



COE DEVELOPED CSBG
ORGANIZATIONAL STANDARDS

Category 8 Financial Operations & Oversight

IN PARTNERSHIP WITH
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Introduction

The purpose of this technical assistance guide is to help a Community Action Agency (referred to as a CAA or agency) assess its compliance with Category Eight of the Organizational Standards (8.1-8.13) that pertain to financial operations and oversight.

This category focuses on the financial management of the agency in a prudent manner. Sound financial management of an agency is required to appropriately steward the use of public resources. CAAs use public funds to carry out a public mission. How those funds are used impacts the public's willingness to continue to support these entities through further public support. Stewardship of resources is part of the implied contract that an agency has with the public. In short, the wise use of financial resources today helps sustain financial resources into the future.

It should be noted that private non-profit organizations are not profit oriented businesses, but this does not mean a financial bottom line is not important to a non-profit organization. If an agency is unable to balance the resources it has available with the expenditures that it incurs, the agency will cease to exist in short order. Rather, for a non-profit organization we frequently refer to the "double bottom line." This means the agency must consider the financial bottom line as it delivers its mission bottom line. Unlike a typical for-profit business, the output or deliverables for a CAA is the quantity and quality of the mission it delivers. The amount of mission that can be accomplished is limited by the financial resources available to produce that mission. The typical need in a community for the services delivered by an agency almost always outstrips the resources and capacity of the agency to provide those services. Prudent financial management is all about maximizing the delivery of services to meet mission through the best possible use of available financial resources.

Another important factor in this equation is the role of the agency's governing board. Boards play a significant role in monitoring the finances and financial management of the agency, a fact that is reflected in many of the Standards in Category Eight. Stewardship by both the board and agency is validated by having standards of accountability in place and following them. In the case of accountability for CAAs, this means having accountability at both the agency and board level to ensure that the organization is complying with the Organizational Standards, legal requirements, and sound management practices.

First, this requires a clear set of policies and procedures that (if followed) will ensure the agency is making decisions at the right level, appropriate internal controls are operating, and that, as a non-profit organization, decisions are made in a transparent manner. Agencies that administer CSBG funds should have a set of policies and procedures related to Board activities, employee conduct, and financial transactions. Policies related to the first two activities are found elsewhere in the Organizational Standards. The issues of financial operations and oversight are investigated in this category. Specifically, the standards related to policies and procedures are contained in:

- **Standard 8.10:** The fiscal policies have been reviewed by staff within the past 2 years, updated as necessary, with changes approved by the governing board.
- **Standard 8.11:** A written procurement policy is in place and has been reviewed by the governing board within the past 5 years.

- **Standard 8.12:** The organization documents how it allocates shared costs through an indirect cost rate or through a written cost allocation plan.
- **Standard 8.13:** The organization has a written policy in place for record retention and destruction.

Of course, having the best written policy and procedure manual is irrelevant if those policies and procedures are not adhered to by the organization. The means by which the organization proves to its board and to outside interested parties, be they funders or the general public, that policies and procedures are in fact being followed, is through an audit. An audit is an assessment by an independent organization (a Certified Public Accounting firm) that the agency has followed its policies and procedures on a consistent basis and is in compliance with the laws and regulations required of organizations handling Federal and state grant funds. The Organizational Standards that deal with the audit are:

- **Standard 8.1:** The organization's annual audit (or audited financial statements) is completed by a Certified public Accountant on time in accordance with Title 2 of the Code of Federal Regulations, Uniform Administrative Requirements, Cost Principles, and Audit Requirements (if applicable) and/or State audit threshold requirements.
- **Standard 8.2:** All findings from the prior year's annual audit have been assessed by the organization and addressed where the governing board has deemed it appropriate.
- **Standard 8.3:** The organization's auditor presents the audit to the governing board.
- **Standard 8.4:** The governing board formally receives and accepts the audit.
- **Standard 8.5:** The organization has solicited bids for its audit within the past 5 years.

