



TOOLS FOR TOP-NOTCH CAAs:  
A PRACTICAL APPROACH TO GOVERNANCE  
AND FINANCIAL EXCELLENCE

**CAPLAW**  
Community Action Program Legal Services, Inc.

2020 Edition



Dear Colleagues:

CAPLAW is pleased to make available to you a six-section toolkit intended to assist boards and management in their collaborative efforts to build well-governed and effective Community Action Agencies (CAAs). The toolkit addresses how to:

- conduct and maintain minutes for board meetings;
- build financial capacity through hiring of effective financial staff and audits;
- prepare organization-wide budgets;
- get the most out of financial statements;
- address conflicts of interest; and
- draft and implement effective whistleblower policies.

The toolkit includes case scenarios and examples revolving around the factitious Community Action Agency, Blue Community Action (BCA), to help you understand and apply the principles discussed. And, many of the sections provide sample documents that CAAs can use as a starting point for developing their own policies.

The toolkit does not cover every governance and management topic of importance to CAAs, but the topics chosen are often critical to the success or failure of the organization and are frequently stressed today by funding sources, nonprofit regulators, the Internal Revenue Service, and experts in the nonprofit field. Because of CAPLAW's focus on legal issues, we have included the legal background for many of the issues addressed. But that is just the beginning. The toolkit sections take those legal fundamentals, combine them with financial basics and the realities of running a government-funded nonprofit organization, and offer suggestions for implementing those legal and financial requirements in ways that enhance the effectiveness of the CAA. We hope that the toolkit will serve both as a conversation-starter in your CAA and as a resource for taking the steps that your organization decides are needed to best fulfill its anti-poverty mission. But don't get so caught up in the trees that you can't see the forest. Governance is not about papering the file with forms, but about developing values and a culture of integrity and accountability that ensure that the organization is achieving its mission.

Although the toolkit addresses legal issues, it does not provide legal advice and is not a substitute for a lawyer. The reason is simple: there are too many factors specific to any situation that must be taken into account when giving legal advice. For example: What does state corporate law require? Is there a state law protecting whistleblowers? Has the state imposed unique provisions in connection with the federally-funded grants? Here's one best practice: every CAA should have access to one or more lawyer(s), licensed to practice in that state, who are familiar with requirements for tax-exempt nonprofit corporations, employment law, and other areas of the law that affect CAAs and the CAA should regularly seek advice from that lawyer.

We hope you use the toolkit as part of an ongoing effort to improve board oversight and management's efforts. We are all involved in Community Action to help people in our communities. Organizations that are well-governed are much more likely to meet the needs of their communities. Let the discussion begin.

Sincerely,

CAPLAW

*The initial versions of this publication were funded under the National T/TA Strategy for Promoting Exemplary Practices and Risk Mitigation for the CSBG program and presented by Community Action Program Legal Services, Inc. (CAPLAW) in the performance of the U.S. Department of Health and Human Services, Administration of Children and Families, Office of Community Services Cooperative Agreement Number 90SQ0047. Updates were made in 2017 by CAPLAW in the performance of U.S. Department of Health and Human Services, Administration of Children and Families, Office of Community Services Cooperative Agreement Number 90ET0441-03, as well as in 2020 by CAPLAW in the performance of U.S. Department of Health and Human Services, Administration of Children and Families, Office of Community Services Cooperative Agreement Number 90ET0467-02. Any opinion, findings, and conclusions, or recommendations expressed by this publication do not necessarily reflect the views of the U.S. Department of Health and Human Services, Administration of Children and Families.*

