

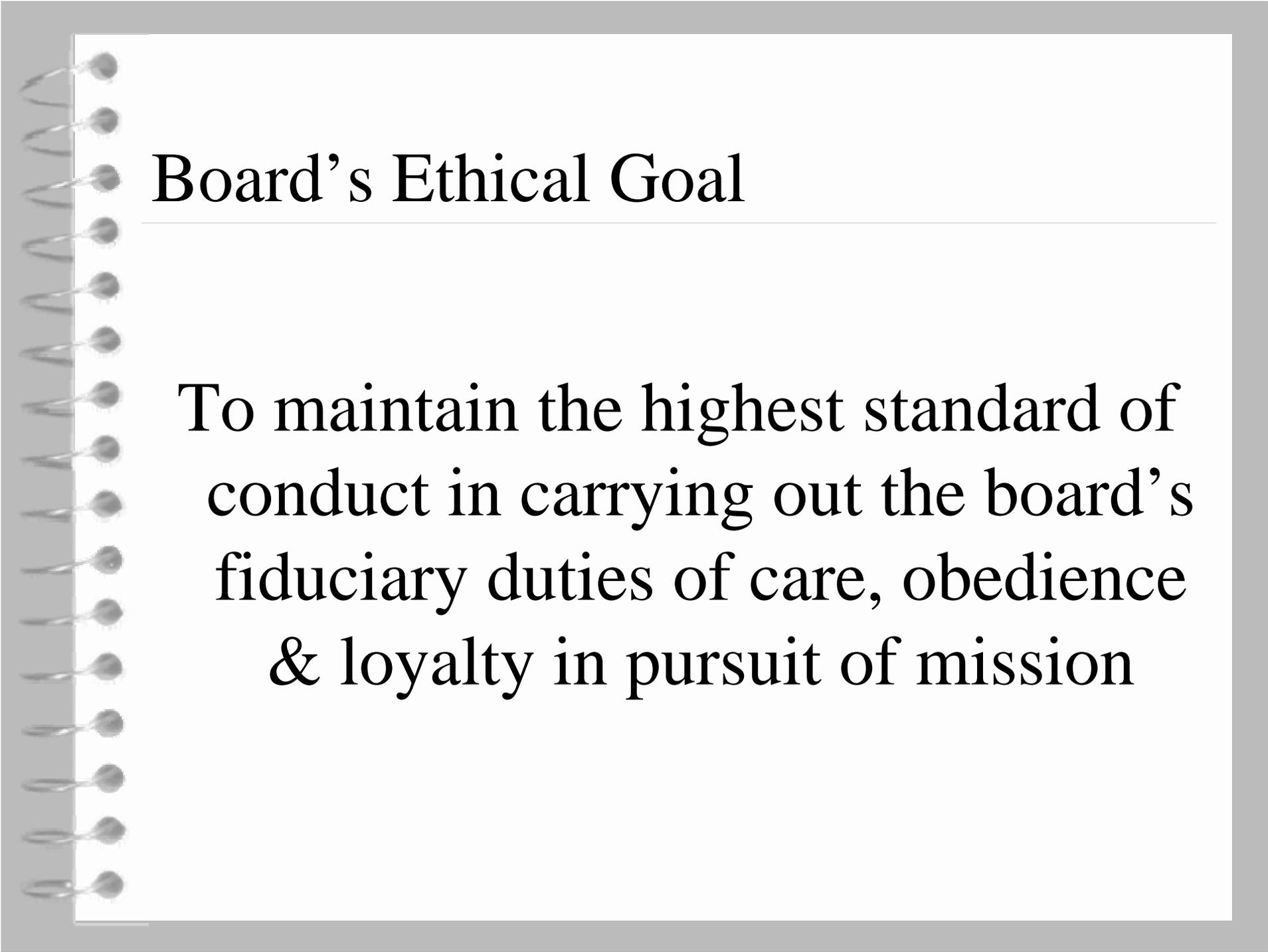
# Mayor's Office of Contract Services Procurement Training Institute

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## *Fiscal Oversight: Bylaws to Policies to Procedures*

