

# FINANCIAL OVERSIGHT RESPONSIBILITIES

For Boards of Directors of Community Action Agencies

MASSCAP TRAINING CENTER

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# Questions We Will Answer

**What are the fiduciary responsibilities of the Board of Directors as they relate to your financial oversight role?**

**What are the requirements of the CSBG National Organizational Standards as they pertain to the financial responsibilities of the Board of Directors?**

**Are you receiving the reports, budgets, audits and other information you need to carry out your financial oversight role?**

**Does the agency have the necessary financial internal controls in place?**

**What are the signs that indicate financial trouble is around the corner?**

What are the fiduciary responsibilities of the Board of Directors as they relate to your financial oversight role?

# FIDUCIARY RESPONSIBILITY OF BOARDS

- ▶ **Responsibility of Care for Assets of Organization**
- ▶ **Make decisions that effect the rights and wellbeing of key stakeholders**
  - Funders
  - Donors
  - Program participants
  - Beneficiaries
  - Employees
  - The public



# FIDUCIARY RESPONSIBILITY INCLUDES:

## ➤ **Responsibility of Loyalty**

- Always act in the interest of the organization not yourselves or affiliation
- Avoid conflicts of interest and disclose possible conflicts

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# Fiduciary Responsibilities as They Pertain to Financial Matters

- ▶ **How do you maintain adequate financial oversight?**
- ▶ Know your responsibilities in relation to the new CSBG (Community Services Block Grant) National Organizational Standards
- ▶ Understand facts and circumstances of major transactions
- ▶ Understand overall financial health of organization
- ▶ Ask targeted questions
- ▶ Be an active participant in meetings
- ▶ Review and approve internal financial statements regularly

**What are the requirements of the CSBG  
National Organizational Standards  
Standard Category 8: Financial  
Operations and Oversight?**

# WHAT ARE THE CSBG NATIONAL ORGANIZATIONAL STANDARDS?

- ▶ Developed on the national level by the Office of Community Services supported by the Organizational Standards Center of Excellence (COE) with input from Community Action agencies
- ▶ Reflect requirements of the Community Services Block Grant Act, good management practices and values of Community Action
- ▶ States implement standards—discretion to determine how
- ▶ States are using standards to assess agencies starting in FY2016
- ▶ Nine categories, Category 8: Financial Operations and Oversight



# National Organizational Standards 8.1 and 8.2

- ▶ **Standard 8.1:** The agency's annual audit is completed by a Certified Public Accountant in accordance with Title 2 of the Code of Federal Regulations,, Uniform Administrative Requirements and/or State audit threshold requirements.
- ▶ **Standard 8.2:** All findings from the prior year's audit must be addressed where the governing board has deemed it appropriate

# National Organizational Standards 8.3 and 8.4

- ▶ **Standard 8.3:** The organization's auditor presents the audit to the Board of Directors
  - Can be presented to a committee
  - If presented to committee, report must be made to full board
  - Presentation should be reflected in minutes
- ▶ **Standard 8.4:** The Governing Board formally receives and accepts the audit
  - Board must vote at regular meeting to accept audit
  - Each member should receive a copy

# National Organizational Standard 8.5 and other Audit Related Responsibilities

- ▶ **Standard 8.5:** The Organization has solicited bids for its audit within the past 5 years
  - Does not require switching audit firms
  - Documentation of bid process
  - Board of Directors should ensure this is done and be part of selection process
- **Other Responsibilities:**
  - Informing CPA firm of all known or suspected fraud involving the agency
  - Resolving disagreements between management and audit team

# National Organizational Standard 8.6

- ▶ **Standard 8.6:** IRS Form 990 completed annually and made available to Board of Directors for review
- Report specifically asks if the BOD reviewed the document and asks for description of process
- Review process should be reflected in meeting minutes but does not require Board acceptance or approval

**Are you receiving the reports, budgets and other information you need to carry out your financial oversight role?**

# Understand facts and circumstances of financial transactions and financial health of the organization

- ▶ Very important!! You should receive financial reports for review and approval at each meeting of the Board of Directors
- ▶ Ask questions if you don't understand format, activity, etc.
- ▶ Should be focused on program level and total agency bottom line.
- ▶ Information should be at least year to date, monthly information also good practice.



# National Organizational Standard 8.7: Internal Financial Reports

- ▶ Standard 8.7: The governing board receives financial reports at each regular meeting that include the following:
  1. Organization-wide report on revenue and expenditures (Statement of Financial Activity) that compares budget to actual, categorized by program and
  2. Balance sheet or Statement of Financial Position.
  
- ▶ These reports should be approved by the Board of Directors

# National Organizational Standard 8.9: Agency-wide Budget

- ▶ Standard 8.9: The Board of Directors must approve an Organization-wide Budget annually. Must be documented in the minutes.
- Why? Program budgets can miss if all costs are covered.
- Changes expected over course of the year—no requirement to pass modified budget




Does the agency have the necessary financial internal controls in place?

# Are Adequate Internal Financial Controls in Place?

- ▶ There are many internal controls that can help to ensure that the assets of the agency are protected:
- ▶ **National Organizational Standards 8.10, 8.11, 8.12 and 8.13**
  - Standard 8.10: Financial Procedures Manual: The fiscal policies have been reviewed by staff in the past 2 years, updated as necessary, with changes approved by the Board of Directors
  - Standard 8.11: Written Procurement Policy: Policy should be reviewed and approved by the Board in past 5 years
  - Standard 8.12: The organization documents how it allocates shared costs through an indirect cost rate or through a written cost allocation plan.
  - Standard 8.13: Record Retention and Destruction Policy: The organization has a written policy in place for record retention and destruction.

# Other important internal controls

- ▶ Signature policy: should be approved by Board of Directors
- ▶ Agency credit cards: DANGER!! Ensure agency has good internal controls if credit cards are used.



What are the signs that indicate financial trouble is around the corner?

# Top 10 warning signs agency is in serious financial distress: Time to take ACTION!

1. Cash flow is always a problem and line of credit generally maxed out
2. Financial statements generally show a deficit
3. Current ratio is approaching 1:1 and going in direction to be less than 1:1 (current liabilities exceed current assets)
4. Accounts payable are greater than cash plus accounts receivables
5. Net assets are negative

# Top 10 Warning Signs (cont'd)

## 6. Audit signs:

- ▶ Material weaknesses cited
- ▶ Deficiencies cited
- ▶ Concern expressed about ability of agency to continue as a going concern

# Top 10 Warning Signs (cont'd)

7. Reserves are very small or do not exist
8. Financial statements not being produced regularly and reviewed and approved by the Board of Directors
9. Payroll taxes not paid on time (Standard 8.8)
10. Pension plan contributions stop or are greatly reduced

Thank you for your interest and for  
serving on the Board of Directors!



# For further information or questions contact:

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