

Do the Right Thing

GUIDEBOOK



How CAAs Can Cultivate
a Culture of Compliance
and High Ethical Standards

CAPLAW
Community Action Program Legal Services, Inc.

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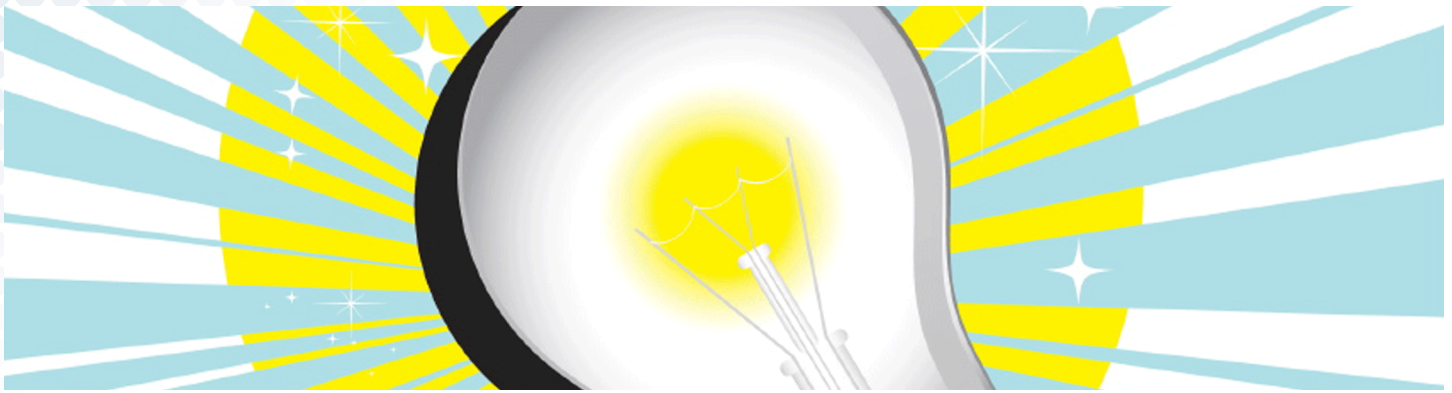
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SECTION I. WHY SHOULD CAAs CARE ABOUT ETHICS AND COMPLIANCE?

Community Action Agencies (CAAs) regularly face challenges due to ongoing, and often increased demand, for their services, decreased government funding, and intensified competition for that funding. As seen by the implementation of the CSBG Organizational Standards (Standards), CAAs are being held to higher standards of accountability in terms of their ability to exercise effective financial oversight and stewardship, to comply systematically with the many laws and regulations that apply to their operations, and ultimately, to demonstrate their effectiveness in helping low-income people achieve economic security.

..it is more important than ever for CAAs to establish and maintain a strong ethical culture within their organizations.

Yet at the same time, a few CAAs have encountered ethical lapses and compliance crises that have jeopardized their funding and required them to lay off staff, terminate programs and, in some cases, close their doors. These disruptions have negatively affected not only the CAAs and their employees, but also the individuals, families and communities they serve. The CAAs involved in these situations may represent only a small portion of the nationwide network of CAAs and the incidence of these challenges may be no more prevalent in this network than in other networks of nonprofit or even for-profit organizations. Nevertheless, the publicity resulting from these situations adversely affects the entire CAA network and fuels attacks by critics of government programs for low-income people.

According to research by the Ethics Resource Center (now the Ethics & Compliance Initiative), a best practice community of organizations that provides independent research on ethical standards and practices,¹ a nonprofit's leaders can virtually eliminate their organization's ethics risk by taking steps to adopt a strong organization-wide ethical culture and to establish a well-implemented ethics and compliance program.² Presumably, the same principle holds true for government entities and for-profit organizations.

In the face of increased scrutiny, it is more important than ever for CAAs to establish and maintain a strong ethical culture within their organizations, to adopt policies and procedures that address the many legal, financial and administrative requirements with which they must comply, and to implement effective systems for complying with those policies and procedures. The purpose of this Guidebook is to outline actions CAA boards and management can take to achieve these goals.

SECTION II. WHAT CAN HAPPEN IF A CAA IGNORES ETHICS AND COMPLIANCE?

The following example illustrates what can happen if a CAA lacks high ethical standards and a culture of compliance.

Example A:

A CAA serving a small city is facing a rash of allegations of misuse of funds and fraudulent activity that has resulted in close to \$1 million dollars in disallowed or questioned costs and layoffs of 28 employees, according to press reports. The executive director has resigned and the board has been criticized in a state monitoring report for failing to respond to concerns raised by former employees and the CAA's former auditor.

Let's look at what was going on (or not going on) at this CAA, according to the state report. The report faults the CAA for: lacking internal controls; purchasing goods and services without competition and with an apparent conflict of interest; using federal funds on unallowable costs; failing to understand key government grant regulations and program rules; and backdating documents in order to obligate and expend approximately \$400,000 in grant funds after the contract period for those funds had ended.

Among the CAA's main problems appears to have been a lack of internal controls. For example, the report notes that the CAA had no overall policy that required, before a payment was made, assurance that it had not been previously paid and that it was for an allowable cost under the terms of the grant and applicable regulations, expensed to the correct vendor, allocated to the right grant(s) in the correct proportion, and supported by documentation to justify the expenditure. This resulted in some obligations being paid twice or even three times, according to the state.

The lack of internal controls was also reflected in the absence of procedures to ensure checks and balances. The state's report indicates that:

- Many financial and contractual responsibilities were delegated to program managers with little or no oversight.
- There was no centralized system of routinely monitoring the activities of the CAA for compliance or accuracy or to ensure that required reports were filed.
- Neither staff nor the board received training in any formal way on the rules or their responsibilities.
- Fiscal and employee manuals were complicated, contradictory, ambiguous and outdated.

Moreover, the CAA's board, or at least some members, received evidence of compliance and control problems, but did nothing, according to the state's report. The board chair allegedly received documentation of concerns about waste of expenditures and/or actions of the executive director from former employees and a letter from the former auditor documenting lack of internal controls as the reason it withdrew its services from the CAA. The executive committee was aware of these concerns, yet did not provide this information to other board members or take action to address the problems, the report observes. The state faulted the board for not having a policy for addressing allegations of fraud, waste, or abuse or a means for such concerns to be brought to the board and for the full board to be notified of them and take action on them.

Perhaps most troubling of all is the allegation in the monitoring report that CAA staff, with the knowledge of the executive director, backdated numerous client documents to make it appear that funds were obligated in

the prior grant year, and thus eligible for payment out of that year’s grant funds. In addition, the state alleged that CAA staff provided fuel assistance payments to or on behalf of clients whom either did not request or know that they were receiving the assistance or to clients whom staff had not established were in need of the assistance. According to the state’s report, both of these activities were done in an attempt to spend hundreds of thousands of dollars of unexpended funds from that grant year.

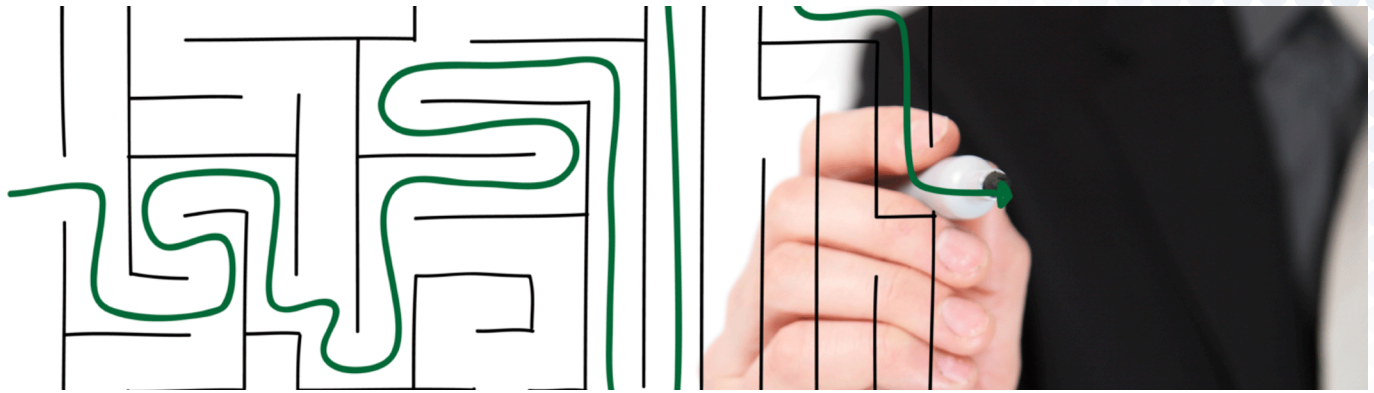
What lessons can be learned from this troubling example? Most importantly, the tone at the top needs to be one that emphasizes accountability, knowledge of procedures, compliance, and honesty. Failure to reinforce these principles will be an open invitation to staff to cut corners for the sake of expediency, to avoid or never learn program requirements, and to be sloppy in their attention to details like reconciling accounts and documentation. Ultimately, it is the board’s responsibility to both know about these problems and address them and, if necessary, change the executive team in order to do so. Another clear lesson to be learned is that a written, well-considered financial and administrative manual, and good financial and client-tracking software, implemented by competent, honest staff are essential. Finally, even if a CAA has good policies and procedures on paper, they are not sufficient by themselves; there must be systems in place to ensure that the board and staff understand and fulfill their role in assuring compliance and to monitor compliance on a regular basis.

SECTION III. HOW CAN CAA LEADERS CULTIVATE A CULTURE OF COMPLIANCE AND HIGH ETHICAL STANDARDS?

Following are 10 actions CAAs leaders can take to ensure compliance and ethical behavior throughout their organizations:



These actions – which need neither be expensive nor complicated – represent a continuous process that can and should be integrated into the organization’s existing operations. This Guidebook describes each of these actions in further detail.



1. Set the “Tone at the Top”

The “tone at the top” is the message about ethics and integrity that organization leaders send through their words and behavior. Visible commitment by the organization’s board and senior management is essential to cultivating a culture of compliance and high ethical standards.

Don’t Just Talk the Talk, Walk the Walk. While a code of ethics and organizational policies are important (see “Put It on Paper” below), compliance is more than just having these documents in place. Members of a CAA’s board and the management team should model the principles in the organization’s code of ethics and apply the code and organizational policies consistently. If board members and management ignore or override the organization’s policies, staff will get the message that the organization does not truly value compliance and ethical behavior.

[Before] I became the executive director ... the [organization] had a sub-culture of entitlement and ongoing “you pat my back and I will pat yours.” Within the first three months we hired legal counsel and began the work of moving towards a culture of transparency and the sacred trust of being accountable with public funds. – *Executive Director of a Rural CAA*

Keep in mind that modeling and reinforcing compliance and ethical behavior is a continuous, everyday process. Managers and supervisors must lead by example.

It’s a daily thing, it’s not just about the big things. An example was last week we went to a training conference ... and I had a couple staff with [me]. ... [A]t the check-out, they offered a box lunch that was part of the conference registration fee. On the way back, one of the staff said ... “Are we going to stop and get lunch?” I said ... “If we’re not eating the box lunch and we’re going to stop on the road, then that’s our responsibility, not the [CAA]’s.” So, it’s not just about having these big policies, it’s about doing it every day, even in the small things. – *Executive Director of a Rural CAA*

Get the Board on Board: Although it is not involved in the day-to-day management of the CAA, the board plays a critical role in ensuring that the organization is operated ethically and in compliance with applicable laws, regulations and contract terms. The following are some important steps a CAA board can take in this regard:

Prioritize Ethics and Compliance in Hiring and Evaluating the Executive Director. When hiring an executive director, the board should ask candidates and their references about the candidates’ attitudes on ethics and compliance and about situations in which the candidates demonstrated leadership in these areas. The board should also conduct a background check of the chosen candidate before he or she is hired – including a criminal record check, a credit check, and a check on www.sam.gov to determine whether the candidate is excluded from participating in federal awards and

contracts. (In addition, similar background checks should be required for other top managers and for other employees with financial oversight responsibilities or access to significant amounts of the organization's funds.)

The board should evaluate the executive director, in part, on his or her success in implementing systems that promote compliance and ethical behavior throughout the organization...

The board should evaluate the executive director, in part, on his or her success in implementing systems that promote compliance and ethical behavior throughout the organization and in addressing instances of non-compliance or unethical behavior. **CSBG Organizational Standard 7.4** requires nonprofit CAAs to conduct a performance appraisal of the CEO/executive director within each calendar year. If the board receives reports that the executive director has engaged in or approved unethical or unlawful behavior, it should promptly investigate and take disciplinary action if it is warranted (with the advice of legal counsel as necessary).

Adopt (or Update) and Adhere to Code of Ethics and Conflict of Interest and Whistleblower Policies: The board should adopt (or update) a code of ethics for the organization, as well as a whistleblower policy and a conflict of interest policy as required by **CSBG**

Organizational Standards 5.6 and 7.7 for nonprofit CAAs. Tripartite boards of public CAAs must receive and comply with government documents comparable to a whistleblower policy and conflict of interest policy (see "Put It on Paper" below). Board members should adhere to these documents and those who do not should be removed or otherwise sanctioned for their failure to do so. **CSBG Organizational Standard 5.6** for both public and nonprofit CAAs specifically require each board member to sign a conflict of interest policy (or comparable government document for public CAAs) within the past two years. To ensure that they understand these documents and what it means to comply with them, board members should receive regular training with examples of what to do and what not to do under the code of ethics and conflict of interest policy, as well as how to respond under the whistleblower policy if someone approaches them with a concern about the organization's compliance or ethical practices.

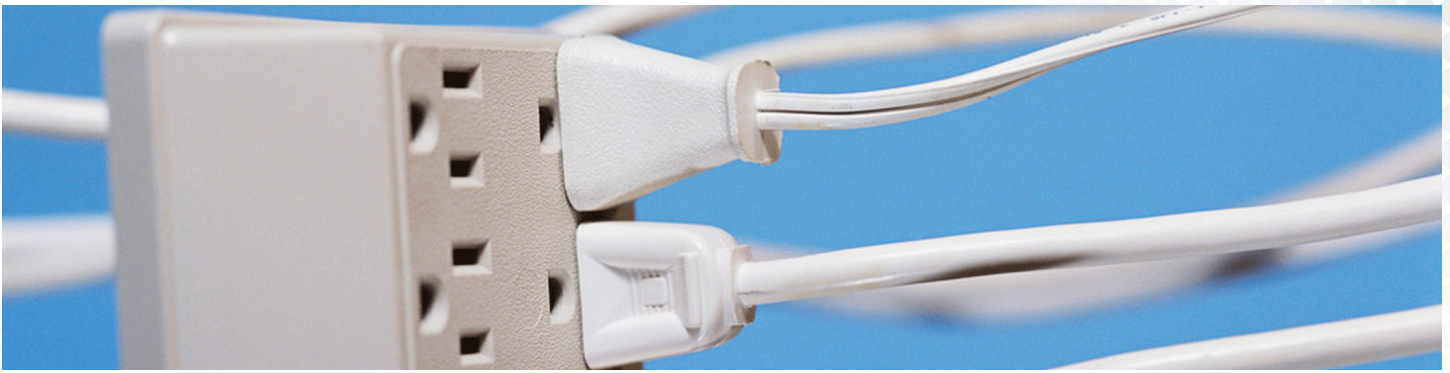
Adopt and Monitor Compliance and Ethics Program: The board should adopt a resolution:

- Stating that the CAA is committed to the highest ethical standards and to complying with all applicable legal requirements;
- Outlining a program to ensure compliance with laws and ethical practices; and
- Delegating responsibility for the program's implementation to specific committees and individuals (see "Assign Responsibility and Require Accountability" below).