# TOOLS FOR TOP-NOTCH CAAs: A PRACTICAL APPROACH TO GOVERNANCE AND FINANCIAL EXCELLENCE

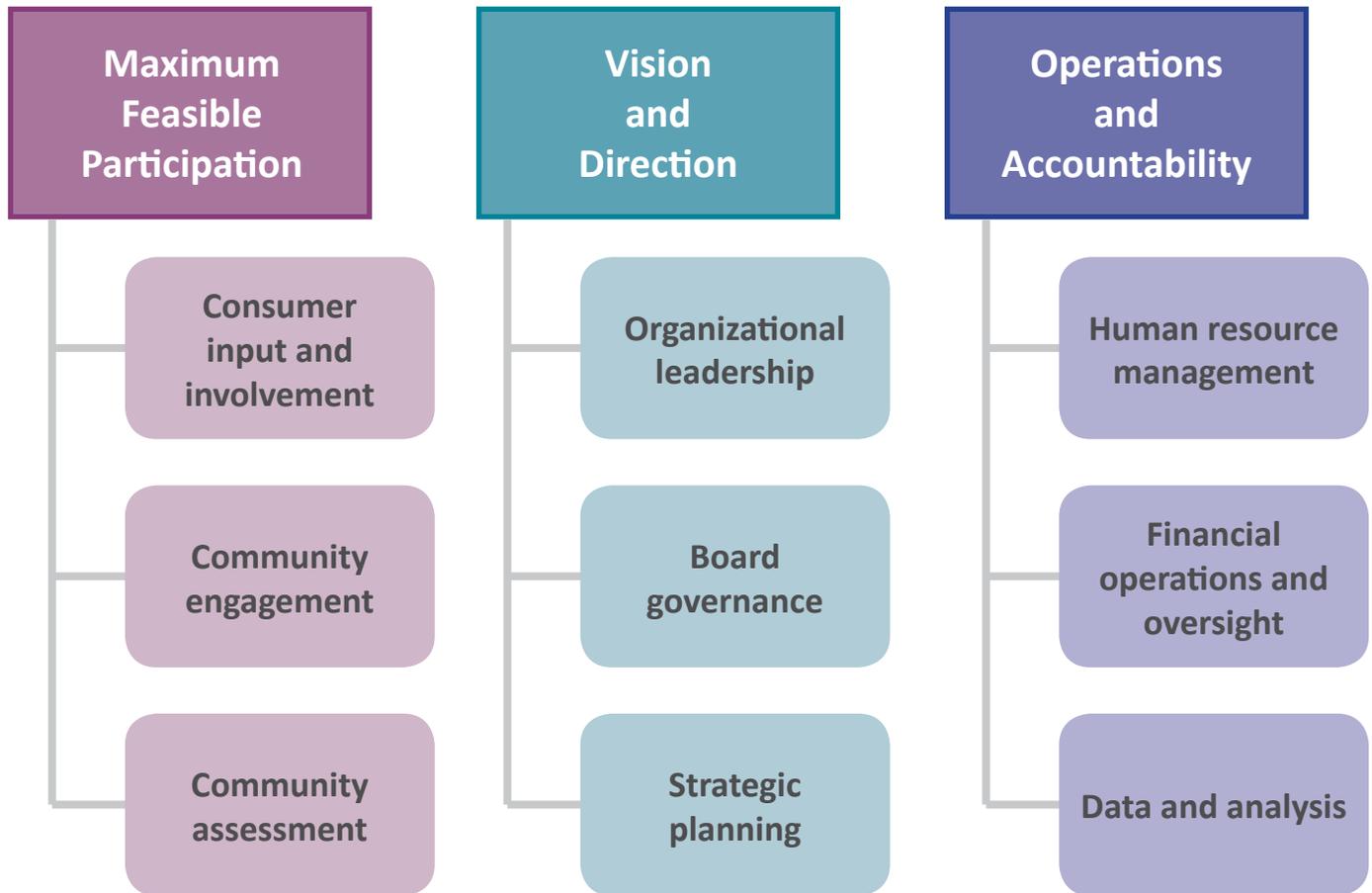
|  |     |
|--|-----|
| Preface: Compliance with the CSBG Organizational Standards   | 1   |
| Section 1: Making Board Meetings Matter                      | 5   |
| Section 2: Improving a CAA's Financial Capacity              | 29  |
| Section 3: Creating the Annual Operating Budget              | 67  |
| Section 4: Getting the Most Out of Your Financial Statements | 83  |
| Section 5: Dealing with Conflicts of Interest                | 107 |
| Section 6: Adopting a Whistleblower Policy                   | 121 |
| Addendum: Challenges and Solutions for Rural/Small CAAs      | 135 |
| Appendices   | 145 |



PREFACE: COMPLIANCE WITH THE  
CSBG ORGANIZATIONAL STANDARDS

## Compliance with the CSBG Organizational Standards

Since the original publication of the Tools for Top-Notch CAAs Toolkit in 2011, the Community Services Block Grant (CSBG) Organizational Standards Center of Excellence (COE) has developed a set of comprehensive organizational standards to ensure that all CSBG eligible entities (i.e., Community Action Agencies or CAAs) have the capacity to provide high-quality services to low-income individuals and communities (the Organizational Standards). The federal Office of Community Services (OCS) published the Standards in [Information Memorandum 138 \(IM 138\)](#). The 58 Standards for private (nonprofit) CAAs and 50 for public (governmental) CAAs are organized into three thematic groups and nine categories:



OCS expects states to adopt the proposed Organizational Standards and most, if not all, states have done so. If a state chooses to adopt or continue using its own organizational standards, those standards must be at least as rigorous and comprehensive as the COE-developed Standards. Whether states use the COE Standards or develop and implement their own, states are expected to assess CAA compliance with the Standards on an annual basis.