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Council Community Services of New York State, Inc.;*  
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## Board's Ethical Goal

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To maintain the highest standard of conduct in carrying out the board's fiduciary duties of care, obedience & loyalty in pursuit of mission

# The Nonprofit Challenge:

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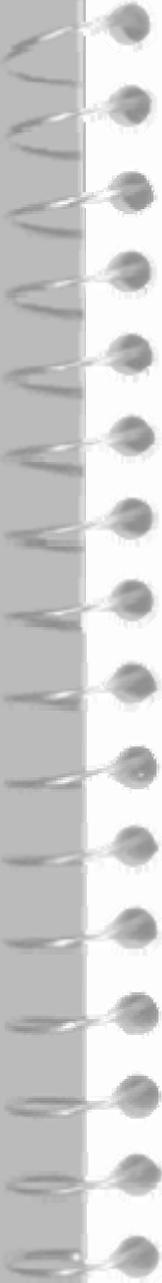
For the governance & management team to clearly define, consistently apply & reliably document:

*who is financially responsible for what,  
accountable to whom, &  
in what ways*

# Key Ingredients For Good Financial Governance



- Accurate, sufficient & timely information – Hardware, software, & staff
- *Efficient* checks & balances on authority, oversight & internal controls
- Clear roles & boundaries for generating, reporting, processing & decision-making
- Board members that are competent & financially literate in nonprofit accounting, including & those with specific expertise
- Board oversight & interactions auditors



# The “Accountability” Movement

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- Promotes responsibility for actions, decisions, policies & deliverables
- Values transparency (external & internal)
- Relates dollars, “investments,” to outcome, results, impact, etc.
- Is oriented to preventing & detecting fraud and the misappropriation of assets

# The “Accountability” Movement

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- Emphasizes compliance, enforcement & fraud prevention

- External

- ✘ Legal, government, contractual, licensing, accreditations, etc.

- Internal (self-regulatory)

- ✘ Starts with the attitude & tone of leadership

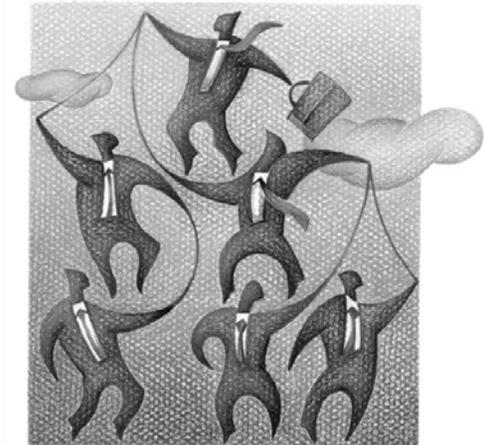
- ✘ Control activities - bylaws, committee oversight, policies, ethics, “best practices”, etc.

- ✘ Assessment of risks

# Internal Controls

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- Financial policies & procedures working together through a process of checks & balances to ensure financial accuracy, integrity, accountability & compliance
- Policies & procedures alone do not provide sufficient internal controls – must be operationally effective



# Trends Regarding the Independent Auditor

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- Thinking “how can fraud be committed here” & designs audit tests accordingly
- Must communicate/interact with board
  - May want to do so without management being present
- Concern about own liability exposure & reputation

# Setting Up Your Structure: Navigating the Maze

Fiscal Officer

Finance Committee

*Audit & Finance Committee*

Budget Committee

Treasurer

Secretary

ED/CEO



Board Chair

Executive Committee

Audit Committee

Corporate Compliance Committee

## Auditor Trends *(continued)*

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- Management letter
  - Evolution of “reportable conditions” to “significant deficiencies” – carries “greater weight”
  - Must now report in writing (not verbally)
  - Many funders are now requiring despite letter stating for not intended for other sources
- Auditor bidding & rotation