This resolution should be communicated to staff, volunteers and clients. The board may choose to designate a board committee (such as the audit committee) to oversee the compliance and ethics program. "It's important for the board to be behind the policies; organizations should not just generate policies from the staff level," notes an attorney interviewed by CAPLAW on exemplary legal practices.³

Communicate the Importance of Compliance and Ethics: The board and top management should communicate the CAA's commitment to compliance and ethical behavior through various means, such as memos, emails, newsletters, the CAA's internal website, meetings, and trainings. Written communications to staff, volunteers and clients about the organization's commitment to compliance and high ethical standards and its compliance and ethics program should be signed by the board chair as well as the executive director. In addition, the board chair, along with the executive director, should periodically address organization-wide meetings and emphasize the importance of compliance and adherence to ethical standards. If it is not practical to hold organization-wide meetings (for example, because the staff size is too large), the CAA could distribute a video of the board chair and executive director discussing these topics.

Take Action on Reports of Ethical or Compliance Concerns: It is the board's responsibility to take action on ethical or compliance concerns reported to it. Rather than burying their heads in the sand upon receiving such reports, as the



board members in Example A are alleged to have done, board members must take affirmative steps to notify the appropriate board committee and the full board and to ensure that the concerns are investigated and addressed.

2. Think Globally – Look at the Organization as a Whole

When implementing a compliance and ethics program, it is critical to look at the organization as a whole, rather than as a collection of individual programs.

Assess Ethics Attitudes and Compliance Risks: A good place to start is by assessing current ethics attitudes and compliance risks throughout the organization. Doing so will help a CAA identify and prioritize areas to address.

The Ethics Resource Center (now the Ethics & Compliance Initiative) recommends that “Nonprofit boards and executives should take steps to assess the present state of their organizations with regard to employee understanding of standards, perceptions of accountability, prevalence of misconduct, and strength of ethical culture.”⁴ For tips on conducting an ethics audit, see the National Council of Nonprofit’s article on [Conducting an Ethics Audit at Your Nonprofit](#).

An effective way to measure an organization’s ethical climate is to survey board members, staff and volunteers.

An effective way to measure an organization’s ethical climate is to survey board members, staff and volunteers. One survey CAAs can use is the [online assessment](#) of nonprofit ethics developed by the University of San Diego’s Caster Family Center for Nonprofit and Philanthropic Research. This survey helps nonprofits measure and benchmark the ethical climate of the organization in the areas of mission, communication, organizational transparency, daily ethics behaviors, governance policies and practices, decision-making and accountability.

In addition to surveys, a CAA can gather information on its ethical climate through means such as: informal discussions with board members, staff, volunteers and clients; exit interviews with departing employees; client feedback and complaints; and social media feedback from members of the public.

A CAA should also identify compliance risks as part of its overall risk assessment and management process, as required pursuant to **CSBG Organizational Standard 4.6**. A helpful resource for CAAs is [A New Tool for Agency-Wide Risk Assessment for Community Action](#), a webinar on the Community Action Partnership Risk Management Tool, created by the national Community Action Partnership in coordination with the Nonprofit Risk Management Center. The risk assessment tool itself is available in the [Resource Bank](#) of the CSBG T/TA Resource Center.

Another useful tool for assessing an organization’s tone at the top, risks and internal controls is Boise State University’s [Departmental Internal Control Self Assessment Checklist](#). Because this tool was developed for use in a university setting, CAAs will need to modify it to suit their needs.

Once the assessment is complete, findings should be shared with board members, management staff, other employees, and in some cases, other stakeholders, such as funding sources and clients.

These assessments are not one-time endeavors. CAAs should regularly and continuously assess their ethical climate and compliance risks. **CSBG Organizational Standard 4.6** requires nonprofit CAAs to conduct an organization-wide, comprehensive risk assessment at least every two years and report the results to the board. Public CAAs must comply with their local governments' risk assessment policies and procedures. The executive director of a rural CAA describes the processes her organization uses to assess risk:

We do an agency risk assessment once every two years and in between ... there are certain parts of that risk assessment that are built into our overall systems. For example, ... we have integrated service delivery so we have a weekly meeting with managers and coordinators that looks at our integrated service model and the data associated with it. If I'm a manager and I'm going to be applying for ... money, I have to bring my service plan to that integration meeting to get it approved to show that ... I'm putting my service model in an integrated holistic system that the agency has created, and I also show a risk grid to that group. That risk grid ... assesses the level of controls that would be necessary to assure compliance and quality in delivering the service. And where the risk level comes out on the grid, we look then to see if the management controls that are built in are adequate.

An effective ethics and compliance program should be implemented through integrated, organization-wide systems.

Develop Integrated, Organization-Wide Systems: An effective ethics and compliance program should be implemented through integrated, organization-wide systems. Indeed, the lack of such systems was cited in the state-commissioned assessment report on the CAA in Example A above:

The extent to which [CAA] staff do not think in terms of management and internal control systems was illustrated in analysis of the [LIHEAP] work flow. To gain an understanding of the [LIHEAP] process from initial application to payment submission, the assessment team convened a meeting of the program's front-line staff and manager, financial staff, the finance director and executive director. The analysis concluded that no individual understood the entire procedure, and no step in the process involved verification of the compliance or accuracy of client and payment information.

Ensuring compliance requires implementing systems to demonstrate that regulations and policies are being followed consistently. An overarching theme CAPLAW has seen in U.S. Department of Health and Human Services (HHS) Office of Inspector General (OIG) reports on CAAs and Head Start grantees, and in state Community Services Block Grant (CSBG) monitoring reports, is the importance of implementing processes and procedures – from criminal record checks and property inventory, to safety inspections and fiscal procedures – to ensure that all employees know:

- What the policies are;
- How to comply with them; and
- How to demonstrate compliance, including how to consistently document that policies are being followed.

The executive director of a rural CAA sums up the importance of a systems approach to her organization: “[We] show and teach management that every action needs to be put into an overall systemic approach. We do nothing independent of a system.”

3. Put It on Paper

Written policies and procedures memorialize the organization’s commitment to compliance and ethics and help board and staff members understand how to act in accordance with that commitment. A code of ethics and whistleblower policy are the foundation of the organization’s compliance and ethics program. Together, they set forth the organization’s ethical values and expectations, provide a means for reporting ethics and compliance concerns and prohibit retaliation against those who report such concerns in good faith.

Code of Ethics: According to the Panel on the Nonprofit Sector’s “Principles for Good Governance and Ethical Practice”:

A charitable organization should formally adopt a written code of ethics with which all of its directors or trustees, staff, and volunteers are familiar and to which they adhere.⁵

A good starting point for CAAs is the [Community Action Code of Ethics](#) developed by the national Community Action Partnership. Additional information for developing a code of conduct and code of ethics is available in the [Ethics & Compliance Toolkit](#) provided by the Ethics & Compliance Initiative and [The Complete Guide to Ethics Management, Ethics Tools: Codes of Ethics](#), by Carter McNamara of Authenticity Consulting.

Once the code of ethics has been adopted, the CAA should “discuss it in orientation sessions for new board and staff members and volunteers.”

Note that some organizations distinguish between a code of ethics and a code of conduct. A code of ethics is generally comprised of principles that guide organizational behaviour. The following excerpt from the Community Action Code of Ethics exemplifies the type of language that might be included in a code of ethics: “We commit ourselves to ... [d]emonstrat[ing] the highest standards of personal integrity, truthfulness, honesty, and fortitude in all our Community Action activities in order to inspire confidence and trust in the Community Action movement.” A code of conduct, in contrast, generally addresses specific behavior, i.e., it refers to actions that may or may not be taken by individuals in their organizational roles. For example, a code of conduct might specify, among other things, that “No director, officer, or employee shall make use of CAA’s services, property or facilities for any purpose that is not related to CAA’s operations.” Some organizations may combine a code of ethics and a code of conduct into one document, while others may have two separate codes.

A CAA should also adopt and implement a policy that encourages employees, volunteers, clients and vendors to report ethics and compliance concerns.

Whistleblower Policy: A CAA should also adopt and implement a policy that encourages employees, volunteers, clients and vendors to report ethics and compliance concerns. As previously noted, **CSBG Organizational Standard 7.7** requires nonprofit CAAs to have a whistleblower policy that has been approved by the governing board. Public CAAs must ensure they are complying with any existing local government whistleblower policy and provide a copy of such policy to members of the tripartite board at the time of orientation. Such policies help alert boards and senior managers to potentially serious problems and enable them to mitigate harm to the organization. Simply saying that “We have an open door policy” is not enough. The whistleblower policy should specify to whom reports should be made.

Our [CAA] has an open door policy. We talk about that at new employee orientation. ... I spend some time reminding program directors that we do have an open door policy because from time to time I will hear that program directors frown upon employees coming to the [executive director or another senior manager] to express some concern. ... [F]irst and foremost, we would like them to have developed a relationship ... with their program supervisors such that they can go to them with the question or



concern. But if they go to them and it's not addressed, they can go one step up either to HR or to [the executive director] ... and, ultimately, to the extent that's not acceptable, then the board is there. – *COO of a Suburban CAA*

The policy should also provide a means for reports to be made anonymously, such as through a hotline or online suggestion box. However, individuals who report concerns should be encouraged to disclose their identity in order to permit a more complete investigation.

The policy should prohibit retaliation against those who make reports in good faith and should include or be accompanied by clear procedures for documenting, investigating and taking appropriate action on issues reported.

The CAA board and senior management should communicate the policy to employees, volunteers, clients and vendors, so they understand how to report concerns and know that they will not be retaliated against for reporting. Board members, supervisors and others designated to receive reports should be trained on how to respond to them.

CAAs should, and in many cases are required to, have a written policy that addresses conflicts of interest.

A [sample policy](#) is available on CAPLAW's website. For more information on whistleblower policies, see CAPLAW's [Tools for Top-Notch CAAs, Section 6: Adopting a Whistleblower Policy](#), and listen to a recording of CAPLAW's [Whistleblower Policies](#) webinar.

Conflict of Interest Policy: CAAs should, and in many cases are required to, have a written policy that addresses conflicts of interest. Some CAAs adopt two conflict of interest policies – one for board members and the other for staff. As previously noted, **CSBG Organizational Standard 5.6** requires that board members of nonprofit and public CAAs sign a conflict of interest policy at least every two years. For public CAAs, the policy may be a local government document comparable to a conflict of interest policy. With a written conflict of interest policy, CAA boards and staff will be less likely to adopt an ad hoc approach to conflicts that could result in ethically questionable and potentially illegal transactions, or reasonable and defensible transactions that lack sufficient documentation to withstand scrutiny.

For suggestions on drafting and implementing conflict of interest policies and for sample policies, see CAPLAW's [Tools for Top-Notch CAAs](#), (Section 5: Dealing with Conflicts of Interest), and listen to a recording of CAPLAW's [Roadmap for Resolving CAA Conflicts of Interest](#) webinar.

Keep in mind that grant administration standards for organizations receiving federal grant funds⁶ require grantees to maintain written standards of conduct covering conflicts of interest and governing the performance of their employees

engaged in the selection, award and administration of contracts.⁷ These rules prohibit employees, officers and agents of organizations receiving federal grant funds from participating in the selection, award, or administration of a procurement contract paid for with those funds if they have a real or apparent conflict of interest. For this purpose, a “conflict of interest” occurs whenever:

- an employee, officer or agent of the organization;
- a member of his or her immediate family;
- his or her partner; or
- an organization that employs or is about to employ any of the parties described above

has a financial or other interest in, or will receive a tangible personal benefit from, the firm selected for an award. In addition, these rules prohibit officers, employees, or agents of the federally-funded organization from soliciting or accepting gratuities, favors, or anything of monetary value from contractors or parties to subcontractors (including vendors). Grantees are permitted to set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The standards of conduct must also provide for disciplinary actions to be applied where the standards are violated.⁸

To ensure that these standards are followed, they should be included in conflict of interest policies or codes of conduct that apply to officers, agents and employees. In addition, it is a good idea to inform vendors and potential vendors of these rules. Covered individuals—particularly those employees who have a role in selecting vendors and administering vendor contracts—should receive training on these rules and how to comply with them.

Other Policies: A CAA should adopt and implement other written policies that reflect current applicable legal rules. The **CSBG Organizational Standards** require nonprofit CAAs to implement and review a number of policies, such as:

- written personnel policies, which **Standard 7.1** requires an attorney to review and the board to approve within the past five years;
- fiscal policies, which **Standard 8.10** requires the staff to review within the past two years, with changes approved by the board;
- a written procurement policy, which **Standard 8.11** requires the board to review within the past five years, and
- a record retention and destruction policy, which is required by **Standard 8.13**.

When developing policies, a CAA should think about whether it can implement and enforce them.

Many of the Organizational Standards requiring policies are not applicable to a public CAA because local government policies addressing these matters often fall outside of the purview of the CAA and the tripartite board. One exception is **Standard 8.13** which specifically requires a public CAA to follow local governmental policies for document retention and destruction.

Suggestions on Drafting and Implementing Policies: When developing policies, a CAA should think about whether it can implement and enforce them. As is often said, “It is worse to have a policy that is not followed, than to have no policy at all.” This problem is illustrated by the CAA in Example A above, which was faulted in a state-commissioned assessment report because:

[CAA] has written personnel policies, which are too detailed and complex, on one hand, and often ambiguous on the other. Both conditions make application and enforcement of the policies problematic. It was apparent from discussions with staff that the document is not well understood and infrequently consulted.

One way to ensure that policies are followed is for those affected by the policies to be involved in the drafting process. An attorney interviewed by CAPLAW on exemplary legal practices recommends soliciting input from staff when developing policies:

It's important to get staff on board with the policies being adopted and find out what they are currently doing and can do; it shouldn't be top-down enforcement. Some clients appoint a task force.

Policies should be clearly written, using "plain English,"⁹ and, where possible, include real-life examples. For information on writing policies and procedures, see [Utah Valley University's Policy Writing Guide](#) and the book *How to Write Policies, Procedures & Task Outlines* (3rd ed.) by Larry Peabody.

Many CAAs use sample policies from other organizations and from the Internet. It is important for a CAA to review sample policies thoughtfully and work with an attorney in its state to modify the policies as necessary to meet the CAA's individual needs and to comply with applicable federal and state laws and regulations that apply to the CAA, as well as with the terms and conditions of its agreements with government funding sources.

CAAs surveyed by CAPLAW on exemplary legal practices and policies¹⁰ stress the importance of working with an attorney in reviewing, drafting and updating organizational policies.

We have an attorney available to us at any time. We frequently discuss policies and the need for policies with her ... Having an attorney available is essential, in my opinion. – *Executive Director of a Suburban CAA*

We work with our attorney who reviews the policies to see if they need to be updated. – *Executive Director of a Suburban CAA*

As a county department the State's Attorney reviews our policies. – *Executive Director of a Suburban Public CAA*

Effective documentation and record-keeping on the adoption and implementation of policies are also key. An attorney interviewed by CAPLAW observes that:

The organization must be able to show when the policy was adopted and became effective and to show how and to whom it was communicated. Enforcement becomes much more difficult when the organization is unable to counter the inevitable 'I never got that' defense.

To this end, a CAA should require board members, employees, volunteers and any other individuals subject to its policies to sign an acknowledgement indicating that they have received those policies, reviewed them and agree to follow them.

