller's Office to conduct financial and/or performance audits of City contractors in receipt of any amount of City funding. Per standard language in most City agreements with nonprofit suppliers, suppliers must:

- Make available to the City, its employees and authorized representatives, during regular business hours all of the files, records, books, invoices, documents, payrolls and other data required to be established and maintained by the supplier.
- Permit the City, its employees and authorized representatives to inspect, audit, examine and make excerpts and transcripts from any of the foregoing.

Prior to the passage of legislation in March 2024, the City did not have a uniform policy regarding nonprofit audit requirements. As such, City departments established variable policies and requirements for when each might require a nonprofit supplier to complete and submit audited financial statements.

This policy **requires all departments to align to this Citywide threshold** funding level for when an audit will be required of a nonprofit supplier.

At each department's discretion, City departments may require non-audited financial reviews, submission of unaudited financial statements, and/or alternate documents demonstrating sound financial controls for any nonprofit supplier, including for nonprofit suppliers receiving less than \$1 million from the City in a fiscal year. As feasible, such documentation and requirements should be coordinated through an annual fiscal monitoring process and should not be unreasonably burdensome to the nonprofit.

Additionally, if a nonprofit is required to adhere to the State's audit threshold but receives less than \$100,000 from the City, a department may request this audit be submitted for department review even if the nonprofit is not required to publicly post this information as part of an Annual Economic Statement submission.

Fiscal Period for Required Reporting

Nonprofit organizations that receive threshold funding from the City in a fiscal year must submit audited financial statements for that fiscal year. This policy clarifies that threshold funding must be received **within a nonprofit's fiscal year**.

The City's fiscal year runs from July 1 through June 30. To the extent that a nonprofit organization has established an alternate fiscal year, the nonprofit must identify whether revenues from City sources exceed the threshold amount in its own fiscal period to determine whether an audit is required.

The City may use its own fiscal year reporting to identify nonprofit suppliers potentially required to submit audited financial statements. However, nonprofit organizations are accountable to

City law and must maintain appropriate documentation of revenues by their own fiscal year to ensure they meet any State or local auditing requirements.

As part of the Annual Economic Statement reporting requirements, nonprofits must make publicly available a budget showing the source of all monies received and budgeted by program. This documentation of annual revenue from the City must indicate whether an audit may be required for the nonprofit’s fiscal year.

Timeline for Audit Completion

Nonprofit suppliers are required to complete and submit the audit within **nine months** of the close of the nonprofit’s fiscal year. The legislation establishes that the first submission of audited financial statements should occur by March 31, 2026, which aligns to nine months following the close of a June 30 fiscal year.

As a best practice, nonprofit suppliers should complete financial audits within six months of the close of their fiscal year. The auditing process is a tool for ensuring strong internal controls and good management and oversight practices. Timely auditing supports an organization to identify issues quickly and adjust practices prior to a subsequent audit.

As such, the following timelines for submission apply:

Nonprofit’s Fiscal Year	Audit Completion Due Date	
	Best Practice	Requirement
July 1 – June 30	December 31	March 31
January 1 – December 31	June 30	September 30
October 1 – September 30	March 31	June 30
Other Fiscal Period	6 months	9 months

Nonprofit suppliers are required to clearly indicate their fiscal year as part of the Annual Economic Statement reporting requirements. The City Administrator has included this field as part of the template of information nonprofits must include on their websites. This information will support the City to assess whether the nonprofit supplier is adhering to City regulations.

Extension Request Process

The Controller’s Office may grant an extension of the submission in cases where the audit process is underway but requires additional time to complete. The Controller’s Office will only grant extensions for a maximum of three additional months (i.e., no later than 12 months following the close of the nonprofit’s fiscal year).

Criteria for an extension includes documentation that the audit is in progress. To request an extension, nonprofit suppliers must submit a request to Controller’s Office at least 30 days in advance of the required due date for submission based on the nonprofit’s fiscal year. The request must include a copy of the audit engagement letter demonstrating that the audit is in

progress and information from the independent audit firm documenting the time needed to complete the audit.