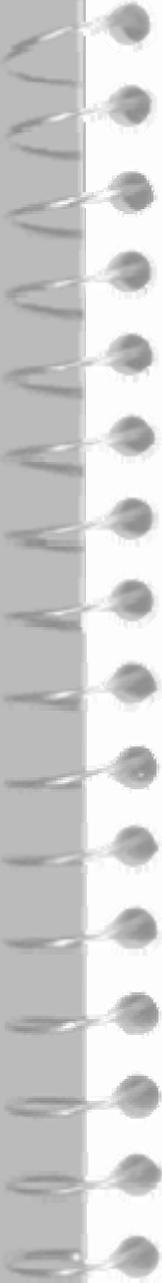
# Keep in Mind the Interests & Requirements of Regulators & External Stakeholders

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- Regulatory/Funding Government Agencies



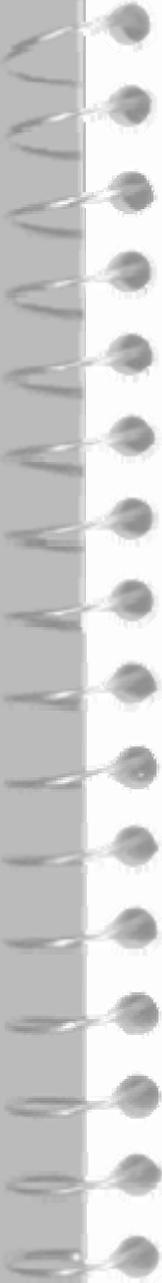
- Private funders & donors
- Constituents  
*(may include members)*
- Independent auditor
- The public



# Establish a Fiscal Accountability Structure by:

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Knowing & clearly articulating who is responsible for what, to whom & in what ways to ensure sound financial management



# Key Players

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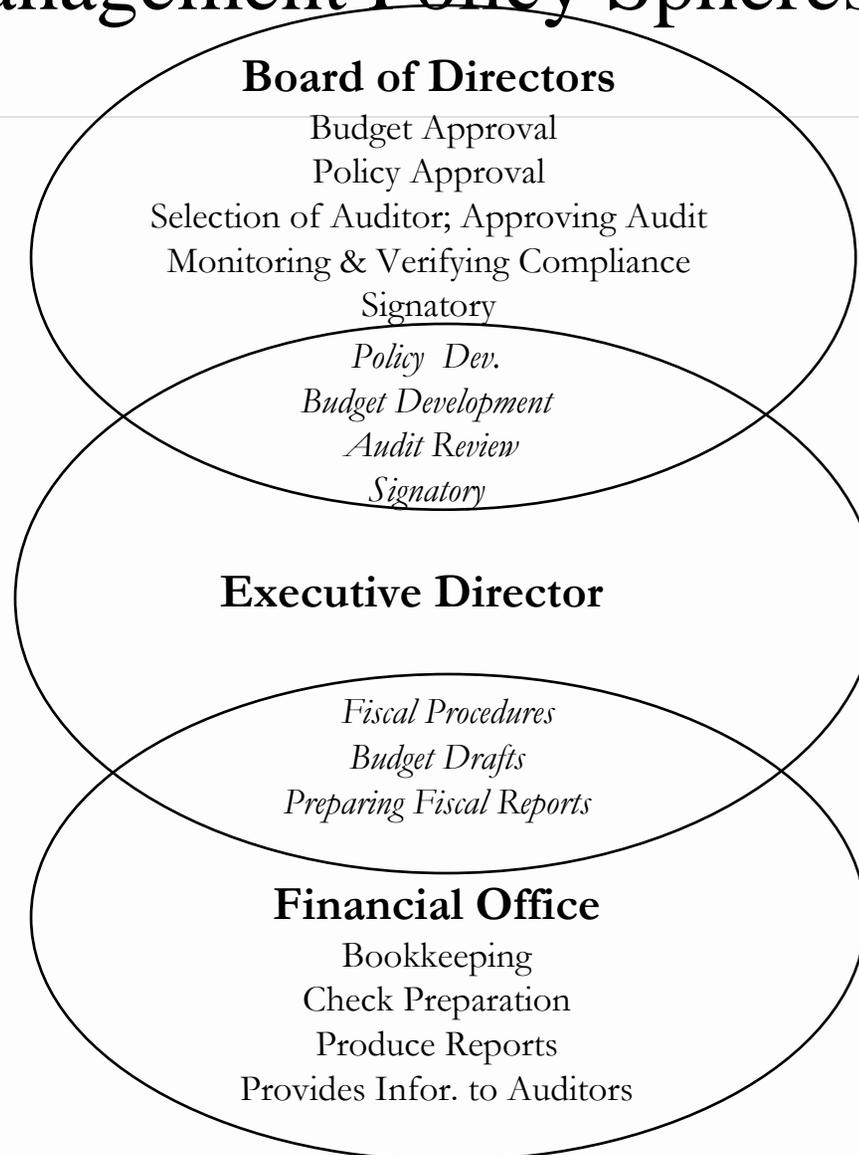
- Board
- Committees
- Treasurer
- Executive Director
- Fiscal Officer
- Program Directors