4. Assign Responsibility and Require Accountability

Ensuring ethical behavior and compliance is the duty of all CAA board members, staff and volunteers. However, it takes more than just assuming that individuals will "do the right thing." To promote accountability, a CAA should assign specific compliance responsibilities to particular groups and individuals - such as board and staff committees, senior leaders, managers, supervisors and front-line staff. A CAA should also take steps to be sure these groups and

individuals understand those responsibilities. Board and staff committees should have charters that lay out their authority and duties. Job descriptions for individual staff members should include responsibilities related to ethics and compliance and all staff should be evaluated on how they fulfill those responsibilities.

Board Compliance Committee: One way for the board to exercise effective oversight over compliance and ethics is to designate a board committee (such as the audit committee) that:

- Receives regular reports from management on the compliance and ethics program (including reports on compliance and ethics concerns and how they are being addressed) and discusses those reports;
- Periodically reports to the full board on the program; and
- Makes recommendations to the full board and management on improving the organization's compliance and ethical climate and on addressing compliance and ethics problems.

At the management level, establishing a committee of department heads and/or other senior managers...will facilitate oversight of ethics and compliance on an organization-wide basis...

This committee might also be a contact for whistleblower reports of ethics and compliance concerns. For an example of the audit committee charter of a CAA that includes oversight of the organization's compliance with legal and regulatory requirements and ethical standards as one of that committee's duties, see [Appendix A](#).

Management Compliance Committee: At the management level, establishing a committee of department heads and/or other senior managers (including, at a minimum, the executive director and finance and human resources directors) will facilitate oversight of ethics and compliance on an organization-wide basis and demonstrate their importance to the organization. This committee should report to and work with the board committee described above and should take the lead in:

- Assessing the organization's ethical culture and compliance;
- Establishing compliance systems;
- Addressing compliance concerns;
- Coordinating communication on compliance matters;
- Providing training to board, staff and volunteers; and
- Monitoring compliance.

Compliance Officer: Some CAAs also designate a senior manager as the point person for coordinating compliance throughout the organization, either as their full-time job (such as a compliance officer or an internal auditor) or in addition to other job responsibilities. This person should regularly report on compliance and ethics matters to the board.

Example B:

In a suburban CAA, the chief operating officer (COO) is tasked with managing organization-wide compliance. The human resources (HR), fiscal, information technology (IT), and contracts departments report to him and he coordinates and manages those functions. In addition, this COO's compliance duties include:

- Understanding and staying current on requirements of applicable laws, regulations, and contract terms;
- Educating other staff on those requirements and on the organization's policies;
- Reviewing contracts and other legal documents;
- Drafting and communicating organizational policies;
- Checking to be sure the organization's procedures are being followed; and
- Ensuring that the board understands its role and complies with the rules that apply to it.



The individual currently holding this role was trained as an attorney, but also had previous experience running various programs for the CAA. He explains, “As a compliance officer, [I] understand not just technical rules, regulations and policies, but ... how they intersect, or need to intersect, with operations of programs on a day-to-day basis.”

Example C:

Another suburban CAA has a contracts compliance officer whose duties include:

- Reviewing grant proposals, award documents, and contracts for documentation, reporting and other requirements and communicating those requirements to others on the management staff;
- Drafting and reviewing agreements with partner organizations and contracts with vendors;
- Auditing program files; and
- Drafting organizational policies.

See [Appendix B](#) for a complete job description for this position. The person who currently holds this position was also trained as attorney. While it is helpful for a compliance officer to have legal or financial training, it is not essential.

Example D:

An urban CAA has an internal audit department that includes two professional auditors. The CEO of this CAA says:

When I arrived at [the CAA] I discovered this gem of a staff person, serving in name though not fully in the capacity of Internal Auditor, located two levels down deep within the Finance Department. Seems to me obvious, that a fully functioning Internal Auditing Department: (1) would be a very good thing for any [CAA] and especially one this size [with an annual budget of approximately \$160 million] and (2) an Internal Auditor needed to be independent of the Finance Department. So, literally, three days after my arrival, I moved the Internal Auditors into space out of Finance and near the executive offices, and created an independent Internal Auditing Department. [The] Internal Auditor was given the responsibility to create the department, which to me meant: developing Internal Audit policies and procedures, creating a charter for the Board’s Audit Committee, and creating an annual audit plan.

The person who currently serves as the internal audit director is a Certified Internal Auditor (CIA) and a Certified Government Auditing Professional (CGAP). She started out at the CAA as an accountant in the finance office, then was promoted to staff auditor and then to internal audit manager in that office, before assuming her current role. Her duties include:

- Planning, organizing, carrying out and overseeing the internal audit function including the development, preparation and implementation of a risk-based audit plan;
- Reporting to both the CEO, the audit committee of the board and the full board on policies, programs and activities of the internal audit department;
- Working with the CEO, executive management and board of directors to ensure a system is in place which ensures that all of the CAA's major risks are identified and analyzed on an annual basis;
- Providing management and the audit committee with an opinion on the CAA's internal controls;
- Coordinating coverage with the CAA's external auditors and ensuring that each party is not only aware of the other's work but also well-briefed on areas of concern;
- Making recommendations on the systems and procedures being reviewed, reporting on the findings and recommendations and monitoring management's response and implementation;
- Reporting on the value for money that the CAA obtains in all its activities, with special regard to economy, efficiency and effectiveness;
- Conducting any reviews or tasks requested by the audit committee or CEO, provided that such reviews and tasks do not compromise the independence or objectivity of the internal audit function;
- Providing direct supervision and maintaining a professional internal audit staff with sufficient knowledge, skills and other competencies to meet the requirements of the CAA's policies and procedures;

This CAA's internal audit policies and procedures manual is attached as [Appendix C](#) and its audit plan for Fiscal Year 2012 is attached as [Appendix D](#).

Compliance Responsibilities of Top Managers: Top CAA managers also play an essential role in compliance.

Maintaining compliance with all state and federal regulations is the responsibility of each department head. In addition, the CFO is responsible for all fiscal matters including [fiscal] reports to funding sources. ... The human resources director is responsible for employment law compliance and reporting.
– Head Start Director, CFO and HR Director of an Urban CAA

This role should be outlined in the job descriptions for these positions. In addition, the executive director or his or her designee should discuss with the heads of administrative and program departments their responsibilities regarding compliance and what is expected of them in fulfilling those responsibilities.

Prior to my coming here, this [organization] was driven by its programs...Administrative units [such as HR and fiscal] had developed a kinship with the programs funding their positions [through the indirect cost rate]. It was a challenge getting HR to understand that they have to act independently of programs and not take direction from program directors. I try to get the fiscal department to understand that with fiscal matters, the buck stops with them. ... For many years, they didn't understand that they were gatekeepers. They were protective of the programs, rather than trying to be protective of the organization of which they are a part. *– COO of a Suburban CAA*

Two positions are particularly critical to ensuring a CAA's compliance with applicable laws and regulations: an HR director or manager and a CFO or fiscal director. Due to the many employment laws with which CAAs must comply and the potential for costly employment claims, a CAA should seriously consider hiring an experienced HR professional. The executive director of a smaller, rural CAA describes hiring the organization's first HR manager as one of the steps she has taken to improve the organization's compliance:

We did not have a human resources manager until about two ... years ago ... The human resources staff was something that I had been doing and, really, to keep up with the rules and regulations, it's almost impossible for an [executive director] to do that well. So, I created [the HR manager] position and that person is the one that keeps up with all the human resources information

The complexity of CAA finances and the myriad requirements that apply to their government grant funds also mean that it is important for a CAA to have either an experienced financial professional (e.g., a CFO or fiscal director) on staff or, for small CAAs, a consultant who fills that role.¹¹ That person must be familiar with the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance codified at 2 CFR § 200).¹² If a CAA's financial professional is not familiar with those rules, he or she should receive training on them as soon as possible.¹³

Managers and supervisors should be tasked with educating those who report to them about their compliance and ethics responsibilities and how to fulfill them.

Job Descriptions: Compliance and ethics responsibilities should also be included in job descriptions for all staff, including managers, supervisors and front-line staff. **CSBG Organizational Standard 7.3** requires both nonprofit and public CAAs to have written job descriptions for all positions. For nonprofit CAAs, the job descriptions must be updated within the past five years and for public CAAs updates will be directed by the local government. Managers and supervisors should be tasked with educating those who report to them about their compliance and ethics responsibilities and how to fulfill them.

Performance Evaluations: Including compliance and ethical behavior as a factor in performance evaluations is a particularly effective way to ensure that staff are fulfilling their responsibilities in these areas. **CSBG Organizational Standard 7.4** requires nonprofit CAAs to conduct a performance appraisal of the CEO/executive director within each calendar year and **Standard 7.6** requires the CAA to have a policy in place for regular written evaluations of employees by their supervisors. Public CAAs must follow local government procedures for performance appraisals of the department head and for regular written evaluations of employees by their supervisors. The Ethics Resource Center (now the Ethics & Compliance Initiative) recommends making ethical leadership a part of performance evaluations, particularly for managers. According to the Center's 2011 National Business Ethics Survey:

The development of a strong ethics culture is largely shaped by the actions of senior executives and immediate supervisors. The most effective way to promote these leadership behaviors is to implement performance standards for managers with specific behaviors that are evaluated and rewarded.¹⁴

About half of CAAs that CAPLAW surveyed on exemplary legal practices include compliance as a factor in performance evaluations. Here is an example of how a rural CAA evaluates its employees on how they fulfill their compliance responsibilities:

We do quarterly performance development plans (PDPs). Each individual staff person's job is reviewed and if they are having performance issues of any kind, it's identified at that time, or if they are doing well, it's identified. Compliance is the top category on the [evaluation] form. ...Every staff person attaches to this [form] ... a list that contains the[] basic compliance items that they are responsible for. Every staff person has a list of the compliance items that they're responsible for on a daily, weekly, monthly, bi-monthly, quarterly and annual basis. ... Every staff person knows that they have certain things that they have to do.

See [Appendix E](#) for a sample of this CAA's performance development plan and log for listing a staff person's compliance responsibilities.

5. Communicate, Communicate, Communicate

A CAA's compliance and ethics program will only be successful if it is effectively communicated to the CAA's board, staff and volunteers. The COO of a suburban CAA who is responsible for compliance in his organization notes that:

Communication, communication, communication is the key. There's got to be an open dialogue with all of the stakeholders ... I've found there's got to be a relationship developed by the person or persons who are primarily responsible for compliance with the stakeholders, such that the stakeholders know that you're not trying to play a game of "gotcha."

As discussed above under "Set the Tone at the Top" and "Put It on Paper," a CAA's board and top management should communicate and reinforce the CAA's commitment to compliance and ethics as well as the details of its organizational policies and procedures. In addition, they should educate board members, staff and volunteers on how to obtain information and advice on dealing with ethical and compliance questions and how to report concerns and violations on these matters.

A CAA's board and top management ... should educate board members, staff and volunteers on how to obtain information and advice on dealing with ethical and compliance questions and how to report concerns and violations...

Means of Communication: There are a variety of ways for a CAA to convey its policies to staff and volunteers. When asked how they communicate their legal policies to staff and volunteers, CAAs surveyed on exemplary legal practices indicated that they do so through a variety of means:

- Distributing copies (in personnel manual, memos, email, Intranet, etc.);
- Discussing at staff meetings;
- Reviewing at staff orientation;
- Providing formal training to HR staff and supervisors;
- Providing formal training to other employees;
- Supervisors communicating to staff and volunteers informally;
- Reviewing at volunteer orientation; and
- Providing formal training to volunteers.

Communicating the organization's ethical and compliance expectations begins on day one, with an orientation for new hires.

As staff enter the [CAA], they go through an enrollment day where certain things like the code of ethics are reviewed with them and the personnel policy manual is given to them and they're shown where key pieces of information are. We stress certain things like the whistleblower policy for them at that time, so that as they enter into the organization, they're given the key policies. – *Executive Director of a Rural CAA*

Every employee has an employee handbook and all of our policies are in that handbook. When you are hired, your first day at the [CAA] you get an agency orientation and all those policies are reviewed. Then, within 14 days of employment, you're going to have a divisional and a service orientation where all those policies are again reviewed, as well as the protocols governing your job and helping you to understand the systems and regulations pertinent to your own job. Then you're mentored for your first year. – *Executive Director of a Rural CAA*

Keep in mind that it is also important for staff who are transferred to new positions to receive an orientation when they assume their new responsibilities.

CAAs stress the importance of regular staff meetings and development days in communicating compliance responsibilities.

We use monthly ... administration meetings as a forum for discussion of how compliance is important and needs to be a priority within departments and how to accomplish that compliance. – *CFO of an Urban CAA*

[We post] personnel policies and procedures ... on our [CAA]'s document server (Outlook Public Folders). – *HR Director of an Urban CAA*

[We] ... review and discuss [policies] at monthly staff meetings. – *HR Director of an Urban CAA*

When we issue a new policy, it is distributed to all staff. The department heads will go out and discuss the ins and outs of a particular policy. I will either go to departmental meetings or to sites. – *COO of a Suburban CAA*

Almost all teams have at least quarterly, if not monthly, meetings where they review compliance within the program area. I have monthly meetings with program directors, with the CFO, [and] the lead accountant for the program and we review every budget for every grant to make sure that those are where they're supposed to be and that that's in compliance. – *Executive Director of a Rural CAA*

When reviewing the organization's policies with staff, top managers should be sure to publicize the consequences for compliance and ethics violations.

In addition to formal meetings, managers and supervisors should work informally with individual employees to help them understand how to fulfill their compliance responsibilities. For example, the COO of a suburban CAA notes that he spends "a lot of time with not only program directors, [but also] ... with other staff members ... to answer questions, to explain policies and procedures to them."

Contrast these recommendations and practices with an observation from the state-commissioned assessment report on the CAA in Example A above: "The [assessment] team found no records of meetings of program staff, of all-staff training days, or regular use of face-to-face communication."

Managers should encourage discussion of ethics issues at staff meetings and when meeting informally with staff. For example, managers and supervisors might describe ethical issues they have faced and how they resolved them. Discussing brief case studies of ethical issues can be another way to help employees learn how to handle ethical dilemmas.¹⁵

No Retaliation: Managers and supervisors should also reassure staff and volunteers that they will not be retaliated against for good faith reporting and that, in fact, the organization will support them in their ethical actions. The Ethics Resource Center (now the Ethics & Compliance Initiative) recommends the following:

Revisit your company's non-retaliation policy to make sure it is well understood across the company and working effectively. ... [P]ublicize retaliation policies and make clear that retaliation is itself a serious form of misconduct that will not be tolerated. Train supervisors and other managers in the proper responses to retaliation as well as behavior that might be perceived as retaliation even when that's not the intent. And, of course, thoroughly investigate all reports of retaliation.¹⁶



Recognition of Exemplary Behavior: Publicly recognizing employees who exhibit exemplary compliance and/or ethical behavior is an effective way to reinforce this behavior. For suggestions on how to do this, see the Society of Corporate Compliance and Ethics publication [Using Incentives in Your Compliance and Ethics Program](#). Keep in mind that, in recognizing the employee, it is important to describe the behavior for which he or she is being recognized, in order to demonstrate to other employees specific actions they can take to live up to the CAA's commitment to compliance and ethics.

6. Get Up-to-Speed and Stay Up-to-Date

A critical component of a compliance and ethics program is training to be sure that the board, management and other staff understand the rules and requirements that apply, how to comply with those rules, and how to implement effective compliance systems. The CSBG Organizational Standards require training and orientation for both employees and board members.