If the Controller's Office grants an extension, nonprofits must post the extension approval letter as part of the Annual Economic Statement submission to demonstrate the nonprofit received pre-approval for the extended timeline for submission. If the nonprofit completes and posts the audit within the extension period, the nonprofit will not receive a finding related to audit timeliness in annual fiscal monitoring processes.

If a nonprofit does not receive approval for an extension and the audit is completed after the nine-month due date, or if the nonprofit receives an extension but the audit is completed after the extended due date, the nonprofit may be subject to findings as part of the annual fiscal monitoring process.

Note: The Controller's Office will publish specific procedures and additional information about the extension request process, including an extension request form, in the coming months.

Submission Requirements

The City Administrator's Office has developed submission requirements for the Annual Economic Statement required of any nonprofit receiving more than \$100,000 in City funding within a year. The City Administrator's guidelines require a nonprofit that is required to perform an audit to publicly post the audit to its own website as a component of its Annual Economic Statement and to submit a form to the City to indicate the location of these materials.

The City Administrator's Office provides instructions for this process here:

<https://www.sf.gov/post-your-nonprofit-annual-economic-statement>

City departments should not separately request direct submission of audited financial statements from a nonprofit supplier as part of monitoring and oversight activities without first checking the nonprofit's publicly-posted Annual Economic Statement for these documents. City departments can use this [link](#)² to search for the specific web address of these materials for each nonprofit supplier required to submit.

City departments may still request separate submission of audited financial statements for nonprofits that have not previously been subject to the Annual Economic Statement reporting requirements and during solicitations, though City departments should accept links to publicly reported materials as opposed to hard copy attachments to the extent feasible.

Nonprofits must maintain materials for any year where an Annual Economic Statement is required online for at least seven years.

² <https://airtable.com/apprLai9FH98vxKw2/shr1P6RqYf8ikHPZv/tbln0swwqoajvhxSr>

Note: The Fiscal Monitoring Program may grant “good performance waivers” of annual monitoring activities for nonprofit suppliers meeting certain criteria. These good performance waivers only apply to the annual monitoring process and do not waive the requirement that nonprofit suppliers prepare and provide audited financial statements for that year.

Applicability

The requirements of this policy apply to nonprofit suppliers receiving funding from any revenue source and via any agreement type including both contracts and grant agreements.

This policy applies to the direct recipient of City funding, i.e., the “prime contractor.” The City has contract privity with the prime alone, and contract terms assign the prime as fully accountable to the use and management of City funding it receives. As such, the audit requirement falls on the prime contractor based on the total City funding it receives to deliver services. A prime contractor’s total City funding across agreements may include subcontracts with other nonprofit organizations that will receive a portion of the total contract value, and/or the nonprofit supplier may administer City funding on behalf of another entity, including agreements for “program administration,” “mini-grants,” and/or fiscal sponsorship. If total City funding exceeds \$1 million in a year, the terms of this policy will apply.

Oversight and Compliance

The Controller’s Office administers the Citywide Nonprofit Monitoring and Capacity Building Program which sets standards for financial management as part of the Fiscal Monitoring Program. The Controller’s Office also administers the Citywide Nonprofit Corrective Action Policy which defines actions City departments should take when a nonprofit supplier demonstrates a pattern of poor financial or programmatic performance or fails to comply with City policy or standards.

City departments review audited financial statements as part of annual fiscal monitoring protocols and use the audit to assess the financial health of the organization. The Standard Monitoring Form includes standards requiring audit completion and audit timeliness, among other indicators of financial management. Criteria for Citywide Corrective Action include failure to prepare and submit an audit when one is required. In the first year of this issue, the nonprofit may be designated to a Corrective Action tier according to the factors involved. If the issue persists for subsequent years, the nonprofit may be placed on a higher tier indicating the issue is severe, and this may impact a nonprofit’s current or future funding from the City.

Specific enforcement actions related to the failure to prepare and provide audited financial statements will be managed according to the terms of the Citywide Nonprofit Corrective Action Policy. See that policy for more details about criteria for designation to a corrective action tier and how an organization may be moved to a higher or lower tier based on compliance with this policy and other standards.