# Board of Directors - Staff

## Fiscal Management Policy Spheres

Policy-making

Implementation



### What Role Do Boards Play?

- Rubber Stamper?
- Cheerleader
- Watchdog?
- Policymaker?
- Shared Manager?
- Micro-manager?

# Best Practice Standing Committee Roles in Fiscal Affairs

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- **Recommends** policy or control changes & monitors compliance
- Periodically **reviews** format & adequacy of financial reports
- **Works** with E.D. & other committees to prepare & propose budget
- **Monitors** & ensures adherence to regulatory requirements

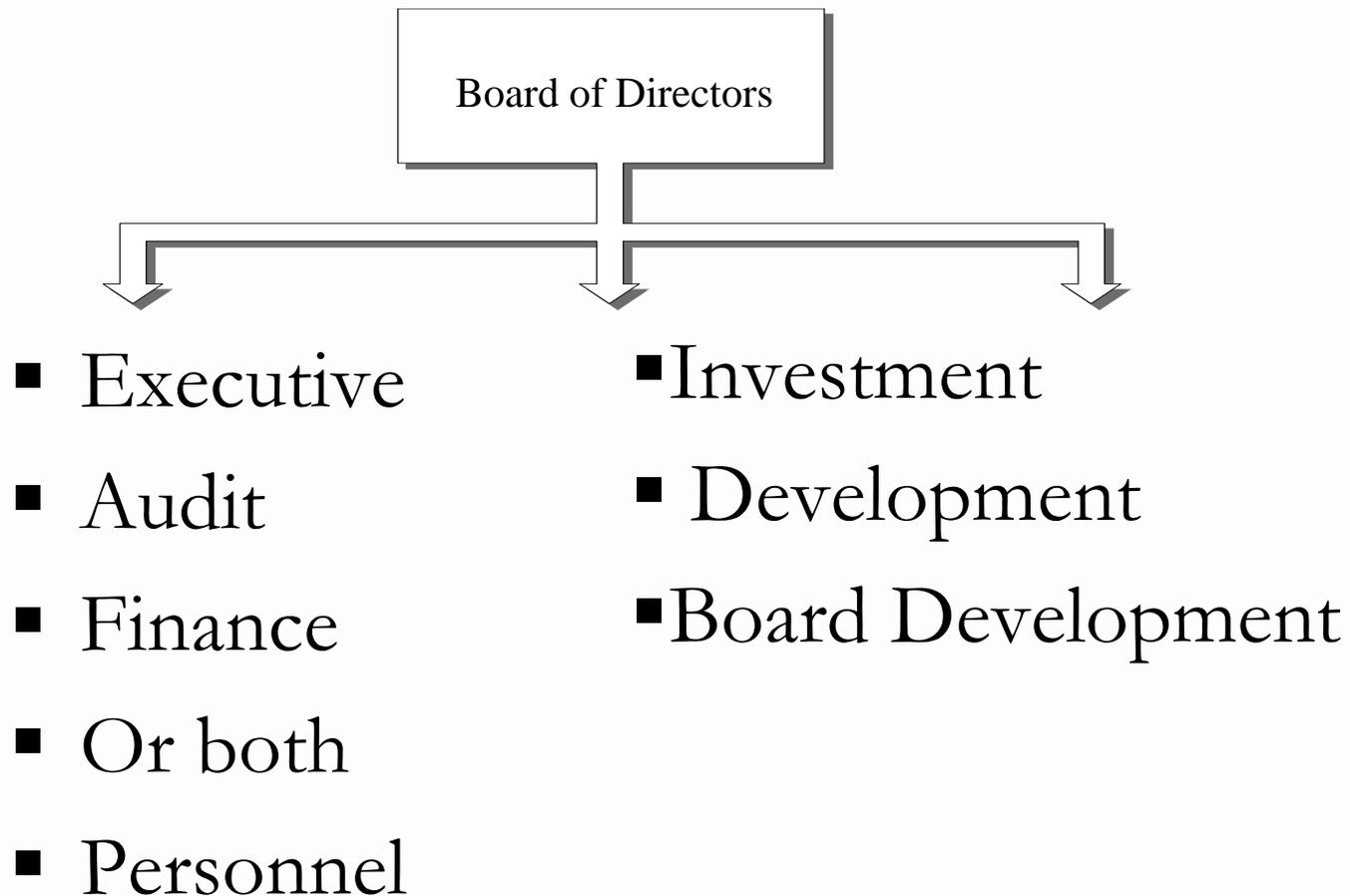
## Best Practices: *(Continued)*

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- **Recommends**, via a non-interested committee, the independent auditor & oversees, reviews & reports to Board all audits
- **Ensures** that corrective actions are taken, including management letter
- **Recommends & monitors** investment policies with qualified professional management
- **Develops, monitors, & recommends** compensation policies & priorities

# Types of Financial Related Committees

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# Recommended Key Financial Bylaw Provisions

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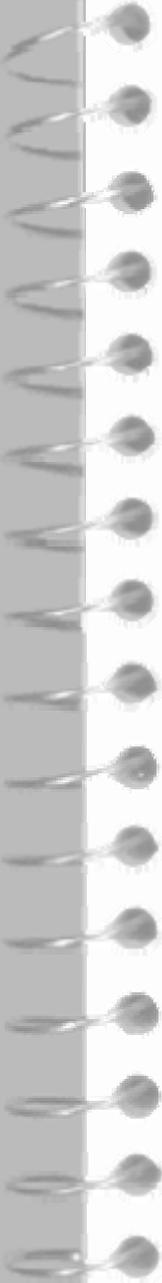
- Fiscal year
- Officer, ED & standing committee responsibilities, authority & limitations
- Budget, policy making & reporting processes
- Board compensation & loans
- Independent auditor role, interactions & limitations
- Conflict of Interest/ethical code
- Signatories