Staff Training: Staff training is a proactive step that many CAAs have found crucial to ensuring an ethical and compliant workplace. **CSBG Organizational Standard 7.9** requires both nonprofit and public CAAs to make available staff development/training on an ongoing basis. **Standard 7.8** requires nonprofit CAAs to ensure all staff participate in a new employee orientation within 60 days of hire and public CAAs must follow local governmental policies for new employee orientation. Over half of the CAAs responding to CAPLAW's exemplary legal practices survey stated that they provide regular training on their policies. In answering the question, "Are there any legal practices and policies that your organization has found particularly beneficial to have implemented?" CAAs surveyed by CAPLAW responded:

Definitely staff training has had the greatest benefit. We try to incorporate group trainings in monthly staff meetings, send staff to outside trainings appropriate to their positions and responsibilities, do webinars and take advantage of free resources available. – *Executive Director of a Rural CAA*

Use of webinars and regular training days for all team leaders Sending staff to conferences, state networks on HR and fiscal in particular. – *Executive Director of a Rural CAA*

Training supervisors should be a priority. The Ethics Resource Center (now the Ethics & Compliance Initiative) recommends that employers:

Focus on supervisors who are the critical actors that set expectations for their direct reports, conduct evaluations, and are most likely to receive initial reports of misconduct. Develop specialized supervisor training on how to support ethical conduct by employees, how to properly handle reports of misconduct, and strategies for reducing retaliation.¹⁷

CAAs surveyed by CAPLAW describe the training they provide to their supervisors and managers:

We provide ongoing training for supervisors on how to implement our policies in a fair and consistent manner, and then hold them accountable. – *HR Director of an Urban CAA*

Supervisors are provided training each summer as both refreshers to policy, but also updates to new laws affecting HR or fiscal matters. – *Head Start Director of an Urban CAA*

Department heads are encouraged to make sure that all managers attend training on fiscal compliance if they are involved in any activities with a fiscal component such as purchasing, payroll or accounts receivable. – *CFO of an Urban CAA*

We have two staff development days a year ... they're mandated trainings. We also do a manager's coffee talk once a month and that's training related. And, we have a management meeting once a month and the second half of that day is training related. We have a heavy emphasis on training. – *Executive Director of a Rural CAA*

Board Training: Regular board training is important as well. **CSBG Organizational Standards 5.7 and 5.8** require nonprofit and public CAAs to provide board members with a structured orientation within six months of being seated and with training on their duties and responsibilities within the past two years. More than three-quarters of the CAAs responding to CAPLAW's exemplary legal practices survey indicated that they provide training opportunities to board members at least annually. Nearly one-third provide training two to four times per year and nearly one-fifth provide training at every board meeting.

The executive director of a rural CAA notes that her board conducts training at every board meeting for about 20 to 30 minutes. Usually, the training is conducted by staff, but about 20 percent of the time, it is conducted by outside professionals (such as the CAA's auditor training on how to read an audit).

The CFO of an urban CAA interviewed by CAPLAW describes the fiscal and compliance training her organization's board receives: "All board and policy council members are provided opportunities to attend fiscal and compliance trainings as available and board officers are provided with opportunities to attend national trainings such as CAPLAW."

Training customized to the CAA, its operations and its board is preferable. Training will be most effective if it compares the CAA's actual practices to best practices and includes checklists, self-assessments, post-training action lists and follow-up to ensure that the board and CAA management are taking action on areas identified for improvement as a result of the training.

Training Format: Training can take many forms and can be formal or informal. Informal training may occur through discussions at staff meetings, on-the-job instruction, feedback, and mentoring. Formal training may occur at conferences, via webinars and online training modules, at customized on-site presentations, or at staff meetings.¹⁸ Some CAAs also obtain training through their insurance carriers.

One CAA interviewed has developed a series of required webinars for its team leaders:

If anyone is ever promoted into a team leader job, there is a series of webinars they have to go through that relate to the policies and procedures of the organization. They have to complete those within the first 12 months as a team leader so that they're aware of the personnel policies and fiscal policies and the procedures they're supposed to follow as a team leader to make sure that those are being complied with. – *Executive Director of a Rural CAA*

These webinars cover topics including: the CAA’s operations and strategic planning; HR topics, such as successful hiring, evaluation and discipline; management skills, such as leading teams and conflict resolution; health and safety; and Microsoft Office. See [Appendix F](#) for a full list of these webinar topics.

For in-house training, it is a good idea to test employees’ understanding of training topics at the beginning and end of the training.

For in-house training, it is a good idea to test employees’ understanding of training topics at the beginning and end of the training. Employees attending outside webinars or conferences can be required to write reports about how they propose to apply the concepts they learned in those trainings at their CAA.

Whatever the format and venue, when offering formal training to board members, staff and volunteers, it is important to document the date of the training, the general topics covered, and who attended it.

7. Trust, but Verify

Internal monitoring is a critical component of an effective compliance program. Monitoring can take various forms, including: establishing and following systems that use checklists or other verification procedures; periodically checking files and other documentation and talking to employees about how they do their jobs; and conducting internal assessments or peer reviews. The senior management team and board should receive regular reports on compliance monitoring that describe problems identified and steps being taken to correct them and to ensure that they do not recur.

Systems with Verification Procedures: CAA managers interviewed by CAPLAW describe some of the systems they use to verify compliance:

We use checklists for nearly every process in Human Resources, such as new hire authorization, benefit enrollment, new hire orientation, status change forms. – *HR Director of an Urban CAA*

We use various forms and database reports to ensure things like performance evaluations, physicals, drug screens, background reports, have been completed. We follow up on missing information through email and phone calls. The human resources director reads all performance evaluations and disciplinary actions to ensure issues are being addressed per policy. – *HR Director of an Urban CAA*

The accounting department performs a reconciliation of all balance sheet accounts on a monthly or quarterly basis (depending on level of activity in the account). Daily bank reconciliations are also performed to make sure that funds are available and no unauthorized transactions are completed. We also have a positive pay system in place where a listing of all checks and check numbers are submitted to the bank each time we run checks and the bank will not pay any checks or amounts not submitted on the listing without receiving verification of their validity. – *CFO of an Urban CAA*

Monitoring is a strong emphasis in our Head Start program. Written systems outlining compliance are in place from the board to the executive director, to the Head Start Director, to the managers to front line staff. There is a cascading effect for oversight of all systems within the Head Start program. This is evidenced as a priority in the board and Policy Council minutes. – *Head Start Director of an Urban CAA*

Periodic Checks: When asked how they ensure compliance with their policies, nearly three-quarters of the CAAs responding to CAPLAW’s exemplary legal practices survey indicated that they do so through regular checks (self-audits).



Many CAAs conduct checks of personnel, program, procurement or other files to determine whether policies and procedures are being followed.

Human Resources does annual file/database audits by pulling staff files and comparing the information in the hard copy file [to check whether it] matches the data in the database. We run various ongoing reports that are sent to managers, supervisors and staff to ensure data in our HR database is updated and accurate (examples: manager census reports, education reports, health reports, emergency contacts etc.). – *HR Director of an Urban CAA*

The compliance officer at a suburban CAA performs periodic compliance reviews of the CAA's client intake procedures. See [Appendix E](#) for the checklist the compliance officer uses in reviewing intake files in the CAA's Weatherization program.

One technique that some organizations use to monitor compliance is for managers to wander around regularly and to check with employees, at random, about the status of their work. For example, managers might ride on Head Start buses, visit weatherization work sites, talk to intake workers and observe and ask questions about how employees are doing their jobs and the procedures they are following. Management guru Tom Peters has called this "Managing by Wandering Around"; others sometimes call it "Managing by Walking Around." According to the Ethics Resource Center (now the Ethics & Compliance Initiative):

Managing by Walking Around ... is a way for supervisors and managers to best communicate their (task and ethical) expectations and requirements in daily, informal meetings with employees. These informal conversations give employees two sets of data. There is the spoken information that is exchanged and the inferred data that employees glean from the more subtle communications that accompany a manager's words.¹⁹

Another method to determine whether a particular task or function (such as client intake or procurement) is being performed correctly is for a compliance officer or other staff person to talk to employees about how they perform that task or function, compare what employees are actually doing against the relevant written policies and procedures, and make suggestions to management about how to resolve discrepancies between policy and practice.

Self-Assessments and Peer Reviews: Many CAAs also conduct regular self-assessments of their programs and procedures, often in preparation for monitoring by their government funding sources.

The Accounting department utilizes the Head Start Fiscal protocol as well as the state ... CSBG monitoring tool to complete self-audits. – *CFO of an Urban CAA*

We have numerous monitoring checklists. Probably close to 75. As far as checklists for the self-assessment we use the federal monitoring protocol, and our own health and safety checklist. – *Head Start Director of an Urban CAA*

[Our] Head Start [program] conducts a self-assessment each year that takes approximately two weeks to complete. We utilize whatever tool is the most recent tool for the federal monitoring protocol. The self-assessment is conducted by Head Start management and mid-management, Policy Council members, board members, and community members. Usually another Head Start program in [our] state will also send staff to assist us in the self-assessment. – *Head Start Director of an Urban CAA*

As indicated by the comment above, CAAs sometimes assess their programs and procedures through formal or informal peer reviews.

8. Follow Through Promptly and Effectively

A CAA's compliance and ethics program will not be effective unless the CAA takes steps to promptly and effectively investigate and resolve complaints, reports of problems, and internal and external monitoring and audit findings. **CSBG Organizational Standard 8.2** requires nonprofit CAAs to assess findings from the prior year's annual audit and address them where the board deems appropriate. Public CAAs must follow local government procedures in addressing any audit findings related to CSBG funding. Failure to follow up on breakdowns in compliance can lead to serious consequences, as two situations at the CAA in Example A above illustrate:

Analysis of the [LIHEAP] program determined that client demographics and service information was not being completely and accurately documented and reported. It was found that staff were aware of difficulties exporting [LIHEAP] payment requests to the fiscal office. No systematic analysis was performed to determine the problem and resolve it. Consequently, many eligible clients did not receive their approved energy payments, and a number of others received duplicate payments.
– *State-Commissioned Assessment Report*

The [state] noted two (2) instances where former [CAA] employees presented the Board Chairperson a document of concerns regarding waste of expenditures and/or actions of the Executive Director. In addition, the Board Chairperson received a letter from the former audit firm which documented a lack of internal controls, as its reason to withdraw its services and terminate its contract with [CAA]. ... [T]he Board of Directors' Executive Committee was knowledgeable of the documented concerns; however the Committee did not provide this information to the remaining board members. ... The Board must ensure that it is aware of all reported concerns and take steps to address the concerns. – *State Monitoring Report*

It is important to establish a system for documenting, investigating and tracking complaints, problems, and self-assessment or monitoring findings and how they are resolved. With respect to clients served by a CAA, **CSBG Organizational Standard 1.3** requires both nonprofit and public CAAs to have a systematic approach for collecting, analyzing, and reporting customer satisfaction data to the tripartite board. Upon receiving reports of problems or findings, an individual or committee should be tasked with investigating the matter and reporting back to senior management and/or the board on the results of the investigation and proposed steps to resolve the matter. Then, an appropriate senior manager or management or board committee should determine how to respond and assign responsibility for responding to a specific individual or individuals. The executive director of a rural CAA describes the process her organization uses to follow up on programmatic compliance matters:

When a program is struggling with compliance ... we do what we call “compliance calls” where we call the people in the field, usually on a monthly basis, and review where they’re at with their compliance and make sure they’re on target.

Disciplining employees is a common and effective response to compliance and ethical breaches. Over half of the CAAs responding to CAPLAW’s exemplary legal practices survey indicated that they discipline employees for not following policies. In addition to disciplining front-line staff who may have failed to follow the CAA’s procedures, the CAA should also discipline managers if they are found not to have trained and monitored their staff to ensure that those procedures were followed.

Imagine that a CAA’s self-assessment of its CSBG intake procedures reveals that intake workers have been certifying over-income clients as eligible for CSBG services. The CAA investigates further and determines that the CSBG program manager did not train the intake workers on the CSBG eligibility requirements and how to document them and, in fact, knew that intake workers were certifying over-income clients as eligible, but looked the other way in order to ensure that the CAA met its CSBG performance targets. Not only should the intake workers be disciplined, but the program manager should be, too.

A CAA should analyze the problem identified (such as over-income clients being determined eligible) and correct it (for example, by paying for the services provided to those clients with appropriate funds that either have higher income eligibility requirements or none at all). The CAA should also communicate the problem to staff and provide them with any necessary training and/or change its systems to ensure that the problem does not occur again (for example, by training intake workers on the CSBG income eligibility requirements and procedures for determining eligibility and/or implementing client tracking software that does not permit over-income clients to be certified as eligible). CAA management staff should then check to be sure the proper procedures are being followed.

Acting promptly, proactively and decisively to address identified problems will not only correct those problems but will strengthen the CAA’s overall management systems.

A CAA can use the process it took to assess its ethical climate and compliance risks to periodically re-assess them and to determine areas to prioritize going forward.

9. Continuously Improve

No matter how thorough a CAA is in addressing ethics and compliance through the actions described above, there will always be room for improvement. “Our systems are constantly being reviewed and refined,” notes the executive director of a rural CAA.

Evaluate Performance: An important step in a CAA’s continuous improvement process is to periodically evaluate its performance on ethics and compliance. A CAA can use the process it took to assess its ethical climate and compliance risks to periodically reassess them and to determine areas to prioritize going forward. It can also examine how it is doing on accomplishing the actions recommended in this toolkit and determine where improvement is necessary.

The Ethics Resource Center (now the Ethics & Compliance Initiative) offers one example of an area to assess:

Honestly appraise your [organization’s] response process for reported misconduct. Are investigations timely and thorough? Do appropriate consequences follow if wrongdoing is confirmed? Are whistleblowers informed about the response to their reports? Address any weaknesses identified and review ... best practices for possible improvements to your [organization’s] process.²⁰



Learn from Mistakes: A CAA can (and should) learn from its compliance and ethical failures and use those failures as an opportunity for analysis and improvement. One CAA describes its approach in this regard:

We have this process ... called a "root cause analysis." Any time there's any incident or failure at any point, a root cause analysis is done, which forces people to react to the solution in a systemic way, not fix the problem in an isolated way. – *Executive Director of a Rural CAA*

In some cases, the process of learning from mistakes might include taking advantage of training and technical assistance opportunities offered by government funding sources and other organizations in the Community Action network, such as CAPLAW, the national Community Action Partnership, and state Community Action associations. The following example illustrates how one CAA in a crisis situation learned from its mistakes and is emerging as a stronger, more effectively managed organization:

Example E

A criterion for ethical decision-making is often "How would this look on the front page of the local newspaper?" A CAA in a small urban area found out when a newspaper investigation culminated in a spotlight article reporting that the CAA's full-time executive director was regularly leaving his office by noon and heading to a social club for the rest of the day. That exposure forced the resignation of the long-time executive director, triggered intensive on-site monitoring by the state and then by the HHS Office of Inspector General (OIG), and resulted in a large disallowance of funds. What did the monitoring find? According to the state's report, programs and services by the CAA appeared to "fully meet or exceed and professional and regulatory standards of practice, performance, and accountability." However, the monitoring reports indicated problems at the board and management levels and deficiencies in the CAA's internal controls.

Longstanding relationships between the executive director and some long-time board members meant that staff complaints to the board about the executive director's schedule and management practices and style were largely discounted and dismissed, according to the state's report. That report detailed the following problems:

- Conflict of interest and board meeting attendance policies were not enforced and a whistleblower policy was approved by the board but not distributed to the staff or the board.
- Immediate and extended family relationships existed between board members and CAA staff and contractors.
- Confusion of roles between the treasurer and the chair of the board's audit/finance committee.
- Evaluations of the former executive director were not documented in his file, and those that were conducted focused on questions of bonus compensation rather than job performance.