City departments are responsible for performing annual fiscal monitoring of nonprofit contractors either through the joint process administered by the Controller’s Office or through

an individual monitoring process when a single department funds a nonprofit above a threshold amount. See the [Fiscal Monitoring Guidelines](#) for more on these monitoring requirements and risk assessment thresholds.

As part of the monitoring process, City departments request and review a nonprofit's agency-wide budget. The agency-wide budget should reasonably indicate if that nonprofit receives threshold funding from the City and is required to conduct an audit. If a City department identifies that a nonprofit organization is required to complete an audit but the document has not been posted in accordance with Annual Economic Statement requirements, the department should take the following steps:

- Inform the nonprofit of the posting requirement by sharing this policy.
- Request the nonprofit to provide the audit as an attachment or a link in order to complete the monitoring process.
- If the nonprofit does not provide the required audit (e.g., if the audit was not conducted), note this as a finding as part of the fiscal monitoring process, and escalate to the Controller's Office as part of the Citywide Corrective Action Policy.
- If the nonprofit provides an audit but it was completed after the deadline, note this as a finding as part of the fiscal monitoring process.

The Controller's Office will moderate any disputes regarding whether an audit is required. City departments and/or nonprofit staff with questions about whether a nonprofit is required to conduct an audit for a given fiscal year should contact the Controller's Office at nonprofit.monitoring@sfgov.org. The Controller's Office will engage department and nonprofit staff to gather documents and issue a determination on whether the nonprofit is required to receive an audit in a given fiscal year.

Resources and Links

- **Finding an Auditor:** To support nonprofit suppliers to find certified accounting firms to perform audits, the Controller's Office surveyed certified public accounting (CPA) firms and published results online as a directory of firms interested in performing these services. The Controller's Office does not endorse any firm listed and these firms have not been "prequalified" or vetted by the Controller's Office. The Controller's Office posts all results publicly as provided by responding firms as a resource to nonprofits. *[Link coming soon.]*
- **Relevant Links:**
 - San Francisco Nonprofit Monitoring Requirements: <https://sfgov.legistar.com/LegislationDetail.aspx?ID=6351797&GUID=728F11DF-8D09-4A38-A073-C40550280172&Options=ID|Text|&Search=230973>
 - San Francisco Annual Economic Statement Reporting Requirements: <https://sfgov.legistar.com/LegislationDetail.aspx?ID=6029037&GUID=18F2EDDE-D481-4984-8A48-0668C1D4AD1E&Options=ID|Text|&Search=230165>

- Guidance for Federal Financial Assistance:
<https://www.federalregister.gov/documents/2024/04/22/2024-07496/guidance-for-federal-financial-assistance>

Questions and Current Guidance

1. How will audited financial statements be used by the City?

City departments use financial audits in various ways and at several points during contracting with nonprofits. Audits are essential tools for understanding whether a nonprofit employs strong financial controls over public funds. Audits can also be used to assess the financial health of the organization by looking at key indicators such as days of cash on hand. Auditors may note a “going concern” in the audit if the firm believes there is significant risk that the organization may not have sufficient revenues or appropriate management of those revenues to sustain operations. City monitors collect and review audits during annual fiscal monitoring activities. The [Standard Monitoring Form](#) includes several standards the City uses the audit to assess. Because of the importance of an audit, the City weighs both completion and timeliness in the fiscal monitoring process, as well as best practices for financial health.

2. If a nonprofit receives threshold funding in one year but does not receive threshold funding in the following year, is the nonprofit still required to conduct and post an audit?

The legislation requires that nonprofits post an audit for any year where they received threshold funding from the City. Nonprofits are encouraged to budget for the cost of audits in years when they receive threshold funding to support them to comply with this requirement in subsequent years. Funding levels may vary year to year and a nonprofit may not receive a fiscal monitoring in a subsequent year when funding levels drop below the threshold. However, the Controller’s Office is required to periodically review compliance with the Annual Economic Statement requirements, including retroactive reviews to determine whether nonprofits posted all required documents per that law. If a nonprofit was required to complete and post and audit for a given fiscal year and did not do so, this could be a finding in that review.