- Indemnification

# State Key ED's

## Job Responsibilities in the Bylaws

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- Chief paid administrator
- Administers day-to-day affairs (financial, personnel, program, etc.) within policies established by board
- Ensures compliant & ethical implementation of board policies & directives & all applicable laws & contractual requirements
- Hires, supervises, evaluates, & terminates all staff
- Provides principal support to board & committees
- Safeguards fiduciary obligations
- Signatory



# Fiscal & Other Staff Responsibilities

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- Implement policies set by the board
- Assist in the development of policies
- Develop internal procedures to carry out board approved policies & other regulatory requirements
- Implement internal fiscal office procedures & monitoring internal controls that safeguard the organization's assets

# Understanding Accountability Flow

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Bylaws



Policies



Procedures

# Board Accountability

## Starts with the Bylaws

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- Legal document that states the rules & organization for governance
  - Compliance is required
  - Must submit substantive amended versions with IRS Form 990
- Creates the framework for financial governance decision-making, monitoring & reporting processes
- Serves as a risk management tool
- Usually not amended without timely notification

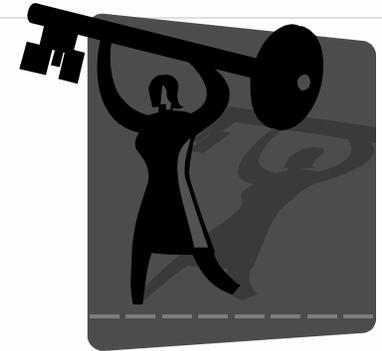
# From *Bylaws* to *Policies* & *Procedures*