In addition to the rigors of an annual audit by outsiders, it is also important that the board constantly stay apprised of the on-going financial position of the organization. This ensures that the agency is balancing expenditures and available resources and maintaining the financial health of the entity. There are many ways that boards carry out their fiduciary responsibilities layered throughout the Organizational Standards. Specifically related to the financial aspects, the Boards role includes approving a budget, which is really a financial plan for the agency, and continually monitors progress against that financial plan throughout the year. The Organizational Standards relating to this important oversight role are:

- **Standard 8.9:** The governing board annually approves an organization-wide budget.
- **Standard 8.7:** The governing board receives financial reports at each regular meeting that include the following:
 1. Organization-wide report on revenue and expenditures that compares budget to actual, categorized by program; and,
 2. Balance sheet/statement of financial position

A final area for an agency to appropriately steward its operations is to comply with the necessary laws, regulations and contracts relevant to the agency. The Organizational Standards specifically call out two requirements related to compliance with governmental regulations. These are:

- **Standard 8.6:** The IRS Form 990 is completed annually and made available to the governing board for review.

- **Standard 8.8:** All required filings and payments related to payroll withholdings are completed on time.

Before delving into each of these Standards, key concepts related to the assessment process for evaluating an agency's adherence to these elements will be pursued. Accordingly, the next three sections address each of the Organizational Standards in this category and provide resources to help an agency:

- Understand the intent and definition of the Standard;
- Identify materials to document compliance with the Standard;
- Benchmark and evaluate performance with regards to the Standard; and
- Access supports to help with compliance and improve performance.

Considerations for the Assessment Process

This section of the Technical Assistance Guide provides questions to help agencies think through the planning of the assessment process. Questions to consider before the assessment process begins include:

- **Who should be involved in the assessment process?** The financial management and operations of an agency are technical in nature and may require a team of individuals with specific skill sets to ascertain compliance with these standards. The review team for these standards should certainly include the finance team, or representatives, a board member that possesses a financial background, and potentially an outside member with financial expertise, perhaps a representative of the agency's audit team.
- **Is the assessment process for Category Eight connected to the overall process for assessing the Organizational Standards?** All of Organizational Standards overlap to a certain degree. Perhaps Category Eight is one of the categories that stands more on its own than some of the others. Financial operations can be more technical and specialized than some of the other areas leading to a category that is more unique. For this reason, it is important for members of the review team responsible for this Standard to coordinate their efforts with staff working on other categories to ensure a shared understanding of the assessment process and consistency in documentation and record keeping.
- **What are there opportunities to incorporate the assessment process into related activities?** The agency should look for opportunities such as the audit process or significant budget review event to "fold in" assessment activities. Combining the documentation of Standards in Category Eight increases efficiency and provides an additional level of oversight for the process.
- **How much effort will be required in the assessment process?** The agency should consider at the start of the process to what extent it will use the resources to go "beyond compliance" included in this Guide. If the agency has had findings on a previous audit or experienced issues with its finances or financial management, the a fuller consideration of the resources, diagnostic questions, and suggested practices included in the Guide may help the agency respond to such challenges.

When the team is assembled and ready to begin the assessment process, there may be additional questions to consider, including:

- **How will the team assess whether the standards are met?** The team should gather an understanding of the most recent financial operations requirements by reviewing the grant agreements that are in place for the current period. Also, the team should be aware of the most recent Federal and state requirements by reviewing the official guidance provided to all grant recipients from the Federal websites and consultation with state staff. Finally, consulting with the agency's auditor will provide an overview of the most recent audit standards for reporting.
- **How will the staff document compliance with the standards?** Staff should determine how they will record the results of the assessment and organize related files and materials to document compliance. The *Assessment Worksheet Template* included at the end of this Guide offers one option. One additional option is to maintain a file (paper or electronic) with all of the documents required by this section. Creating a portfolio of required forms and reports can be used to easily verify compliance with this section.
- **How will staff manage recommendations that result from the assessment process?** If the team determines that any of the required forms or reports mandated by government entities have not been prepared or filed, immediate action should be taken to notify top management and to ensure that the appropriate action is taken. If forms, statements or reports required by the standards are not present, the omission should be noted, best practices researched and a plan prepared to address the problem.
- **How will staff archive results from the assessment process?** When the assessment of the Standards is complete, staff should archive the results with those of the other categories. A good archive will include notes on how the assessment was conducted, who participated, any issues or "lessons learned" that are helpful to note for future assessments, and clear instructions for how to find all documents and materials referenced in the findings. As previously mentioned, it may be beneficial to create a portfolio of reports and schedules. As other agencies are trying to meet the Standards, a review of "best practices" by others may reveal example formats of reports or schedules that would be helpful to reference. After obtaining the appropriate permission from the originator of the format, it may be advisable to add these templates to the portfolio as well for future assessments.

Category 8 Standards

- Standard 8.1** The Organization's annual audit (or audited financial statements) is completed by a Certified Public Accountant on time in accordance with Title 2 of the Code of Federal Regulations, Uniform Administration Requirements, Cost Principles, and Audit Requirement (if applicable) and/or State audit threshold requirements.
- Standard 8.2** All findings from the prior year's annual audit have been assessed by the organization and addressed where the governing board has deemed it appropriate.
- Standard 8.3** The organization's auditor presents the audit to the governing board.
- Standard 8.4** The governing board formally receives and accepts the audit.
- Standard 8.5** The organization has solicited bids for its audit within the past 5 years.
- Standard 8.6** The IRS Form 990 is completed annually and made available to the governing board for review.
- Standard 8.7** The governing board receives financial reports at each regular meeting that include the following:
1. Organization-wide report on revenue and expenditures that compares budget to actual, categorized by program; and
2. Balance sheet/statement of financial position.
- Standard 8.8** All required filings and payments related to payroll withholdings are completed on time.
- Standard 8.9** The governing board annually approves an organization-wide budget.
- Standard 8.10** The fiscal policies have been reviewed by staff within the past 2 years, updated as necessary, with changes approved by the governing board.
- Standard 8.11** A written procurement policy is in place and has been reviewed by the governing board within the past 5 years.
- Standard 8.12** The organization documents how it allocates shared costs through an indirect cost rate or through a written cost allocation plan.
- Standard 8.13** The organization has a written policy in place for record retention and destruction.

8.1 The Organization's annual audit (or audited financial statements) is completed by a Certified Public Accountant on time in accordance with Title 2 of the Code of Federal Regulations, Uniform Administration Requirements, Cost Principles, and Audit Requirement (if applicable) and/or State audit threshold requirements.

A. Guidance on the Definition and Intent of the Standard

An audit is the professional opinion of a certified public accountant (CPA) that the financial statements of an organization are fairly presented in accordance with generally accepted accounting principles. First, an audit is an opinion, it is not a fact. An audit is not a guarantee. The auditor's opinion is based on a review of a sample of transactions during the year and extrapolates that sample to make an assessment on all the transactions conducted by an agency in the whole year. It is not possible for an auditor to review each and every transaction entered into over a year's time without having an audit fee that would be unrealistic.

The opinion is rendered by a CPA, or in some states a public accountant. CPAs are licensed by the state and is an official designation. A person without a license as a CPA cannot issue an audit opinion. Having someone "review" a set of transactions for the agency does not qualify as an audit. The auditor provides an opinion that the statements are fairly presented, not that the statements are perfectly correct. A key term that is used in audits is "materiality." This means that there is some latitude in terms of what is fair. A number does not have to be exact to be fairly presented. The key is whether the user would make different conclusions about the financial condition of the organization.