3. What’s the difference between a “CPA Audit” and “OMB Single Audit”?

The federal Office of Management and Budget (OMB) requires recipients of federal funding who expend \$1 million or more in federal awards during a fiscal year to conduct a “Single Audit.” A single audit is a financial and compliance audit that combines a review of the organization’s financial statements with an audit of the organization’s federal awards to ensure that the organization has adequate internal controls and is compliant with federal program requirements. In most cases, a nonprofit that is required to perform a single audit should engage an auditing firm with expertise in this type of review.

Through the new CPA audit policy, the City and County of San Francisco is requiring nonprofits who receive \$1 million or more in City funding during a fiscal year to prepare and submit audited financial statements. These may be conducted by any CPA, and do not need to follow

federal Single Audit requirements. However, if a nonprofit is already required to conduct a Single Audit, this can be submitted to the City to satisfy the CPA audit requirements.

4. How does a nonprofit request department funding for audit costs?

Departments have discretion to offer funding through a direct allocation within a contract budget for costs associated with a CPA audit. For smaller nonprofits under the California state threshold, this discretionary funding would be required if the department wanted to mandate an audit for that nonprofit contractor. Nonprofits and funding department(s) should consult during contract negotiations and/or during any annual modifications or renewals about whether an audit will be required, whether the nonprofit is above the thresholds noted in this policy, and whether the department will allocate any direct funding within the contract budget to account for audit costs.

5. If a department provides funding for the audit via a direct allocation, should the department also determine other details of the audit process, such as firm to be used, timeline, etc.?

Even if a department chooses to cover the cost of a CPA audit within the contract budget, the choice of the audit firm as well as timeline and process for conducting the audit fall to the nonprofit to implement. Nonprofits must choose a certified accounting and auditing firm that meets their individual operational needs, and must work with their Board of Directors' audit committee to develop a process for engagement and review that meets the organization's needs while also delivering the audit on time according to local requirements. Departments should not typically have a role in this process; however, departments may refer a nonprofit to receive technical assistance if they need extra support in audit planning.

6. The policy is launching after the start of a fiscal year. How does a nonprofit know if they are required to conduct an audit or exempt for FY24-25?

This policy goes into effect as of November 2024. The first required audit under the terms of this policy must be submitted by March 2026. For nonprofits on a July-June fiscal year, the first required audit will relate to funding received in FY24-25.

Nonprofits that already regularly conduct CPA audits and which are required to do so per State law may already have a plan and process in place to comply with the FY24-25 audit requirement. Nonprofits that have not been required to conduct an audit previously (i.e., are below the state threshold) are exempt from conducting the FY24-25 audit unless a department, at its discretion, has funded the cost of the audit via a direct allocation of funding within a contract.

As the fiscal year has already started, nonprofits that may fall into this latter category should immediately consult with funding departments to determine how this rule applies to them. If the department determines that it will not directly fund the audit, the nonprofit will remain exempt from this requirement. A department may, at its discretion, determine that the nonprofit should receive an audit and may allocate new funds or modify an existing contract budget to fund this

cost. If this occurs, the department must send a letter to the nonprofit notifying the organization of the audit requirement and must copy the Controller's Office, per the details provided above.

Departments should notify the nonprofit in writing of the audit requirement no later than January 15, 2025.

7. How much does a CPA audit cost?

The cost of an audit depends on numerous factors, including: the time needed to conduct the audit; overall budget size or organization size of the nonprofit; complexity of funding sources, including whether the nonprofit receives federal funding and must receive a OMB Single Audit; other financial complexity; the need for an auditor to perform on-site work to review paper files; and other factors. At the low end, an audit may cost \$5,000-\$8,000. For larger, more complex organizations, the audit may cost \$20,000 or more. The Controller's Office is developing new resources to support nonprofits to get quotes from a range of audit firms based on individual needs and criteria.