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- *Policies* are the guiding parameters, principles & directions generally established by the board with ED/CEO
  - Can be changed by the board or executive committee (unless prohibited in bylaws)
- *Procedures* are the specific tasks or activities, usually developed by staff, to implement policies

# Key Financial Bylaw Provisions

- Fiscal year
- Officer, ED/CEO & standing committee responsibilities, authority & limitations
- Budget, policy making & reporting processes
- Board compensation & loans
- Independent auditor role, interactions & limitations
- Conflict of interest & self-dealing
- Ethical code
- Indemnification



# Policies & Procedures:

## Maximizing Use of & Safeguarding Resources

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### ■ Fiscal Policies

- Set and able to be modified by the board
- Consistent with bylaws
- Formal Guidelines
- Broad, wide-spread application
- Static, changes infrequently
- Statements of “What” and “Why”

### ■ Procedures

- Very detailed “how to, when & by whom” task statements
- Developed by ED & staff
- Record keeping
- Supporting documentation
- Prone to change
- Internal Controls

# Examples of Fiscal Policy Areas

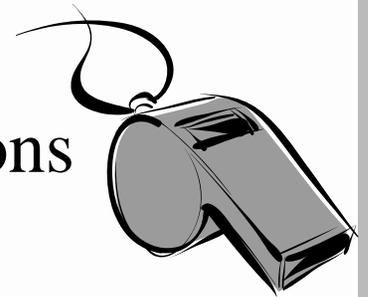
- Purchasing & bidding
- Check signing, credit card use, etc.
- Investments
- Compensation policies & authority
- Insurance coverage
- Budgetary discretion of ED/CEO
- Initiative/proposal development & submission
- Unexecuted contract spending
- Records retention & document destruction
- Gift Acceptance
- “Whistleblower”



# Whistleblower Policy & Procedures

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- Avenue for the reporting of suspected financial irregularity, violation of board policy, fraudulent activity, etc.
- Allows for anonymity & protected disclosure
- Needs to appropriately compliment personnel (not trump) policies
- Includes handling of malicious allegations



# Who Does the Financial Report to Your Board?

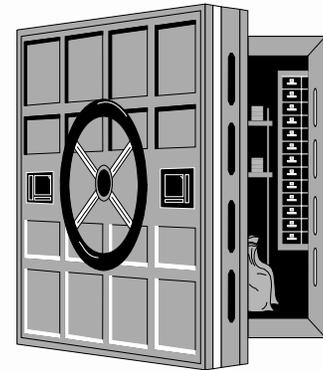
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- Treasurer?
- Finance Committee Chair?
- CFO or Bookkeeper?
- ED/CEO?



# The Treasurer's Fiduciary Responsibilities

- Oversees all financial activities of the corporation
- Custodian of all funds & securities of the corporation
- Ensures that all financial matters are managed in an appropriate manner
- Regularly reports the financial condition to the board & at annual meeting to membership

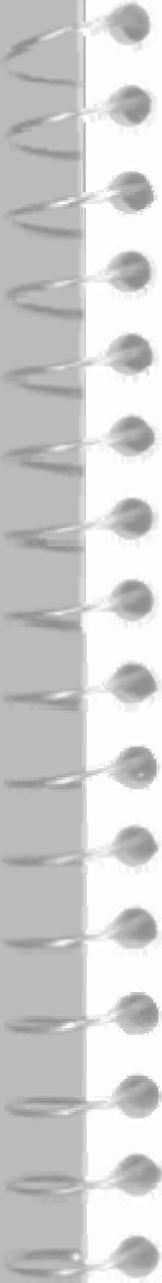


**Treasurer**

# The Treasurer's Duties

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- Serves on the Executive & Finance committees
- Works closely with E.D. & fiscal officer
- Liaison with auditors
- Is a signatory
- Performs other duties as stated in the bylaws or delegated by the board