Finally, generally accepted accounting principles (GAAP) is the framework that governs the accounting rules used in the audit. GAAP is a defined set of rules created to make financial statements comparable between entities and amongst the accounting profession. This standardization eliminates inconsistencies amongst CPAs. It is the means to make financial information as comparable as possible.

An audit is a recognized way to ensure accuracy in the financial reporting process. Audits are used in the private sector to enhance accountability. Audits are a trusted and reliable means to enhance this accountability for non-profit organizations as well. Accordingly, *The Uniform Guidance* in paragraph 200.501 requires "A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part."

Specifically, CAAs are required to have a Single Audit. This differs from a financial statement audit in that additional procedures are conducted to assess the entity's use of internal controls and its adherence to compliance with laws, regulations and specific grant or contract requirements. The outcome of a single audit will include an opinion of the fairness of the financial statements, limited reporting on the internal controls of the organization and an opinion on whether the entity is complying with the specific requirements around how the Federal money is used.

B. Guidance on Compliance and Documentation

The review team should always begin the process of documenting compliance with the Organizational Standards by reviewing all available guidance from the State CSBG Office on the interpretation of the standard and required documentation. The review team should also consider any State requirements for audit. Additionally, specific contracts or grants may include more detailed testing than is standard audit procedures or thresholds that vary from the Federal \$750,000 level of expenditures. Specific issues the review team should consider that may affect compliance with Standard 8.1 include:

- **Differences in State requirements for the size of expenditures requiring audit.** Some states have expenditure limits other than the Federal limit of \$750,000 that require an audit. To be in compliance with all grants, it may be necessary to obtain an audit even if expenditures do not meet the Federal threshold.
- **Differences in State reporting requirements.** Some states have reporting requirements that differ from Federal standards. It is important to understand any variances from the Federal requirements to determine if all required reporting has been completed and whether the format is correct.
- **Additional requirements to the audit report to be considered complete.** In addition to the audited financial statements, the auditee must also submit a summary report to the clearinghouse to be considered properly filed.
- **Timing requirements for filing.** The Federal requirements mandate the submission of the audit report within nine months of the entity's fiscal yearend. The audit and related information must be filed with the Federal and state agencies in order to be considered complete.

There are two types of documentation required to show that an agency is in compliance with Standard 8.1. This includes (1) documentation that confirms an agency has completed an audit, and (2) documentation that confirms the agency has filed the report in a timely manner. Documentation for the first might include:

- A physical copy of the audit report and related information, or
- An electronic copy of the audit report and related information.

Documentation for the second might include:

- An electronic "receipt" from the Federal Clearinghouse showing the date the audit report was submitted was within the nine month deadline, or
- A letter or other correspondence from a state agency acknowledging receipt of the audit and related information within the nine month deadline (or earlier if required by the state)

C. Beyond Compliance: Benchmarking Organizational Performance

It is strongly suggested that the review team use the questions and resources in this section to conduct an evaluation of the audit report. Such options might include:

- **What type of opinion on the financial statements was received?** There are multiple possible opinions that the auditor may provide. The most desirable opinion is an unmodified opinion. This presents the auditor's opinion that the financial statements are fairly presented in accordance with generally accepted auditing standards. If the opinion is other than unmodified, follow-up by the review team should include an assessment of management's action plan to correct any deficiencies.
- **Were there any findings noted in internal control and compliance reports?** If either of the other two major opinions in the audit indicated an instance of non-compliance or an internal control weakness, management's plan to address the situation should be reviewed.
- **Does the financial information presented in the audit report reflect the financial information previously presented to the governing board?** The information presented in the audit should be comparable to the on-going financial information presented to the board. If there is a significant discrepancy, an explanation should be received and evaluated by the review team.
- **Did the letter to governing board indicate any difficulties encountered in conducting the audit?** As part of the audit, the auditor is required to prepare a communication to the board indicating how the audit process went. This includes any difficulties encountered by the auditors and any disagreements between auditors and agency staff.