In order to assist CAAs in complying with the Organizational Standards, CAPLAW has developed the following guide to finding Organizational Standards resources in this Toolkit. For each category of Standards we have provided some basic information and a link to the location(s) in the Toolkit that are relevant to Standards in that Category. We have also placed a short description of relevant Organizational Standards at the beginning of each section of the Toolkit. Although this Toolkit primarily focuses on private, nonprofit CAAs (i.e., CAAs that are incorporated as a nonprofit and operating as a 501(c)(3) tax-exempt organizations under federal tax law), it also contains information that may be useful for public CAAs (i.e., CAAs that are divisions or departments of local governments). The following guide explains how this Toolkit is relevant for both private and public CAAs. For a more comprehensive guide to resources that can assist CAAs in compliance with the Standards, see CAPLAW's [Organizational Standards Resources Guide](#) website.

## Maximum Feasible Participation

### 1. Consumer Input and Involvement

**STANDARD 1.3** of this Category requires CAAs to have a systematic approach for collecting, analyzing, and reporting customer satisfaction data to their boards (the governing board for nonprofit CAAs and the tripartite/advisory board for public CAAs). [Section 1, Making Board Meetings Matter](#) (Parts II and III) addresses the structure of board meetings and provides some guidance as to the content and timing of both financial and programmatic reports to the board.

### 2. Community Engagement

### 3. Community Assessment

**STANDARD 3.1** of this Category requires that nonprofit CAAs conduct a community assessment and issue a report at least every three years (and, for public CAAs, that the department conducts or was engaged in a community assessment and issued a report within the past 3 years, if no other report exists) and **STANDARD 3.5** requires that the governing board (and, for public CAAs, the tripartite/advisory board) formally accepts the completed community assessment. [Section 1, Making Board Meetings Matter](#) (Parts II and III) addresses the structure of board meetings and provides some guidance as to board meeting mechanics such as the process around voting to accept reports.

## Vision and Direction

### 4. Organizational Leadership

This Category includes requirements for nonprofit CAA governing boards (and, for public CAAs, tripartite/advisory boards) regarding reviewing the organization's mission statement, receiving an annual update on the success of specific strategies included in the Community Action plan, approving a written succession plan for the CEO/ED (not applicable to public CAAs), and receiving a report of an organization-wide and comprehensive risk assessment (not applicable to public CAAs, which are instead required to comply with their local government's risk assessment policies and procedures). [Section 1, Making Board Meetings Matter](#) discusses the structure of board meetings, provides some guidance as to board meeting mechanics such as the process around voting to accept reports and when and how annual updates discussions may occur (Part III), and briefly discusses board discussion of the CAA's mission and programs (Part II).

### 5. Board Governance

**STANDARD 5.2** requires the governing board of nonprofit CAAs to adopt written procedures that document a democratic selection process for low-income board members adequate to assure that they are representative of the low-income community. The Standard has a similar requirement for public CAAs. [Section 1, Making Board Meetings Matter](#) (Part III) addresses the structure of board meetings and provides some guidance as to board meeting mechanics including processes for making and recording board decisions, such as adopting policies and procedures.

**STANDARD 5.5** requires a nonprofit CAA's governing board (and a public CAA's tripartite/advisory board) to meet in accordance with the frequency and quorum requirements and fills board vacancies as set out in its bylaws (or the public CAA's governing documents). [Section 1, Making Board Meetings Matter](#) (Part III) briefly discusses board meeting mechanics such as quorums and the frequency and regularity of board meetings.

**STANDARD 5.6** requires each nonprofit CAA board member to have signed a conflict of interest policy within the past two years. Similarly, members of a public CAA tripartite/advisory board must have signed a conflict of interest policy, or comparable local government document, within the past two years. This Toolkit devotes an entire chapter to this topic—see [Section 5: Dealing with Conflicts of Interest](#).

**STANDARD 5.8** requires governing board members (and, for public CAAs, tripartite/advisory board members) to have been trained on their duties and responsibilities within the past two years. This Toolkit discusses many critical board duties and responsibilities, such as how boards: conduct board meetings and maintain meeting minutes ([Section 1](#)); build financial capacity ([Section 2](#)); prepare organization-wide budgets ([Section 3](#)); get the most out of financial statements ([Section 4](#)); address conflicts of interest ([Section 5](#)); and draft and implement effective whistleblower policies ([Section 6](#)).