## Other Decisions:

### When Do They Go to the Board?

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- New Funding Opportunities/New Ventures
- Budget Deficits/Surpluses
- Cash Flow
- Contracts
- Hiring/Staff Turnover
- Risk Management
- Fee Structures in Relation to Mission
- Compensation

# What Is Internal Control?

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-  A process, effected by an entity's board, management and other personnel, designed to provide reasonable assurance regarding the achievement of the following objectives
- Accurate and reliable financial reporting
  - Operational effectiveness and efficiency
  - Compliance with laws and regulations
  - Safeguarding of assets

# Accurate and Reliable Financial Reporting

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- ☞ Accounting information systems
  - Software adequacy
  - Access controlled by management with limited board member access
- ☞ Adequacy of format
  - Comprehensive, concise, understandable
  - Orientation process for board members
- ☞ Timeliness of reporting
  - Internal to management and the board
  - External to funding sources and regulators

# Operational Effectiveness and Efficiency

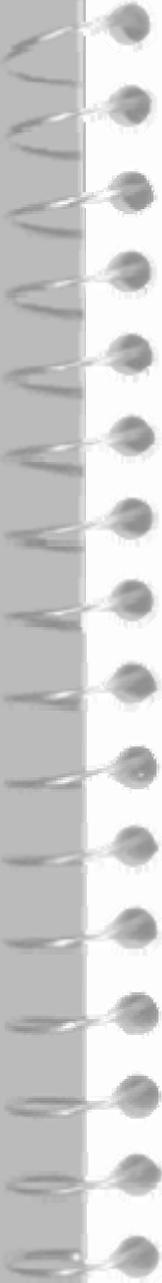
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- 📄 Programmatic efficiency and quality services
- 📄 Adequate staffing levels
- 📄 Qualified fiscal staff
- 📄 Minimal or no duplication of duties
- 📄 Well-articulated management structure
- 📄 Clearly written and legally compliant personnel policies
- 📄 Clearly written job descriptions

# Compliance With Laws and Regulations

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- 📄 Federal, state and local reporting requirements
- 📄 Board composition
- 📄 Funding source requirements
- 📄 Labor laws
- 📄 Quality assurance
- 📄 Client/consumer protections



# Safeguarding of Assets

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 Protect assets from misappropriation

 Protect assets from misuse

# Control Environment for Nonprofits

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 Control environment includes:

- Integrity and ethical values
- Attention and direction provided by board of directors
- Management's philosophy and operating style
- Human resources policies and procedures
- Commitment to competence (program and administration)
- Organizational structure, including assignment of authority and responsibility

# Control Environment for Nonprofits

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## Attention and direction provided by board

- Board has a charter
- Board meets regularly
- Board does limits or prohibits the inclusion of relatives and friends of CEO
- Independence of potential board members is reviewed
- Minutes are taken at board *and* committee meetings

# Control Environment for Nonprofits

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## Attention and direction provided by board (cont.)

- Board reviews financial statements
- Members certify compliance with code of ethics and conflict of interest policies
- Board discusses issues without management
- Board may establish audit committee

# Control Environment for Nonprofits

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## Management's philosophy and operating style

- Management emphasizes minimizing risks, especially relating to accurate and reliable financial reporting
- Material journal entries and accounting estimates are properly authorized, documented and reviewed by the CFO
- Management emphasizes to employees the importance of exercising skepticism

# Control Environment for Nonprofits

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## Commitment to competence

- Establish criteria for hiring financial positions
- Effective oversight of employees
- Management reviews and evaluates employees
- Board evaluates performance and competencies of CEO