- Concerns expressed by managers about the apparent double standard of work expectations for the former executive director vis-à-vis other staff.
- A management style which embraced informal loyalties, double standards for behavior and privileges and intolerance for constructive criticism.

The OIG’s report indicated that the CAA did not have a system in place to ensure that only eligible clients received CSBG services, thus resulting in clients from outside the service area or whose income exceeded the eligibility limits receiving these services. In addition, both the federal and state monitoring reports observed that the CAA did not have a compliant time-and-effort reporting system and that expenses were not allocated correctly among funding sources.

But in this case, many new board members and an interim executive director seem to have turned things around. It also helped that the programs themselves seem to have been well run. The CAA took advantage of technical assistance offered by the Community Action network. A series of staff trainings were held, including on conflict of interest and whistleblower policies, bylaws were revised and roles clarified, and new timekeeping systems and other internal controls were put in place. The state CSBG office has removed the CAA’s “troubled agency” designation and the CAA has hired a new executive director to lead the CAA to future success.

Review and Update Policies and Procedures: Regularly reviewing the organization’s policies and procedures and updating them as necessary is also an essential component of continuous improvement. As previously discussed, the **CSBG Organizational Standards** require the board and staff to review, and update if necessary, a number of organizational policies within certain time frames.

Our administrative leadership team reviews current policies for updates and/or changes on an annual basis. Once reviewed it is then forwarded to our legal counsel for review. Upon suggested revisions and changes it then goes to the appropriate board committee for review and approval. – *Executive Director of a Rural CAA*

The very most challenging issue is uncovering hidden policies, old forms, and long-standing methods of work that have not been reviewed with a modern eye towards risk management, or user-friendliness. No one likes change. They see these changes as criticism of the work they’ve done for years ... We are moving to a simple calendar of review to take the ‘gotcha’ feeling away, keep current, and minimize the emotion around this necessary practice. – *Executive Director of a Rural Public CAA*

Continuous Communication, Training and Monitoring: Ensuring compliance and ethical behavior is an ongoing responsibility. As part of the continuous improvement process, CAAs should persevere with the actions outlined above: establishing and tweaking management systems to include and verify compliance; communicating and training on

ethics and compliance responsibilities and how to fulfill them; monitoring to be sure that policies and procedures are being followed; and responding to problems identified through reports, internal monitoring and monitoring by funding sources.

10. Work with an Attorney

An attorney can be an invaluable resource for a CAA as it strives to ensure compliance. The **CSBG Organizational Standards** recognize the important role an attorney plays, as seen in **Standard 5.3**, which requires that an attorney review a nonprofit CAA's bylaws within the past five years, and **Standard 7.1**, which requires the same type of review for a nonprofit CAA's personnel policies. Legal practices identified by attorneys interviewed by CAPLAW as the most important for the nonprofit organizations they work with include:

- Having access to attorney(s) who have the necessary skills to address the organization's legal issues;
- Regular review and updates to policies in consultation with an attorney; and
- A central approval process for working with outside counsel.

CAAs surveyed by CAPLAW underscore the importance of working with attorneys. Having ongoing access to an attorney or attorneys knowledgeable about the CAA's areas of legal needs is the practice most often identified by these CAAs as particularly beneficial to have implemented. Multiple CAAs surveyed and interviewed by CAPLAW commented on the importance of working with an attorney:

We have found that we have to have an attorney on retainer and that the firm has to have specific knowledge in the areas of HR, property law, construction law, and federal and state contracting. We have just begun a process of having our attorneys review ALL of the contracts we use with subs and with clients and that has been an eye-opening process. We will go from revising the contracts to putting them in plain English at a 6th grade reading level. From there we will conform internal policies and train staff. I expect it to take a full year and we are doing it over two budget years to help spread the cost. – *Executive Director of a Rural Public CAA*

[We have] a firm that has been with us for a long time, that is expert in the various areas of major effort such as personnel, real estate and nonprofit corporate practice. They are direct yet patient and supportive. We also use another firm as benefit attorneys as needed from time to time. – *Executive Director of a Suburban CAA*

We not only have an attorney on staff but we use several different attorneys for specialized needs. – *Executive Director of a Rural CAA*

There are situations when working with an attorney is absolutely necessary. – *HR Director of an Urban CAA*

We have an attorney on retainer, [who] attends all board meetings.... – *Executive Director of a Rural CAA*

We have an attorney on retainer. Contact is usually weekly. – *Executive Director of an Urban CAA*

For tips on working effectively with attorneys, see the [Working with Attorneys](#) section of this Guidebook. CAPLAW is available to assist CAAs in finding local attorneys with the necessary background and expertise.

FOOTNOTES

1. Ethics Resource Center, (now the Ethics & Compliance Initiative), *National Nonprofit Ethics Survey 2007*, p.9.
2. Ethics Resource Center, (now the Ethics & Compliance Initiative), *National Nonprofit Ethics Survey 2007*, p.9.
3. In 2011, as part of its research on exemplary legal practices and policies among CAAs and other nonprofit organizations, as well as effective approaches to adopting, implementing, and maintaining such practices and policies, CAPLAW surveyed and interviewed attorneys across the country who work with CAAs and other nonprofit organizations.
4. Ethics Resource Center (now the Ethics & Compliance Initiative), *National Nonprofit Ethics Survey 2007*, p. 9.
5. Panel on the Nonprofit Sector, [Principles for Good Governance and Ethical Practice](#), 2015 Edition, Principle #2. The Principles for Good Governance and Ethical Practice outlines 33 principles of sound practice for charitable organizations and foundations related to legal compliance and public disclosure, effective governance, financial oversight, and responsible fundraising. The Principles were developed by the Panel on the Nonprofit Sector in 2007 and updated in 2015 to reflect new circumstances in which the charitable sector functions, and new relationships within and between the sectors.
6. These standards are found in the Uniform Administrative Requirements for Federal Awards (the Uniform Guidance), which has been codified in the Code of Federal Regulations (CFR) at 2 CFR Part 200. In addition, federal departments have adopted their own version of the Uniform Guidance by regulation. For example, the version adopted by the U.S. Department of Health and Human Services (HHS) is found at 45 CFR Part 75. Note, however, that certain federal programs are exempt from a number of the Uniform Guidance's requirements. Specifically, block grants authorized under the Omnibus Reconciliation Act of 1981 (including CSBG, LIHEAP, the Social Services Block Grant, and federal awards authorized under the Child Care and Development Block Grant of 1990) are only subject to the following provisions of the Uniform Guidance:
 - Acronyms and definitions in Subpart A;
 - General provisions in Subpart B;
 - Public notice of federal financial assistance programs requirement in Section 200.202 in Subpart C;
 - Rules on distinguishing between subrecipients and contractors, pass-through entity/requirements, and fixed amount awards in Sections 200.330 – 200.332 of Subpart D; and
 - Single audit requirements in Subpart F.

In addition, CSBG funds are subject to the cost principles of the Uniform Guidance (Subpart E).

7. 2 CFR § 200.318(c)(1). For HHS's rules implementing this requirement, see 45 CFR § 75.327(c)(1).
8. 2 CFR § 200.318(c)(1). For HHS's rules implementing this requirement, see 45 CFR § 75.327(c)(1).
9. And, if a significant portion of employees speak another language as their primary language, in that language as well.
10. As part of its research on exemplary legal practices and policies among Community Action Agencies (CAAs) and other nonprofit organizations, as well as effective approaches to adopting, implementing, and maintaining such practices and policies, CAPLAW conducted an online survey of CAAs in September 2011. In 2012, CAPLAW interviewed some respondents to this survey for more information on their compliance practices.
11. For more information on defining, hiring, and evaluating CAA financial personnel, see CAPLAW's [Tools for Top-Notch CAAs](#), *Section 2: Improving a CAA's Financial Capacity*.

12. These standards are found in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance), which has been codified in the Code of Federal Regulations (CFR) at 2 CFR Part 200. In addition, federal departments have adopted their own version of the Uniform Guidance by regulation. For example, the version adopted by the U.S. Department of Health and Human Services (HHS) is found at 45 CFR Part 75. Note, however, that certain federal programs are exempt from a number of the Uniform Guidance's requirements. Specifically, block grants authorized under the Omnibus Reconciliation Act of 1981 (including CSBG, LIHEAP, the Social Services Block Grant, and federal awards authorized under the Child Care and Development Block Grant of 1990) are only subject to the following provisions of the Uniform Guidance:

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- Public notice of federal financial assistance programs requirement in Section 200.202 in Subpart C;
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- Single audit requirements in Subpart F.

In addition, CSBG funds are subject to the cost principles of the Uniform Guidance (Subpart E).

13. Webinars and other trainings on these topics are available from a variety of national Community Action partners including: [CAPLAW](#); the national [Community Action Partnership](#); the [CSBG T/TA Resource Center](#); and the [National Association for State Community Services Programs](#) (NASCSP).

14. Ethics Resource Center (now the Ethics & Compliance Initiative), *2011 National Business Survey*, p. 51.

15. The Markkula Center for Applied Ethics at Santa Clara University has some useful resources on ethical thinking and ethics case studies. See, for example: [A Framework for Thinking Ethically, Markkula Center for Applied Ethics at Santa Clara University](#); [Unavoidable Ethical Dilemmas for Non-Profits](#); [Too Close for Comfort? Conflicts of Interest at a Nonprofit](#); and [Friendly Advice or Quid Pro Quo?](#).

16. Ethics Resource Center (now the Ethics & Compliance Initiative), *2011 National Business Survey*, p. 55.

17. Ethics Resource Center (now the Ethics & Compliance Initiative), *2011 National Business Survey*, p. 54.

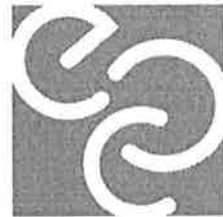
18. Webinars and other trainings on these topics are available from a variety of national Community Action partners including: [CAPLAW](#); the national [Community Action Partnership](#); the [CSBG T/TA Resource Center](#); and the [National Association for State Community Services Programs](#) (NASCSP).

19. Ethics Resource Center (now the Ethics & Compliance Initiative), [Ten Things You Can Do to Avoid Being the Next Enron](#), May 2009.

20. Ethics Resource Center (now the Ethics & Compliance Initiative), *2011 National Business Survey*, p. 54.

APPENDIX A

Audit Committee Charter



FRESNO COUNTY ECONOMIC OPPORTUNITIES COMMISSION

AUDIT COMMITTEE CHARTER

PURPOSE, PROCESS, PRACTICES

February 16, 2012

Audit Committee Charter

Purpose, Process, Practices

1. INTRODUCTION

2. PURPOSE

3. AUTHORITY

4. MEMBERSHIP

5. MEETINGS

6. RESPONSIBILITIES AND DUTIES

6.1 Financial Statements

6.2 Internal Control

6.3 Internal Auditing

6.4 External Auditing

6.5 Compliance

6.6 Reporting Responsibilities

6.7 Other Responsibilities

1. INTRODUCTION

Following the Nonprofit Integrity Act of 2004 – SB 1262, on April 27, 2005, the Fresno County EOC Board of Commissioners approved the establishment of the Audit Committee. The Audit Committee's duties as specified in the Act included:

1. Recommend to the board the retention and termination of the independent auditor.
2. Negotiate the compensation of the auditor on behalf of the Board
3. Confer with the auditor to satisfy the Committee Members that the financial affairs of the Agency are in order
4. Review and determine whether to accept the audit, and
5. Approve performance of any non-audit services to be provided by the auditing firm.

This charter is based on the Institute of Internal Auditor's best practices model and has been tailored to fit Fresno County EOC's needs and governing rules.

2. PURPOSE

To act on behalf of Fresno County EOC's Board of Commissioners in fulfilling its financial oversight responsibilities by monitoring:

- the overall systems of internal control and risk mitigation;
- the integrity of the financial statements of the corporation;
- compliance by the corporation with legal and regulatory requirements and ethical standards;
- at the close of each fiscal year, shall present to the Commissioners a financial report for the year audited by a licensed Certified Public Accountant; and
- the selection, independence and performance of the corporation's independent auditors.

In addition, the audit committee shall oversee the internal audit department and have such other powers and performs such other duties as the board may specify from time to time.

3. AUTHORITY

Subject to the prior approval of the board, the committee is granted the authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate, and oversee the work of the public accounting firm employed by the organization to conduct the annual audit. This firm will report directly to the audit committee.

- Resolve any disagreements between management and the auditor regarding financial reporting.
- Pre-approve all auditing and permitted non-audit services performed by the corporation's external audit firm.
- Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
- Seek any information it requires from employees – all of whom are directed to cooperate with the committee's requests – or external parties.
- Meet with corporation officers, external auditors, or outside counsel, as necessary.

4. MEMBERSHIP

The audit committee shall be composed of five (5) Commissioners, with at least one from each tripartite sector and who are not on the Finance Committee. The committee members and chair shall be appointed by the Board Chair and approved by the board and shall serve at the pleasure of the board.

Each committee member will be both independent and financially literate. At least one member shall be designated as the "financial expert,"

5. MEETINGS

The committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. Meetings will be held without restrictions or time constraints. A quorum for any meeting shall be 50 percent of that committee.

The committee chairperson will approve the agenda for the committee's meetings and any member may suggest items for consideration. Written materials will be provided to the committee as far in advance of meeting as practicable.

The committee may invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary.

The committee may meet separately, periodically, with management, with internal auditors, and with external auditors or may meet periodically in executive session.

The committee shall keep a record of its actions and proceedings, and when required by the board, shall make a report of those actions and proceedings to the board.

Minutes will be prepared.

All members of the board who are not members of the committee may attend meetings of the committee but may not vote.

6. RESPONSIBILITIES AND DUTIES

The committee shall be given full access to EOC's internal audit group, management, personnel and independent auditors as necessary to carry out these responsibilities. While acting within the scope of its stated purpose, the committee shall have all the authority of the board.

The committee will carry out the following responsibilities and duties:

6.1 Financial Statements

Review significant accounting and reporting issues and understand their impact on the audited financial statements of the Agency and any program-specific audits. These issues include:

- Complex or unusual transactions and highly judgmental areas
- Major issues regarding accounting principles and financial statement presentations, including any significant changes in the corporation's selection or application of accounting principles
- Review analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
- Review and discuss with management and the external auditors the results of the annual audited financial statements, including any difficulties encountered. This review will include any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management.
- Review disclosures made by CEO and CFO about significant deficiencies in the design or operation of internal controls or any fraud that involves management or other employees who have a significant role in the corporation's internal controls.

6.2 Internal Control

- Consider the effectiveness of the corporation's internal control system, including information technology security and control.
- Evaluate whether internal controls are enforced consistently, requiring management to follow the same controls as general staff.
- Evaluate the adequacy of the number of personnel devoted to internal control procedures, including whether key functions are segregated, and the quality of personnel in key internal control positions.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

6.3 Internal Auditing

- Review the effectiveness of the internal audit function, including compliance with The IIA's International Standards for the Professional Practice of Internal Auditing.
- If necessary, meet separately with the Internal Auditor to discuss any matters that the committee or internal audit believes should be discussed privately.
- Review the internal audit function on at least an annual basis, including the independence and authority of its reporting obligations and the coordination of the agency's internal audit personnel with management and independent auditors.
- Review with the Internal Auditor:
 - Any significant audit findings during the year, management's response, including management's plan of action to implement recommendations and timeline for completion.
 - Any obstacles imposed by management and staff during audits, including scope limitations or access to required information or personnel.
 - Internal Audit's annual risk assessment and audit plan.
 - Any significant changes to the annual audit plan.
 - Internal Audit budget and staffing requirements.
 - Internal Audit's policies and procedures.
 - Any assignments and priorities for the internal audit team.
 - Overall audit quality and compliance with professional standards.