**STANDARD 5.9** requires that the organization's governing board (and, for public CAAs, the tripartite/advisory board) receives programmatic reports at each regular board meeting. [Section 1, Making Board Meetings Matter](#) (Part III) specifically discusses the structure of board meetings and provides some guidance as to how and when discussions relating to programmatic reports and updates may occur.

## 6. Strategic Planning

This Category requires CAAs to engage in strategic planning and sets various procedural and substantive requirements for these plans, including a requirement for nonprofit CAAs that the governing board has received an update(s) on progress meeting the goals of the strategic plan within the past 12 months and for public CAAs that the tripartite board/advisory body has received an update(s) on progress on meeting the goals of the strategic plan/comparable planning document within the past 12 months. [Section 1, Making Board Meetings Matter](#) (Part III) specifically discusses the structure of board meetings and provides some guidance as to how and when discussions relating to reports and updates may occur.

# Operations and Accountability

## 7. Human Resource Management

**STANDARDS 7.4 AND 7.5** require the boards of nonprofit CAAs to conduct a performance appraisal of the CEO/executive director and to review and approve the CEO/executive director compensation, respectively, within every calendar year. [Section 1, Making Board Meetings Matter](#) (Part II), discusses the role of board committees – such as the executive, executive compensation, and personnel committees – in hiring, appraising, and setting the compensation of the CEO/executive director.

**STANDARD 7.7** requires nonprofit CAAs to have a whistleblower policy that has been approved by the governing board, and requires public CAAs to provide a copy of any existing local government whistleblower policy to members of the tripartite board/advisory body at the time of orientation. [Section 6, Adopting a Whistleblower Policy of the Tool](#) specifically addresses the legal background behind whistleblower policies, the elements of a policy, the internal process for addressing whistleblower complaints, the role of legal counsel, the documentation and tracking of whistleblower reports and the establishment of an environment that supports whistleblower reporting.

## 8. Financial Operations and Oversight

**STANDARD 8.1** requires that the CAA's annual audit (or audited financial statements) is completed by a Certified Public Accountant (or, for Public CAAs, through the local governmental process) in accordance with the Uniform Guidance at 2 C.F.R. part 200 and/or state audit threshold requirements. For Public CAAs, this may be included in the governmental entity's full audit. **STANDARDS 8.2 THROUGH 8.5** contain further audit requirements for private and public CAAs. [Section 2, Improving a CAA's Financial Capacity](#) (Parts II through IV) specifically addresses the role of an audit, how to get the most out of an audit, management's role in preparing for the audit, the audit committee and management letters. This Section includes discussion of audit rules that apply specifically to nonprofit CAAs.

**STANDARD 8.7** requires nonprofit CAA boards to receive financial reports at each regular meeting that include an organization-wide report on revenue and expenditures that compares budget to actual, categorized by program, and a balance sheet/statement of financial position. Public CAA tripartite/advisory boards must receive financial reports at each regular meeting for those program(s) the body advises, as allowed by local government procedure. [Section 4, Getting the Most Out of Your Financial Statements](#) uses scenarios and examples to discuss how management and boards use financial statements and also examines the information included in such statements. Note that the financial statements presented in this section are sample financial statements for nonprofit organizations.

**STANDARD 8.9** requires nonprofit CAA boards to annually approve an organization-wide budget. For Public CAAs, the tripartite/advisory board must have input as allowed by local governmental procedure into the CSBG budget process. [Section 3, Creating the Annual Budget](#) uses examples to walk through the building of an annual budget and includes information about identifying and allocating cost as well as complying with grant requirements.

**STANDARD 8.12** requires nonprofit CAAs to document how they allocate shared costs through an indirect cost rate or through a written cost allocation plan. [Section 3, Creating the Annual Budget](#) (Part II), discusses identifying the cost centers in a CAA's annual budget, and includes an explanation of direct costs, shared costs, indirect costs, indirect cost rates, and cost allocation plans.

## 9. Data and Analysis

**STANDARD 9.3** requires nonprofit CAAs to present to the governing board (or, for public CAAs, the tripartite/advisory board) for review or action, at least within the past 12 months, an analysis of the agency's outcomes and any operational or strategic program adjustments and improvements identified as necessary. [Section 1, Making Board Meetings Matter](#) (Part III) specifically addresses the structure of board meetings and provides some guidance as to how and when discussions relating to reports and updates may occur.