# Control Environment for Nonprofits

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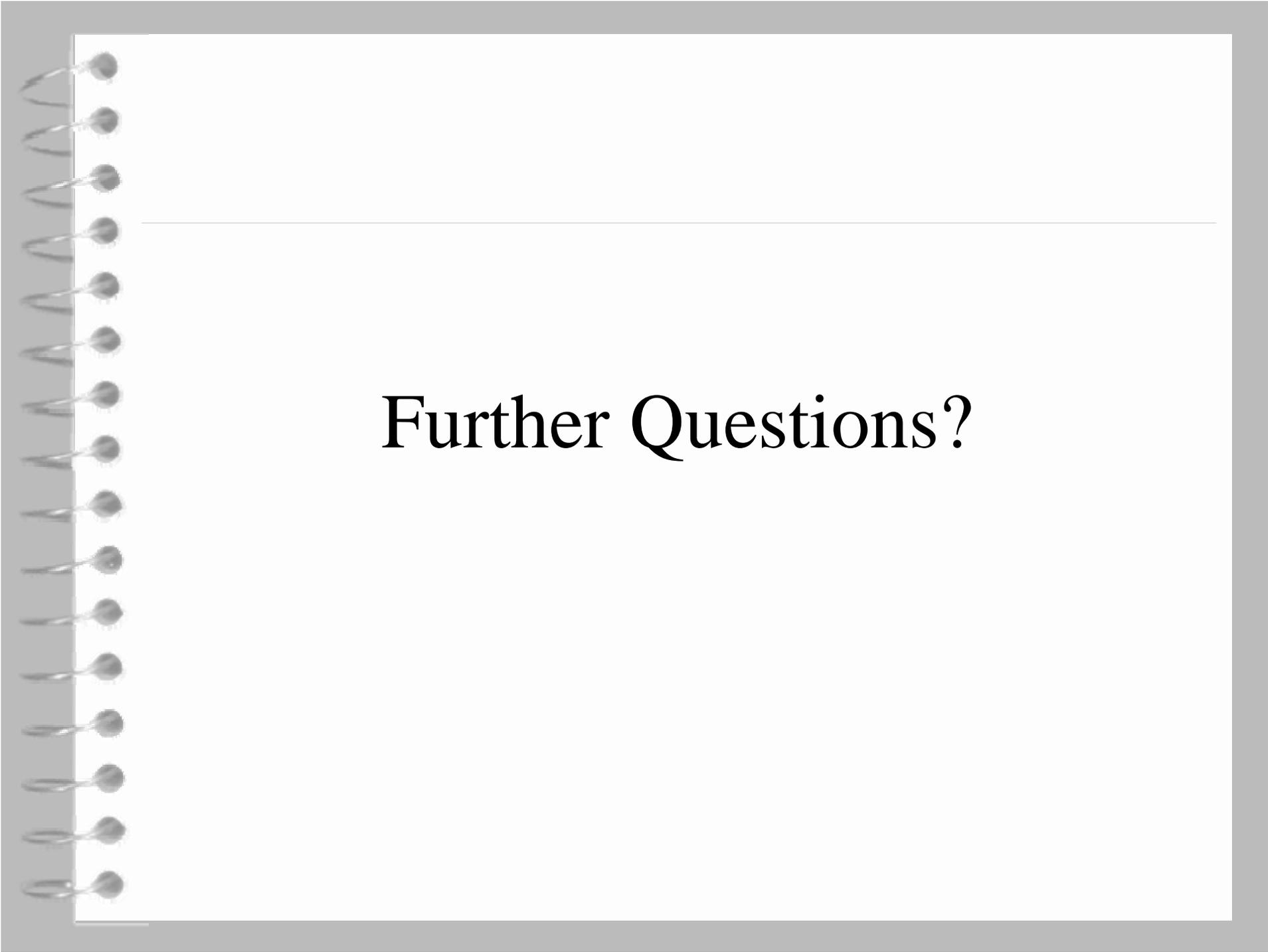
## Organizational structure

- Job descriptions and organization charts
- Flowcharts or narratives to document the flow of transactions, controls and reporting responsibilities
- Management is aware of whether there is adequate segregation of duties
- Board reviews organizational structure including authority, responsibilities and reporting relationships

# Role of the External Auditor

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- ☞ The external auditor cannot be part of an audit or attest client's internal control
- ☞ The auditor cannot be a compensating control for an audit or attest client
  - Control deficiency issues (SAS No. 112)
  - Independence issues (Ethics Interpretation 101-3)

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Further Questions?