6.4 External Auditing

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors. In performing this review, the committee should:
 - Obtain and review a report by the independent auditor describing:
 - the auditing firms' internal quality-control procedures;
 - any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues; and
 - all relationships between the independent auditors and EOC.
 - Take into account the opinions of management and internal audit.
 - Present its conclusions with respect to the external auditor to the board.
- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.
- Approve, in advance, any audit and any permissible non-audit engagement or relationship between EOC and Independent auditors.

6.5 Compliance

Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of noncompliance.

Establish procedures for:

- the receipt, retention, and treatment of complaints received regarding accounting, internal controls, or auditing matters; and
- the confidential, anonymous submission by employees regarding questionable accounting or auditing matters.

Discuss policies with respect to risk assessment and risk management, including appropriate guidelines and policies to govern the process, as well as the agency's major financial risk exposures and the steps management has undertaken to control them.

Consider the risk of management's ability to override the agency's internal controls.

Review and address issues raised in the Annual Management Letter:

- promptly review with management, the internal audit department and the independent auditors all recommendations made by the independent auditors in their annual management letter;
- Approve a schedule for implementing any recommended changes as a result of the annual management letter and monitor compliance with the schedule.

6.6 Reporting Responsibilities

Regularly reports to the Board of Commissioners about committee activities and issues that arise with respect to the quality or integrity of the corporation's financial statements, the corporation's compliance with legal or regulatory requirements, the performance and independence of the corporation's independent auditors, and the performance of the internal audit function.

Provide an open avenue of communication between internal audit, the external auditors, and the board of commissioners.

Review any other reports the agency issues that relate to committee responsibilities.

6.7 Other Responsibilities

Discuss with management the corporation's major policies with respect to risk assessment and risk management.

Perform other activities related to this charter as requested by the board of directors.

Review and assess the adequacy of the committee guidelines annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.

Confirm annually that all responsibilities outlined in this charter have been carried out.

The Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal of other conditions.

APPENDIX B

Contract Compliance Job Description

JOB DESCRIPTION

JOB TITLE: Contract Compliance Director

REPORTS TO: Executive Director

DEPT: Administration

JOB STATUS: X EXEMPT NON-EXEMPT

DUTIES AND RESPONSIBILITIES:

i. Primary

- Responsible for reviewing agreements and/or contracts and proposals, or proposed agreements for conformity to agency and funding source policies, rules and regulations.
- Responsible for analyzing and conferring with various department heads to detect ambiguities, inaccurate statements, omissions or essential terms, and conflicts with possible legal prohibitions; makes modification recommendations.
- Responsible for converting agreements into contract form or preparing amended agreement for approval by legal counsel. May recommend changes in standard form contracts.
- Responsible for preparing bids, process specifications, test and progress reports, and other exhibits required to meet contract and/or proposal agreements. Reviews bids from other firms for conformity to contract requirements, rules and regulations and determines acceptable bids. May negotiate contract with bidder.
- Responsible for making requests or recommendations for the approval of amendments to or extensions of contracts.
- Responsible for interacting, in an advisory capacity, with department directors/managers in the planning and production of program agreements.
- Responsible for conducting periodic and special surveys of subcontractors, vendors, financial supporters and clients to determine adequacy, capability and regulation/specification compliance regarding service delivery.
- Responsible for developing and initiating audit methods and procedures for random inspection, testing and evaluation of programs and contract performance.
- Responsible for meeting with Executive Director, department directors/managers, including fiscal director on a monthly basis, and serving as a staff representative and liaison to committees of the Board of Directors.
- Responsible for additional corporate/administrative responsibilities as assigned.

ii. Secondary

- May coordinate production and implementation of contracts.
- May act as liaison officer to insure fulfillment of obligation by subcontractors.
- May prepare reports and oversee timeliness of reporting and maintenance of records.
- May coordinate and write procedure manuals for programs and agency operations.
- May assist in development of financial resources, fund raising and grant writing.
- May provide executive oversight to subcontracted programs and subgrantee entities.

NECESSARY QUALIFICATIONS:

- A minimum of a Bachelor's degree and/or equivalent experience, plus a minimum of three years experience in a supervisory and management level capacity.
- Must have strong organizational, analytical and leadership skills
- Must have excellent oral and written communication skills, experience in management by objectives, time management skills, and at least three years experience in public speaking.
- Must have own vehicle for transportation, valid driver's license, liability insurance and willingness to travel out of town when necessary.
- Must be able to work flexible hours, including evening meetings and/or training sessions.
- Must have knowledge of computer/data entry/word processing.
- Must display professional grooming, appropriate dress and office decorum.
- Must be dependable.

APPENDIX C

Internal Audit Policies and Procedures



FRESNO COUNTY ECONOMIC OPPORTUNITIES COMMISSION

INTERNAL AUDIT OFFICE

POLICIES AND PROCEDURES MANUAL

December 13, 2010

INTERNAL AUDIT POLICIES AND PROCEDURES

1. ORGANIZATION AND POLICY

- 1.1 Purpose
- 1.2 Mission
- 1.3 Independence
- 1.4 Responsibility
- 1.5 Audit Plan
- 1.6 Scope
- 1.7 Authority
- 1.8 Standards of Audit Practice

2. TYPES OF AUDIT SERVICES

- 2.1 Compliance Audits
- 2.2 Performance Reviews
- 2.3 Unannounced Audits
- 2.4 External Audit Assistance
- 2.5 Fraud, Waste and Abuse Investigations
- 2.6 Special Reviews
- 2.7 Requests for Internal Audit Services

3. METHOD OF OPERATION AND DOCUMENTATION

- 3.1 Working Papers
- 3.2 Audit Report
- 3.3 Audit Report Distribution
- 3.4 Audit Follow-up
- 3.5 Records Disposition

4. WHISTLEBLOWER POLICY

- 4.1 Objective
- 4.2 Reporting and Responsibility
- 4.3 Acting in Good Faith
- 4.4 Reporting Concerns
- 4.5 Handling Reported Violations
- 4.6 No Retaliation
- 4.7 Confidentiality

5. SPECIFIC AUDITS

- 5.1 Compliance Audits
- 5.2 Performance Reviews
- 5.3 Unannounced Audits
- 5.4 External Audit Assistance

1. ORGANIZATION AND POLICY

1.1 PURPOSE

This document establishes the official policies and procedures for the Internal Audit Office within the Fresno County Economic Opportunities Commission (FCEOC). It explains the purpose, authority and responsibility of the internal audit function and the duties of the Internal Audit Office.

1.2 MISSION

The mission of the Internal Audit Office is to provide quality audit services in an independent, objective manner to assure financial and operational integrity, accountability, efficiency, effectiveness, and compliance with laws and regulations and agency policies and procedures.

1.3 INDEPENDENCE

Independence is an essential element of objectivity. It is imperative that Internal Auditors maintain independence in appearance as well as in fact. Independence could be compromised if Internal Auditors participate directly in the development, installation, preparation or reconstruction of accounting systems, data, or records, or by engaging in activities that would normally be reviewed by Internal Auditors. Thus, Internal Auditors will serve only in an advisory capacity in performing their engagements.

To provide for independence, the Chief Audit Executive will communicate and interact directly with the Executive Director for daily supervision and the Audit Committee, a sub-committee of the Board of Commissioners for direction. The Chief Audit Executive will confirm to the board, at least annually, the organizational independence of the internal audit activity.

1.4 RESPONSIBILITY

The Internal Audit Office has responsibility to:

- Develop a flexible, risk-based annual plan of Internal Audit Office work.
- Implement the approved annual audit plan.
- Evaluate governance and risk management related to operations at FCEOC consistent with Internal Audit Policies and Procedures and with the approved Annual Audit Plan. This may include evaluating significant new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Report significant issues related to governance and risk management related to operations at FCEOC, including potential improvements, and provide information concerning such issues all the way through to resolution.
- Maintain a professional Internal Audit staff with sufficient knowledge, skills, and other competencies to meet the requirements of the policies and procedures stated in this document.
- Periodically provide information to the Executive Director and Audit Committee on Internal Audit Office activities and results relative to the Annual Audit Plan, as well as the sufficiency of the Internal Audit Office resources.
- Inform the Executive Director and Audit Committee of significant emerging trends and successful practices in Internal Auditing.

- Report the most critical issues to the Audit Committee, along with management's progress toward resolving them. Critical issues typically have a reasonable likelihood of causing substantial financial or reputation damage to FCEOC. For complex issues, the responsible manager may participate in the discussion. Such reporting is critical to ensure the function is respected, that the proper "tone at the top" exists in the organization, and to expedite resolution of such issues.

Opportunities for improving FCEOC operations may be identified by the Internal Audit Office. They will be communicated to the appropriate levels of management.

Internal Audit has no direct responsibility or any authority over any of the activities or operations it reviews. Internal Audit is a managerial control that functions by measuring and evaluating the effectiveness of other controls. Management is not relieved of any assigned responsibilities because Internal Auditors perform the evaluative reviews with which they have been charged.

1.5 AUDIT PLAN

The Internal Audit Office has responsibility to develop a flexible, risk-based annual plan of work, considering the input of management, and submit that plan and significant interim changes to the Executive Director and Audit Committee for review and approval. The plan should include but not be limited to the following items:

- Compliance Audits
- Performance Reviews
- Unannounced Audits
- External Audit Assistance
- Fraud, Waste and Abuse Investigations

In order to determine a list of appropriate audits for the year, the Internal Audit Office begins by identifying possible audits. These items are then evaluated for the risks and possible benefits that are associated with each one. Priority is then given to higher-risk and higher-benefit projects, required audits and Board requests, subject to the skills and resources of the Internal Audit Office.

1.6 SCOPE

The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities. This enables the Internal Audit Office to determine whether the agency's risk management, control, and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Financial, managerial, and operating information is accurate, reliable, and timely.
- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Agency assets are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Recommendations for improving management control, accountability shall be made to the appropriate level of management.

Internal Audit functions in an advisory capacity; it does not have authority to make operating decisions or to direct anyone to take action.

1.7 AUTHORITY

Management of the Internal Audit Office is authorized to:

- Have unrestricted access to all programs, records, property, and personnel as needed.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to fulfill its mission and responsibilities.
- Obtain the necessary assistance of personnel in FCEOC programs when needed.

Management and staff of the Internal Audit Office are **NOT** authorized to:

- Perform any operational duties for FCEOC.
- Make management decisions external to the Internal Audit Office. FCEOC Directors and management have primary responsibility for control of FCEOC.
- Initiate or approve fiscal transactions external to the Internal Audit Office.
- Direct the activities of any FCEOC employee not employed by the Internal Audit Office, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

1.8 STANDARDS OF AUDIT PRACTICE

The Internal Audit Office is guided by FCEOC's Code of Ethics and will meet or exceed the Standards for the Professional Practice of Internal Auditing established by The Institute of Internal Auditors.

2. TYPES OF AUDIT SERVICES

The following are general descriptions of the types of services provided by the Internal Audit Office. The annual audit plan can include any combination of these types.

2.1 COMPLIANCE AUDITS

The Internal Audit Office may conduct compliance audits, which are generally performed to ensure compliance with Federal or State laws and/or requirements of grant agreements. These can include reviews of management practices and financial data to determine the extent to which a unit complies with applicable laws, government regulations and standards, contracts, and policies and procedures.

2.2 PERFORMANCE REVIEWS

The Internal Audit Office may conduct performance audits in order to provide an independent assessment of the performance of the organization, a program or activity. Performance audits provide information to improve risk management and control systems within the various areas by evaluating compliance with policies and procedures. Performance audits include, but are not limited to, reviews of program procedures and operations to determine whether:

- Duties and responsibilities are being performed in the most efficient and economical (cost effective) manner
- Activities are properly authorized by appropriate personnel
- Management has the capacity to ensure compliance with applicable laws, regulations, contracts and policies
- Operations actually conform in all material respects to applicable laws, government regulations and standards, contracts, and policies and procedures.

2.3 UNANNOUNCED AUDITS

The Internal Audit Office may conduct unannounced audits, which are an effective way to prevent or detect fraud. These audits could include reviews of petty cash, incentive and bus tokens, cash receipts/deposits, fixed asset additions/deletions, employee verification, and operating parts and supplies inventory.

2.4 EXTERNAL AUDIT ASSISTANCE

The Internal Audit Office may provide audit assistance to the external auditors/monitors and FCEOC's Finance and Accounting Office during any FCEOC external audits/monitoring visits. Internal Audit will review all resulting management letter comments to determine if there is any impact upon the annual Internal Audit Plan.

2.5 FRAUD, WASTE AND ABUSE INVESTIGATIONS

The Internal Audit Office will investigate all credible fraud, waste and abuse tips that could affect the organization and that can be handled within the expertise of the Internal Audit staff. However, allegations of a serious criminal act (e.g., theft, robbery, assault, etc.) should be promptly reported to the appropriate officials and proper law enforcement agency. Refer to Policies and Procedures #4 Whistleblower Policy for further information.

2.6 SPECIAL REVIEWS

The Internal Audit Office may conduct special reviews, which are audit activities that result from requests to Internal Audit from the Audit Committee, the Executive Director or other management. Special reviews are carried out in conformance with the specifications and concerns of the requestor. These include reviews and analyses of particular areas of a program's operation to provide an independent appraisal of its effectiveness, efficiency, adequacy of internal control and compliance with appropriate regulations. For example, special reviews might be undertaken to consult with management on specific financial or performance questions.

2.7 REQUESTS FOR INTERNAL AUDIT SERVICES

Program Directors or Managers requiring the services of the Internal Audit Office should direct all such requests, preferably in writing, to the Internal Audit Office, Executive Director, or Audit Committee and it will be determined whether the requested assistance can be provided and when it can be scheduled.

3. METHOD OF OPERATION AND DOCUMENTATION

The Internal Audit Office plans to use the following procedures when conducting most reviews/audits; however, performing all steps for every review/audit would be impractical, for instance, audit reports will not be issued for reviews that are performed weekly. The practicality of performing all steps will be determined by the Internal Audit Manager.

3.1 WORKING PAPERS

The Internal Audit Office must document relevant information (on paper or in electronic format) to support the conclusions and results of engagements; therefore, Internal Auditors will prepare working papers whenever an engagement is being conducted. Working papers document the information obtained, the analyses made, and the support for the conclusion and engagement results. Internal audit management reviews the prepared working papers. Engagement working papers generally:

- Aid in the planning, performance, and review of engagements
- Provide the principal support for engagement results
- Document whether engagement objectives were achieved
- Support the accuracy and completeness of the work performed
- Provide a basis for the internal audit activity's quality assurance and improvement program
- Facilitate third-party reviews

The organization, design, and content of engagement working papers depend on the engagement's nature and objectives and the organization's needs. The Internal Audit Office must maintain a good system of filing/indexing for working papers, so that they can be easily located if needed.