D. Resources

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
<http://www.ecfr.gov/cgi-bin/text-idx?SID=0d9415f781ec5b75b44308ec5b21b67e&mc=true&tpl=/ecfrbrowse/Title02/2chapterII.tpl>

Audit Essentials: What Every Board Member Needs to Know. Community Action Partnership.
https://www.dropbox.com/s/egpkggbzi8fb7ei/Audit%20Essentials%20What%20Every%20Board%20Needs%20To%20Know_FINAL.pdf

Audit Essentials: What Every Board Needs to Know (Recorded Webinar)
<https://communityactionevents.webex.com/communityactionevents/lsr.php?RCID=923065220a1b1b16101abcbf41730696>

8.2 All findings from the prior year's annual audit have been assessed by the organization and addressed where the governing board has deemed it appropriate.

A. Guidance on the Definition and Intent of the Standard

The conduct of the audit and receipt of the related audit report is the first step in the accountability cycle of a CAA. The audit report and related information must be submitted to the Federal Audit Clearinghouse (FAC) as well as any necessary state agencies. However, the audit cycle is not complete simply upon submission of the report. How the information presented in the report is processed and what is done with the conclusions of the audit are perhaps more important than the audit report itself.

Regardless of how excellent an agency's systems are, a malfunction or error in any system is a possibility. While it is important to strive for perfect compliance in administering Federal and state programs, the occasional error or finding in an audit report is not a catastrophe. How the agency responds to a finding is the true sign of a strong agency.

When the audit is complete, the board should receive the audit report and management should provide any plans necessary to address any findings noted in the audit. This level of accountability is one of the key roles for the governing board. The process of reviewing the audit report and ensuring the appropriateness of the response indicates a high level of functionality of the board.

The Department of Health and Human Service's Grants Policy Statement states very clearly "Recipients must follow a systematic method for ensuring timely and appropriate resolution of audit findings and recommendations, whether discovered as a result of a Federal audit or a recipient-initiated audit." Further, "Failure to submit timely responses may result in cost disallowance or other actions by HHS or OPDIV."

The Uniform Guidance also clearly states "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings. The auditee must also prepare a corrective action plan¹ for current year audit findings." (Paragraph 200.511)

If a finding from a prior year is not appropriately addressed by an entity before the next audit, the lack of timely response becomes even more significant. If this occurs, the entity would then have two findings in the subsequent audit. The first would be the original finding and the second would be that there was no system in place to resolve findings and make corrections.

The need for the board to review findings and ensure action has been taken is included as an element of the Organizational Standards to ensure that governing boards are actually looking at and using the information contained in the audit report. This oversight provided by the Board ensures a high level of accountability and is one of the important tasks for the board to perform.

¹ Please note that the terminology "corrective action plan" in this case is a technical term used in the audit process, and should not be confused with quality improvement plans or similar terms used by State CSBG Lead Agencies in monitoring and oversight processes.

B. Guidance on Compliance and Documentation

The review team should always begin the process of documenting compliance with the Organizational Standards by reviewing the most recent audit, specifically the Schedule of Findings and Questioned Costs. If not contained in the audit report document, the review team should also consult the Corrective Action Plan(s) prepared by management in response to audit findings and questioned costs. Specific issues the review team should consider that may affect compliance with standard 8.2 include:

- **Did the audit contain any findings and/or questioned costs?** It is possible that the agency did not have any findings or questioned costs as a result of the audit. The Board should still have reviewed the audit report to determine that this was in fact the case.
- **Were the corrective action plans actually submitted to appropriate audit oversight entity?** Many CAAs have multiple funders and oversight agencies. It is important that the right corrective action plans were submitted to the correct organization to ensure that the deficiency can be appropriately cleared.
- **Was the corrective action plan prepared actually adequate to resolve the issue identified?** Simply because a corrective action plan was prepared, does not necessarily mean the plan is adequate to address the finding. An analysis must be done by the review team as to the appropriateness and completeness of the corrective action plan. Communication with the appropriate oversight agency, such as a state funding agency, may be a good resource to help ascertain the adequacy of the response and ensure the agency has adequately assessed the situation.
- **Was the finding actually a legitimate finding?** Simply because the auditor has indicated an issue is a finding does not always mean the finding is appropriate or correct. Before adopting a corrective action plan, it is vital that management has considered the appropriateness of the finding. Each finding is required to contain a citation as to the regulation that has been violated. If the finding does not contain this citation, or there appears to be a misunderstanding of the facts, it is important that management document its position and follow up with the auditor to reach resolution. The review team should not need to do the follow up process, but rather should review the documentation of this process to confirm the agency has assessed the finding.

There are two types of documentation required to show that an agency is in compliance with Standard 8.2. This includes (1) documentation that confirms an agency has prepared responses to or otherwise assessed any audit findings, and (2) documentation that confirms the agency has reviewed its corrective action plan with the governing board. Documentation for the first might include:

- A physical or electronic copy of the corrective action plan(s) that have been prepared in response to any audit findings

Documentation for the second might include:

Highlighted copies of the official minutes of the meetings of the board indicating the response by management to the audit findings and indicating the board's acceptance of its corrective action plan(s).

C. Beyond Compliance: Benchmarking Organizational Performance

To assess how the agency addresses findings from the audit process, the review team should focus on how the finance department, senior leadership, and the board have dealt with previous audit findings. In addition, the review team can consider:

- **Does the agency routinely request a management letter as part of the audit report?**
In addition to the audit report, a management letter is also frequently issued as part of the audit. Although the management letter is not a required component, it is still considered a deliverable of most audit engagements. It is also possible for the board to specifically request a management letter of the auditor as part of the audit process. The management letter contains recommendations for improvement in operations. These recommendations are items that do not rise to a finding but rather may be a recommendation for improvement in a process to enhance compliance or productivity. If a management letter is received, it should be reviewed as part of this process as well. A formal corrective action plan is not required for comments in a management letter, but some other proof that management has adopted the recommendations suggested by the auditor or that the recommendations were considered but not deemed advantageous should be available in a written form.

D. Resources

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
<http://www.ecfr.gov/cgi-bin/text-idx?SID=0d9415f781ec5b75b44308ec5b21b67e&mc=true&tpl=/ecfrbrowse/Title02/2chapterII.tpl>

Audit Essentials: What Every Board Member Needs to Know
https://www.dropbox.com/s/egpkggbzi8fb7ei/Audit%20Essentials%20What%20Every%20Board%20Needs%20To%20Know_FINAL.pdf

8.3 The organization's auditor presents the audit to the governing board.

A. Guidance on the Definition and Intent of the Standard

The appropriate relationship for the auditor is to report to the governing board, not the agency staff. The audit engagement letter (written contract with the auditor to provide audit services) should be signed by the Board Chair, or perhaps the Board Treasurer. Sometimes out of convenience the reporting relationship is between the auditor and the agency's Executive Director or Chief Finance Officer. This reporting relationship is not appropriate.

The importance of the auditor reporting directly to the board cannot be overstated. As the board is ultimately responsible for the performance of the organization, they have a fiduciary responsibility to ensure their role in financial oversight of the organization is fulfilled. If the auditor reported to someone other than the board, the board would not be able to fulfill this key role of responsibility.

As a result of this key reporting relationship, the auditor should report out to the board or potentially an audit committee of the board, at the conclusion of the audit process. This report out on the results of the audit ensures that the board is receiving a direct and fair assessment of the audit process. This transparency in the audit process means there is no room for misinterpretation of what the auditor said or meant. This method of reporting gives the board the opportunity to receive clarification on any issue or language that may be other than completely clear.