3.2 AUDIT REPORT

Upon completion of fieldwork, Internal Audit will prepare an original draft of the audit report. The report will communicate to management of the program audited, in a clear and concise manner, the results of the audit or review. The format of the report will depend upon the type of audit performed. When preparing and completing the Audit Report, the Internal Audit Office will follow the steps listed below:

- The Internal Audit Office will review the original draft and make any changes deemed appropriate.
- A copy of the resulting draft normally will be submitted to appropriate management (usually management of the program that was audited).
- Internal Audit and appropriate management may hold a conference to discuss the draft report. Changes to the draft report may result from this "exit" conference. In some instances, holding an "exit" conference may not be possible or may not be an efficient use of time. In these cases, management will be responsible for contacting the Internal Audit Office with any questions, comments or concerns that they may have.
- Official written responses to specific audit report recommendations will be requested from appropriate management to be included in the final and issued version of the report. The responses should include the degree of agreement or acceptance of each recommendation. The preferred responses are:
 - "We concur." Management is in full agreement with the recommendation;
 - "We partially concur." Management is in agreement with a portion of the recommendation;
 - "We concur with reservations." Management is in agreement with the recommendation, but there are circumstances that could affect its implementation which have to be resolved; and

- "We do not concur." Management is in total disagreement with the recommendation.
- Management is encouraged to provide an explanation in support of the positions taken, if considered necessary.
- Responses should be accompanied by a target implementation date and the individual or position responsible for implementation.

Two weeks are usually allowed for management to provide written responses to the recommendations. If management does not appear to make a good faith effort to provide responses, the final version of the report may be issued without responses at the discretion of the Internal Audit Office.

3.3 AUDIT REPORT DISTRIBUTION

The normal report distribution will be to the Audit Committee (at the next meeting), the Executive Director and senior program management. Any other programs or other entities identified in the report may be included in the distribution.

3.4 AUDITS FOLLOW-UP

Within twelve months after the issuance of an audit report, the Internal Audit Office shall initiate a follow-up review to determine the extent of actions subsequently taken by management in response to the findings and recommendations included in the report. The distribution of the follow-up report shall be the same as that of the original report.

3.5 RECORDS DISPOSITION

The Internal Audit Office shall retain for the required number of years a complete file of each audit report and each report of other examinations, investigations, surveys and reviews made under its authority in accordance with any applicable Federal and/or contract regulations. The file should include audit working papers and other supportive material directly pertaining to the report. Files which contain confidential personnel information will be kept secure.

4. WHISTLEBLOWER POLICY

This policy governs reporting and investigation of allegations of suspected improper accounting activities. Acts of fraud, waste, and abuse are considered a deliberate act or failure to act with the intention of obtaining an unauthorized benefit. Examples of such conduct include, but are not limited to:

- Forgery or alteration of documents;
- Unauthorized alteration or manipulation of computer files;
- Fraudulent financial reporting;
- Pursuit of a benefit or advantage in violation of FCEOC's Policies and Procedures;
- Misappropriation or misuse of FCEOC's resources, such as funds, supplies, or other assets;
- Authorizing or receiving compensation for goods not received or services not performed; and
- Authorizing or receiving compensation for hours not worked

4.1 OBJECTIVE

Fresno County Economic Opportunities Commission (FCEOC) is committed to operating in compliance with all applicable laws, rules and regulations, including those concerning accounting and auditing, and prohibits fraudulent practices by any of its board members, officers, or employees. This policy serves to outline procedures for employees to report actions that an employee reasonably believes violate a law or regulation or that constitutes fraud. This policy applies to any matter which is related to FCEOC's business. In addition, it is the objective of FCEOC to establish a policy that protects any person reporting organizational wrongdoing, from retaliation, harassment, or adverse employment consequences.

4.2 REPORTING AND RESPONSIBILITY

Each employee of FCEOC has an obligation to report in accordance with this Whistleblower Policy any act believed to violate a law or regulation or constitute fraud.

4.3 ACTING IN GOOD FAITH

Anyone reporting a concern must act in good faith and have reasonable grounds for believing the information reported indicates a violation of the law, or constitutes an inappropriate accounting or financial practice. The act of making allegations that prove to be unsubstantiated, and that prove to have been made maliciously, recklessly, or with the foreknowledge that the allegations are false, will be viewed as a serious disciplinary offense and may result in discipline, up to and including termination of employment.

4.4 REPORTING CONCERNS

FCEOC employees with any concerns or information pertaining to fraud, waste, or abuse are encouraged to speak with someone who can address their concerns properly. In most cases their supervisor is in the best position to address a concern. However, if the employee is not comfortable speaking with the supervisor about the concern, the employee is encouraged to speak with someone in Internal Audit, Human Resources or anyone in management with whom they are comfortable in approaching. Supervisors and managers MUST report suspected concerns to any/all of the following: Audit Committee Chair, Executive Director or the Internal Audit Office. However, allegations of a serious criminal nature or allegations determined to be beyond the scope of Internal Audit will be forwarded to the proper law enforcement agencies or appropriate FCEOC authority for investigation. The California State Attorney General's Whistleblower Hotline is also

available to employees who may not feel comfortable contacting Internal Audit or a member of management directly.

Internal Audit Office

Susan Shiomi	(559)263-1053	susan.shiomi@fresnoeoc.org
Amanda Stadjuhar	(559)263-1039	amanda.stadjuhar@fresnoeoc.org

California State Attorney General’s Whistleblower Hotline

1-800-925-5225

4.5 HANDLING OF REPORTED VIOLATIONS

All reports will be addressed and investigated by Internal Audit. Appropriate corrective action will be recommended to the board of commissioners, if warranted by the investigation.

4.6 NO RETALIATION

This Whistleblower Policy is intended to encourage and enable employees to raise concerns within the organization for investigation and appropriate action. With this goal in mind, no employee who, in good faith, reports a concern shall be subject to retaliation or adverse employment consequences related to whistleblower complaints. Moreover, an employee who retaliates against someone who has reported a concern in good faith is subject to discipline up to and including termination of employment.

4.7 CONFIDENTIALITY

All reports on concerns, and investigations pertaining thereto, shall be kept confidential to the extent practical. Disclosure of reports of concerns to individuals not involved in the investigation will be viewed as a serious disciplinary offense and may result in discipline, up to and including termination of employment.

5. SPECIFIC AUDIT PROCEDURES

5.1 COMPLIANCE AUDITS

Election of Commissioners Review

Frequency: Annually

A review of the election of commissioners should be completed annually, provided that there is adequate staffing, time and resources.

The review of the election of commissioners ensures that:

- Elections occur in a timely manner
- Voters are properly informed of election
- A time/opportunity for nominations exists
- Votes are tallied accurately
- Elected Officials reside in the appropriate target area
- Registered Voters reside in the appropriate target area

Program Audits

Frequency: To be determined

Internal Audit staff will perform examinations of programs and test compliance with terms, provisions, and requirements of grant agreements. The frequency of conducting program audits will be based upon adequacy of staffing, time, and resources. Formal steps listed in Policy and Procedures 3.1-3.5 are followed.

The review of the review of programs ensures that:

- Programs are operating efficiently
- Programs have sufficient controls in place to prevent fraud, abuse or waste.
- Program reports are completed accurately and timely
- Grant expenditures are allowable, allocable, and reasonable
- Participants/client files are completed accurately and timely
- Federal Grants comply with OMB A-133 compliance requirements

5.2 PERFORMANCE REVIEWS

Bank Reconciliations

Frequency: Quarterly

Bank reconciliations are completed monthly by the Finance Office to ensure that no material differences between the bank balance and the general ledger balance exist. The Internal Audit Office will review the bank reconciliations quarterly to ensure that:

- Variances are reasonable
- Reconciliations are completed in a timely manner
- Balances reflected on the reconciliations are accurate

Additionally, any unusual or material reconciling items will be investigated; reconciling items should be traced to supporting documentation. Explanations of these types of items must be reasonable and complete.

Payroll Timesheet Review

Frequency: Reviews are completed every pay period, and each program is reviewed at least once each quarter.

Each pay period, two to three programs' timesheets are selected for review. Timesheets are reviewed for:

- Accuracy of hours calculated
- Appropriate signatures (employee, management, etc.)
- Agreement to the Employer Contribution Reports (ECR)

All exceptions should be tagged and reported to Payroll.

Payroll Review

Frequency: Annually or as needed

A review of payroll should be completed annually, provided that there is adequate staffing, time and resources. Formal steps listed in Policy and Procedures 3.1-3.5 are followed.

The review of payroll includes audits of the following areas:

- The proper functioning of payroll and personnel processes and operations
- Calculation of earnings, special payments, employee benefits and employee taxes
- Compliance with applicable federal/state laws relating to employment taxes, tax and non-tax reporting requirements
- Accounting for payroll transactions (properly classified and posted to GL)

Payroll Mileage Review

Frequency: Reviews are completed every pay period with a total of fifty mileage sheets reviewed each quarter.

25 mileage sheets are haphazardly selected from the timesheets being reviewed. Mileage and expenses calculated are traced from the mileage sheet and agreed to the ECR.

25 expense reimbursements for mileage are haphazardly selected from the ECR. The corresponding mileage sheets are located and mileage and expenses calculated are traced from the ECR and agreed to the mileage sheet.

All exceptions should be tagged and reported to Payroll.

AP Check Review

Frequency: Weekly

All checks over \$5000 are reviewed, and an additional 25 checks are haphazardly selected for review. Checks are reviewed to ensure the following:

- All checks greater than \$5000 have a second signature
- All checks on the check listing are accounted for
- Proper support is attached as backup for each check. Support includes invoices, contract agreements, bids, etc.
- Receipt of goods or performance is indicated

All exceptions should be tagged and reported to the AP Manager.

AP EFT Review

Frequency: Every other week

All EFTs over \$5000 are reviewed, and an additional 25 EFTs are haphazardly selected for review. EFTs are reviewed to ensure the following:

- Proper support is attached as backup for each EFT. Support includes invoices, contract agreements, bids, etc.
- Receipt of goods or performance is indicated
- Vendor name on the EFT agrees to the attached EFT backup
- Account and Project coding are appropriate
- Invoices/contracts are authorized by appropriate individuals, and the invoice/contract amount is within the authorized signer's limit

All exceptions should be tagged and reported to the AP Manager.

Fixed Assets Inventory

Frequency: Every other year

Once every two years, all fixed assets should be observed. The observation ensures that recorded assets exist, that fixed assets which have been disposed of get removed from the system and that any unrecorded assets get entered into the fixed asset system.

The Internal Audit Office will obtain the fixed asset inventory listing from Financial Edge prior to observing fixed assets. The fixed asset inventory list includes information about the fixed assets such as location, description, tag number, date of acquisition, cost and last date of observation. The location, description and tag number on the inventory list is then matched to the physical asset, and any differences are noted.

After an asset is observed, the fixed asset system is updated to reflect this. The auditor will enter into Financial Edge the date and location where the asset was observed. Additionally, any changes to fixed assets will be updated in Financial Edge at this time, such as a change in location. For any assets that can not be observed/located, a follow-up review and inquiry should be performed to determine if there is a reasonable explanation for the lack of observation, such as disposal of the asset. Any findings will be reported in a memo to the Internal Audit Manager, Finance Director, or Executive Director.

Accounts Payable Review

Frequency: Annually or as needed

A review of accounts payable should be completed annually, provided that there is adequate staffing, time and resources. Formal steps listed in Policy and Procedures 3.1-3.5 are followed.

The review of accounts payable includes audits of the following areas:

- Determine if adequate controls exist to provide reasonable assurance that payments cannot be made to an incorrect vendor
- Determine if adequate controls exist to provide reasonable assurance that payment of invoices are made in a timely manner to the vendor
- Determine if adequate controls exist to provide reasonable assurance that correct payment is made to the vendor

- Determine if adequate controls exist to provide reasonable assurance that duplicate payments cannot be made to the vendor

Accounts Payable New Vendor Review

Frequency: Twice a year

A review of the AP New Vendor process should be completed twice a year. The set up process of new vendors and related internal controls is reviewed. The review ensures that appropriate documentation is obtained for each new vendor and that only authorized personnel have the ability to set up/delete/edit vendors in the system.

Working papers are completed in order to record the processes and documents that are reviewed.

Information Systems Audits

The Internal Audit Office may conduct information systems audits, which determine whether existing or new computer applications and hardware function in an accurate and efficient manner, and include adequate internal controls. These audits could include reviews of general controls which affect all computer applications. Examples include computer security, disaster recovery, program change controls and quality control procedures.

5.3 UNANNOUNCED AUDITS

Petty Cash Review

Frequency: Twice a year

A review of petty cash is performed twice a year for all custodians having a balance of \$100 or more in petty cash. The petty cash review consists of counting cash and ensuring that receipts are retained and expenditures are appropriate. In addition to counting and documenting the amount of petty cash, the internal auditor will keep a record of all receipts on hand making sure to include the amount, date and location where the petty cash was spent. After the petty cash form is filled out completely, signatures from both the internal auditor and custodian are required.

After all petty cash counts are completed, the petty cash forms are reviewed for any significant findings. Findings include a large variance between the cash counted and the amount recorded in the general ledger, missing receipts, cash not being kept in a secure location or any other item the internal auditor deems significant. Any findings are reported in a memo directed to the Internal Audit Manager or Executive Director.

5.4 EXTERNAL AUDIT ASSISTANCE

Program-Specific Audits (SACC, SOUL, Transit)

Frequency: Annually

Internal Audit will provide assistance to the external auditors conducting the annual program-specific audits. This assistance includes performing account analysis and maintaining working papers.

The Internal Audit Office may be responsible for any of the following:

- Reviewing participant files for completeness and accuracy
- Supplying fixed asset information
- Gathering documentation requested by the external auditor
- Reviewing External Audit Program-Specific Audit Drafts

Single-Audit Audit Schedules

Frequency: Annually

Internal Audit will provide assistance to the external auditors conducting the annual Single Audit (OMB A-133). This assistance includes performing account analysis and maintaining working papers.

The Internal Audit Office may be responsible for any of the following:

- Review and analyze program abstracts provided by the Finance Office
- Prepare the Schedule of Federal Awards
- Prepare Debt Covenant Testion (if needed)
- Prepare Debt Service Coverage Ratio (if needed)
- Prepare and analyze account schedules
- Prepare the Schedule of Rents
- Prepare the Accounts Receivable Analysis
- Prepare the Account Confirmation Letters
- Prepare Fixed Asset Rollforward report
- Gather documentation requested by the external auditor
- Prepare the Federal Audit Clearinghouse form SF-SAC for submission
- Review External Auditor's Single Audit Draft
- Prepare the distribution list for the Single Audit

The Internal Audit Office plans to develop additional audit procedures in the future based upon organizational needs, management requests and workload of the Internal Audit Office. All additional procedures will be added to Section 5. Furthermore, Internal Audit reserves the right to update any of the specific audit procedures (included in Sec. 5) as needed.

APPENDIX D

Internal Audit Plan



FRESNO COUNTY ECONOMIC OPPORTUNITIES COMMISSION

Internal Audit Office

AUDIT PLAN

Fiscal Year 2012

JANUARY 1, 2012 - DECEMBER 31, 2012

December 5, 2011

Mission Statement:

The mission of the Internal Audit Office is to provide quality audit services in an independent, objective manner to assure financial and operational integrity, accountability, efficiency, effectiveness, and compliance with laws and regulations and agency policies and procedures.

Scope:

The Internal Audit will determine whether the agency's risk management, control, and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure:

Risks are appropriately identified and managed.

Financial, managerial, and operating information is accurate, reliable, and timely.

Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.

Agency assets are acquired economically, used efficiently, and adequately protected.

Programs, plans, and objectives are achieved.

Recommendations for improving management control, accountability shall be made to the appropriate level of management.

Internal Audit functions in an advisory capacity; it does not have authority to make operating decisions or to direct anyone to take action.

Audit Plan:

This Audit Plan is a risk-based plan, which means that it is intended as a working document to address programs and operations that appear to be more vulnerable to risk. This plan is designed to examine programs or operations that in Internal Audit staff's professional judgment, demonstrate a high susceptibility to unfavorable events, or risk factors that could lead to a financial loss or an inability to meet Fresno County Economic Opportunities Commission's objectives. This Plan will serve as the primary commitment for the Internal Audit Office to perform their responsibilities in an efficient manner consistent with the priorities established by the Executive Director and/or Audit Committee.