This is also the first step necessary to highlight any findings or areas of improvement that may be noted by the auditor. As discussed above, the board bears the responsibility to ensure that findings are followed up on and corrected. By requiring the auditor to report to the board at the conclusion of the audit, the board is made aware of any issues that it will need to pursue and ensure are remedied.

B. Guidance on Compliance and Documentation

One place for the review team to begin their process of documenting compliance with Standard 8.3 is to read through the presentation made to the governing board. Some entities have audit committees of the board. These audit committees are comprised of board members of the governing board, but may also include other topic matter experts. These other experts may include other certified public accountants (not involved with the firm conducting the audit of the entity), retired financial experts, or finance officers at other non-profit or for-profit organizations. If an Audit Committee exists, it is typically the first body that would receive a presentation from the auditors. A committee allows a detailed conversation and discussion with auditors on the audit process, any findings and areas for improvement in operations and finance. Issues the review team should consider given this include:

- **The auditor presents the audit to a committee of the board but not the full board itself.** This standard requires presentation to the governing board. Even if a presentation is made to an Audit Committee, that does not meet the organization standard requirement. Typically, if an Audit Committee exists, they receive a detailed presentation and discussion

with the auditors. Then the presentation to the governing board may be more consolidated and abridged. It is a requirement that the full board be appraised of the results of the audit process, but this does not require that the full board receive the same level of detail that was discussed with the committee. Board members should be given adequate time to process the outcome of the audit and be allowed to ask clarifying questions of the auditor.

The form of the presentation is not dictated by the organization standards. The presentation may be the auditor stepping through the audit report and related information from printed or electronic versions or a PowerPoint or similar synopsis of the audit process and results. Either of these methods meets the standard requirements as long as the board is informed directly by the auditor of the audit results.

Further, the method of presentation is not stipulated in the organizational standard. Sometimes the auditor is not located near the entity. In such cases, the presentation can be conducted through the use of technology. This may be as simple as a conference call via telephone or some interactive webinar or conferencing method.

The documentation to verify compliance with Standard 8.3 would include documentation evidencing the discussion with auditors actually took place. Some State CSBG Lead Agencies may also require documentation of the audit report's contents, so the review team should confirm whether this is the case prior to any monitoring. Documentation that the audit has been presented to the board might include:

- Agenda of the governing board with the required item
- Minutes from the governing board meeting with highlights of the discussion

Documentation of the audit report's contents might include:

- Printed or electronic copy of a PowerPoint or similar type presentation presented to the Board
- Copies of handouts or other printed media presented to the Board

C. Beyond Compliance: Benchmarking Organizational Performance

The review team can consider a number of questions when assessing how the board is involved with the audit process and results. These include:

- **Does the board have an audit committee?** An audit committee provides a structure that ideally helps a board take a “deeper dive” into the audit results. In addition to serving as the liaison to the full board during the audit process, such a committee can use the results of the audit – even if there are no findings – to make recommendations to the agency on how to improve the effectiveness and efficiency of its financial systems and processes.
- **Does the board have adequate training on interpreting the audit?** Most boards usually only have one or two members with a background in accounting or finance. Providing the board with basic training in how the audit process works, how to interpret financial statements, and how to interpret audit results builds overall board capacity and increases their ability to provide oversight and guidance to the agency.

D. Resources

Audit Essentials: What Every Board Member Needs to Know

[https://www.dropbox.com/s/egpkggbzi8fb7ei/Audit%20Essentials What%20Every%20Board%20Needs%20To%20Know_FINAL.pdf](https://www.dropbox.com/s/egpkggbzi8fb7ei/Audit%20Essentials%20What%20Every%20Board%20Needs%20To%20Know_FINAL.pdf)

8.4 The governing board formally receives and accepts the audit.

A. Guidance on the Definition and Intent of the Standard

The Board serves an important role to ensure the adequacy of the financial stewardship of the organization. As previously discussed, this is exemplified through the audit process, which serves as an outside validation of the financial reporting, internal control and compliance of the organization. After receiving the report from the auditors, the Board should take formal action receiving and accepting the audit. This process shows the Board has accepted the results of the audit and commits itself to take action to correct any issues noted in the report.