Due to the continual requests for audit services and/or special reviews that may arise, and the required testing for the planned audits, this Plan will be monitored and revised as necessary throughout the year.

Organization Chart and Staff Resources of the Internal Audit Office

Susan Shiomi, CIA, CGAP -Internal Audit Manager

Vacant - Internal Auditor

The Internal Audit Office includes two professional auditors. Our audit staff holds professional certifications such as Certified Internal Auditor and Certified Government Auditing Professional. Staff members regularly attend continuing professional education sessions to maintain their professional proficiency.

ANNUAL AUDIT PLAN

FISCAL YEAR 2012

COMPLIANCE AUDITS

Compliance audits are a comprehensive review of an organization's adherence to regulatory policies and procedures. Internal audit will test compliance with terms, provisions, and requirements and will examine procedures and documentation to assess the adequacy and effectiveness of internal control.

Subcontract Audits - Internal audit will perform examinations of subcontracts. The audit team will test compliance with the terms, provisions, and requirements of subcontract agreements.

Program Audits - Internal audit will perform examinations of federal grants following OMB A-133 Compliance Requirements. In addition, the audit team will perform examinations of other non-federal grants and test compliance with the terms, provisions, and requirements of grant agreements.

Board of Commissioners Selection Process Audit - Internal Audit will verify eligibility of nominees and registered voters, and review the election process and outcomes for the Board of Commissioners Target Areas elections. Internal Audit will verify eligibility of nominees and review the selection process for Board of Commissioners Community Sector Representatives.

PERFORMANCE REVIEWS

The objectives of performance reviews are to contribute to the improvement of risk management and control systems within the various areas by evaluating compliance with policies and procedures. The following areas identified will be reviewed on an ongoing basis.

Payroll Time Sheets - To verify the accuracy of the hours calculated, appropriate signatures, and agreement to the Employer Contribution Reports.

Employee Files - To review files for completeness, accuracy, and compliance. To verify the proper functioning of payroll and personnel process and operations, test for accuracy of calculation of earnings, special payments, employee benefits and employee taxes, compliance with applicable federal/state laws relating to employment taxes, tax and non-tax reporting requirements, and accounting for payroll transactions (properly classified and posted to GL)

Mileage Review - To verify the accuracy of mileage claimed and paid, appropriate signatures, and agreement to the Employer Contribution Reports.

Expenditures - To verify proper support is attached to accounts payable checks and EFT's including invoices, contract agreements, bids, receipt of goods or performance, and authorized approvals.

Fixed Asset Inventory - To conduct a physical inventory of agency fixed assets and ensure that recorded assets exist, that fixed assets which have been disposed are removed from the system and that any unrecorded assets are entered into the fixed asset system.

Participant Files - Review files for completeness, accuracy, compliance and eligibility.

UNANNOUNCED AUDITS

Unannounced audits are an effective way to prevent or detect fraud. Internal Audit may perform audits on an unannounced basis during the year. These may include:

Petty Cash Count (Test Counts/Control) - To determine that the cash-on-hand and cash equivalents at the time of our count, agree with the program's authorized petty cash fund and to identify and assess the internal controls over cash and cash equivalents.

Incentives and Bus Token Counts (Test Counts/Control) – To determine if incentives and bus tokens at the time of our counts, agree with the program’s records and to identify and assess the internal controls over incentives and bus tokens.

Cash Receipts/Deposits – To verify cash on hand and cash equivalents agree with cash deposit ticket and to assess the internal controls over cash and cash equivalents.

Employee Verification – To verify the existence of employees who are paid through payroll, and to identify internal control deficiencies that could lead to fraudulent activity.

Operating Parts and Supplies Inventory (Test Counts/Control) – To verify purchased amounts, and usage of the operating parts and supplies, and to determine the adequacy of internal controls over the parts and supplies inventories.

EXTERNAL AUDIT ASSISTANCE

Internal audit will provide assistance to the External Auditors by performing account analyses, preparing prepared-by-client audit schedules and reports, and maintaining working papers. External audits include:

Single Audit (OMB A-133)

School Age Child Care (Dept. of Education)

School of Unlimited Learning

Urban & Rural Transit Audits

Local Conservation Corps (CCC)

In addition, Internal Audit will review all resulting management letter comments to determine if there is any impact upon the annual Internal Audit Plan.

FRAUD, WASTE, AND ABUSE INVESTIGATIONS

With the implementation of Internal Audit’s Whistleblower policy, Internal Audit will investigate all fraud, waste or abuse tips that are deemed credible and that can be handled within the expertise of the Internal Audit staff. However, allegations of a serious criminal nature or allegations determined to be beyond the scope of Internal Audit will be forwarded to the proper law enforcement agencies or appropriate FCEOC authority for investigation.

NONAUDIT SERVICES

Internal audit will provide non-audit services upon request. Non-audit services are services other than audits or attestation engagements, including but not limited to providing analysis, research, and review. In order to maintain independence, non-audit services to the extent practicable will not include operational duties.

FOLLOW-UP REVIEWS

Internal audit will conduct audits to confirm that the recommendations from a sample of previous audits have been implemented. These serve to keep attention on the recommendations and to help ensure corrective action is taken.

ANTICIPATED BENEFITS:

The anticipated benefits of providing Internal Audit Services to the agency are:

Stronger Controls

Improved Risk Management

Cost Savings

Operational Ideas

Increased Efficiency

Improved Accountability

Improved Reporting

Upon approval of the audit plan, specific audit programs will be developed for each activity to be audited within the fiscal year and a plan to educate agency employees and disperse information regarding Internal Audit services will be created.

APPENDIX E

Performance Development Plan and Compliance Log

Quarterly Performance Development Plan for

Community Action Agency 2011 - 2013

Program

Qtr:

x	Oct-Dec
	Jan-Mar
	Apr-June
	July-Sept

Vested Leave Summary

Balance in	
Accrued this quarter	
Available to use	0
Will use this quarter	0

Holidays (list)
Leave (list)

Total hrs/days in this qtr.
Staff Person

Work hrs/days available this qtr.	0
Work hrs/days scheduled this qtr.	0

Year:

(put "X" in box)

Compliance	0
Program Improvement	0
Staff Development	0

MICA'S MISSION: Helping People. Changing Lives. Building Communities

The work I've done this quarter has made a difference in the lives of children and their families through:

[Redacted]

The work I've done this quarter has made a difference in the community through:

Staff Person

The work I've done this quarter has made a difference at MICA through:

[Redacted]

Employee Performance:

Compliance Responsibilities -

Comments:

[Redacted]

Work Quality -

Comments:

SUPERVISOR

Job Knowledge / Knowledge Growth

Comments:

Teamwork -

Comments:

Communication Skills -

Comments:

[Redacted]

Areas for Professional Growth:

Performance Issues to Be Addressed:

SUPERVISOR

Performance Review:

Met/Exceeded

Did Not Meet:

___ PDP Goals

___ Warning

___ Corrective Action

Quarter	Date Scheduled	Date Completed	Team member signature	Supervisor signature
1st Month				
2nd Month				
3rd Month				

Employee Comments:

Staff Person

APPENDIX F

Staff Development Webinars

CAA Staff Development Trainings

I. CAA Operations Module	<i>Team Leader Required</i>
--------------------------	-----------------------------

- a. Compensation Training
 - i. Over-time
 - ii. Holidays
 - iii. Breaks
 - iv. Leave Without Pay
 - v. Change Forms
- b. Fiscal Training
 - i. MICROIX
 - ii. Purchase Orders
 - iii. Audit Process Overview
- c. Strategic Planning
 - i. History of CAA – How Community Action was created
 - ii. ROMA (Results Oriented Management & Accountability)
 - iii. How PDP's tie into CAA's Strategic Plan
 - iv. CAA's Board of Directors and their role

II. Human Resource Module	<i>Team Leader Required</i>
---------------------------	-----------------------------

- a. Human Resources Training
 - i. Proper Workplace Practices
 - 1. Attendance
 - 2. Dress Code
 - ii. Proper Reporting of Discipline
 - iii. Benefits
 - 1. Short Term Disability
 - 2. FMLA
- b. Successful Hiring Practices - This course explains proper hiring procedures that help you select the right applicants while at the same time protecting yourself and your organization from discrimination and legal liability.
- c. Conducting An Effective PDP Session - You'll learn a step-by-step process that is sure to make your PDP reviews more effective.

III. Skill Development Module		
-------------------------------	--	--

- a. Time Management – Getting control of your time both at work and home can mean less stress and a better balance in your life.
- b. Productive Meetings - How to prepare and conduct effective meetings that will make sure you goals are achieved.
- c. The Team Approach – How to set up high-performance teams and be a contributor to team success.
- d. Conflict Resolution – How to be prepared for conflict among team members and resolving it effectively.
- e. Be Prepared to Lead - Leadership development is a process of gaining self-understanding and confidence.

CAA Staff Development Trainings

- f. Retention of Staff – How to retain the staff that you want to keep and the tools you need to be successful.
- g. Giving and Receiving Constructive Feedback – This will provide you with the 4 tools you need to remember when providing or receiving constructive feedback.
- h. Proper E-Mail Etiquette – This training will help you learn how to eliminate miscommunication, avoid mistakes, and come across as professional in your e-mail communications.

IV. Health and Safety Module	
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- a. De-escalation Training and Techniques – The purpose of this training is to provide education and instruction on how to identify and de-escalate an agitated client while keeping yourself and others safe.
- b. Workplace Ergonomics – Tips to prevent injuries and relieve discomfort.
- c. Stress Management – You will learn about the causes of stress and proven ways to lessen its negative impacts in the workplace.
- d. Healthy Back 101 – This course will tackle back pain by looking at total back fitness and how to prevent back problems from occurring.

V. Computer Training	
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- a. Microsoft Word
- b. Microsoft Outlook
- c. Microsoft Excel
- d. Microsoft PowerPoint

APPENDIX G

Weatherization Quality Control Sheet - Intake Compliance Review

Weatherization Quality Control Sheet – Intake Compliance Review

(The circled items must be corrected/completed)

Head of Household Name: _____

Application Date: _____

Social Security #: _____

Own: ___ Rent: ___

1) Weatherization Application complete and in file ___ / Not complete ___

___ Form missing from file

___ Missing/incorrect information on Form – Specify: _____

___ Income not calculated correctly

___ Signature(s)/date(s) missing – Specify: _____

2) Income documentation supports amount stated on Weatherization Application ___ Income eligible ___

___ Documentation missing from file

Income ineligible ___

___ Income amount shown on application **not supported** by documentation – Specify: _____

3) Identification Documentation in file ___ Specify type: _____

___ Documentation missing from file – Specify: _____

4) Proof of Ownership Documentation in file* ___ Specify type: _____

___ Documentation missing from file (* - see back of form) Last name matches name on Application:

___ Yes/ ___ No

5) Acknowledgment of Receipt of Pamphlets Form complete and in file ___ / Not complete ___ (“Protect Your Family from Lead in Your Home” or “Renovate Right” and “A brief Guide to Mold, Moisture and Your Home” pamphlets.)

___ Form missing from file

___ Missing information on Form – Specify: _____

6) Owner/Authorized Agent Certification (Attachment 2-4) complete and in file ___ / Not complete ___ /Not applicable ___ (* - only to be used for rental units.)

___ Form applicable but missing from file

___ Missing information on Form – Specify: _____

7) Re - verification of Income Form complete and in file ___ / Not complete ___ / Not applicable ___ (* - only to be used when Weatherization Application is more than one year old at the time of the weatherization audit.)

___ Form applicable but missing from file

___ Missing information on Form – Specify: _____

8) Physician’s Statement complete and in file ___ / Not complete ___ / Not applicable ___ (* - For emergency responses if client faces a health-threatening situation directly related to physical condition of the home. The physician’s statement must be **signed** by a **qualified medical provider**. Also required for **Air Conditioner Health & Safety Repair/Replacement**)

___ Form applicable but missing from file

___ Form not signed by a qualified medical provider (medical doctor)

__ Other information missing from Form – Specify:

9) Disaster Certification Form complete and in file __ / Not complete __ / Not applicable __ (* - only to be completed when a client requests disaster assistance.)

__ Form applicable but missing from file
__ Missing information on Form – Specify:

10) Rental Weatherization Participation Letter complete and in file __ / Not complete __ / Not applicable __ (* - only to be used for rental units.)

__ Letter applicable but missing from file
__ Missing information on Letter – Specify:

Cash contribution required from landlord __/Not applicable (landlord income is at or below 200% of fpl)

__ Copy of Cashier's Check/Money Order in file __ / Copy of Cashier's Check/Money Order NOT in file __

11) Landlord Proof of Income Documentation complete and in file __ / Not complete __ / Not applicable __ (* - only to be used if owner/landlord's annual taxable income is at or below 200% of the federal poverty level.)

__ Documentation applicable but missing from file
__ Missing information on Documentation – Specify:

12) Utility Bill(s) clearly showing client's account number complete and in file __ / Not complete __ (files should contain the electric provider fuel bill and also a copy of the primary heat source fuel bill if different than the electric provider.)

__ Bill(s) missing from file
__ Missing information on Bill(s) – Specify:

13) Weatherization Acknowledgment of Warranties Form complete and in file __ / Not complete __

__ Form missing from file
__ Missing information on Form – Specify:

14) Section 106 Form: Intake Review Section complete __/Not complete __ / Home is less than 45 years old __

__ Missing information on Form – Please check as appropriate: __H of HH name __Date __ARRA File #
__ Address __ Data Source

15) Affidavit and Self-Certification of No Proof of Income Form complete and in file __ / Not complete __ / Not applicable __ (* - only to be used after all other avenues of documenting income eligibility are exhausted.)

__ Documentation applicable but missing from file
__ Missing information on Documentation – Specify:

__ Evidence of attempts at proving eligibility contained in file __ Evidence NOT contained in file
__ Claiming Zero Income (If so, Application CANNOT indicate ANY income Source)

16) Applicant Social Security Documentation complete and in file __ (SSN#s of all household members is not required)

__ Documentation missing from file

Year Home Built _____

Compliance - QC Initials: _____

File Audit Date: _____

* **Proof of Ownership** may include, but is not limited to, a copy of the recorded Missouri Deed, a mortgage agreement, proof of payment of property taxes, a copy of a current homeowner's insurance policy, a title or mortgage agreement for a mobile home, a **Contract for Deed** or a **Probate Property Transfer Application & Affidavit**.

Contract for Deed is an allowable document to provide proof of home ownership; however the contract must be recorded with the County Recorder of Deeds Office in the county where the home is located. The client must provide a copy of the recorded contract or an agency employee may verify that the contract has been recorded on the property's deed by contacting the County Recorder of Deeds Office. This verification must be included in the client's file. If the Contract for Deed is not recorded, then the home must be considered a rental unit and rental procedures and policies would apply.

Probate Property Transfer is defined as any application received from an elderly person (or people) for whom the applicant has deeded the property to his or her offspring. The application will be reviewed for assurance that the property transfer took place in an effort to prevent probate issues. Provided proper assurances are in place, the property may be treated as "owned property" for purposes of weatherization. The proper assurances will include an interview with the applicant to determine why the property was deeded. If the response is appropriate to the issue, the offspring must sign an affidavit that they will not charge rent or displace the applicant as a result of weatherization. Each application must be reviewed on a case-by-case basis. In the event there are no related offspring to whom the property may be deeded, the ownership decision will be based on the interview. In any event, the "grantee" to the property must sign the appropriate affidavit.