B. Guidance on Compliance and Documentation

The review team should always begin the process of documenting compliance with the Organizational Standards by reviewing all available guidance from the State CSBG Office on the interpretation of the standard and required documentation. Specific issues the review team should consider that may affect compliance with Standard 8.1 include:

- **The governing board receives but does not accept the audit.** This situation may occur in two types of cases. In the first, the board may receive the audit but not use a formal process to accept it. If the review team finds this to be the case, the agency may call a special meeting of the board to formally accept the audit or wait until the next board meeting if there is time before the agency is officially monitored. In the second case, the board may not accept the audit because of a dispute with the auditor or a specific finding. In this case, the agency should apprise the State CSBG Lead Agency of the situation at the earliest reasonable time before the monitoring process begins to make arrangements for how to address the issue.

Standard 8.4 requires two types of documentation that include (1) evidence that the board has formally received the audit, and (2) evidence that the board has formally accepted the audit. Examples of both types of documentation might include:

- Board minutes indicating receipt and acceptance of the audit, or
- A formal communication from the board to the agency confirming it has received and accepted the audit.

C. Beyond Compliance: Benchmarking Organizational Performance

Given the similarity between Standards 8.3 and 8.4, the review team can assess this Standard with the same criteria suggested in the discussion of 8.3.

D. Resources

Audit Essentials: What Every Board Member Needs to Know

[https://www.dropbox.com/s/egpkggbzi8fb7ei/Audit%20Essentials What%20Every%20Board%20Needs%20To%20Know_FINAL.pdf](https://www.dropbox.com/s/egpkggbzi8fb7ei/Audit%20Essentials%20What%20Every%20Board%20Needs%20To%20Know_FINAL.pdf)

8.5 The organization has solicited bids for its audit within the past 5 years.

A. Guidance on the Definition and Intent of the Standard

The board has the relationship with the auditor and accordingly is responsible for selection of the auditor. All existing entities have a current auditor and the easy course of action is to simply continue that relationship going forward. The Organizational Standards require that CAAs solicit bids for its audit at least every five years. This does not necessarily mean that audit the firm must be changed every five years, but rather that a process was conducted to solicit and review bids.

Solicitation is the act of procuring a good or service. Instead of contracting with last year's auditor automatically, the board should determine how long the current auditor has been conducting the audit. If the auditor has been providing audit services for five years or more since a procurement of the services was last conducted, a new procurement process should be initiated before the audit engagement letter is renewed with the current auditor.

The procurement process should follow the entity's procurement policy. Specifically related to the procurement of audit services the *Uniform Guidance* has suggested elements that should be considered in this process. "When procuring audit services, the objective is to obtain high-quality audits. In requesting proposals for audit services, the objectives and scope of the audit must be made clear and the non-Federal entity must request a copy of the audit organization's peer review report which the auditor is required to provide under GAGAS. Factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of peer and external quality control reviews, and price. Whenever possible, the auditee must make positive efforts to utilize small businesses, minority-owned firms, and women's business enterprises, in procuring audit services..." (Paragraph 509)

The same paragraph of the *Uniform Guidance* provides a restriction on the selection process as well. "An auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the audit required by this part when the indirect costs recovered by the auditee during the prior year exceeded \$1 million."

The purpose of this process is to ensure that the auditor still possesses the unique qualifications and skills to conduct this particular type of engagement – a single audit. Perhaps more important is that this periodic review ensures the auditor is still independent with respect to the entity. Over time, relationships can develop between the auditor and the finance staff of the agency. As the auditor reports to the board and helps the board meet its oversight responsibility, it is paramount that the auditor understands that their only reporting relationship is to the board. This procurement helps solidify the independent role of the auditor.

B. Guidance on Compliance and Documentation

The review team should always begin the process of documenting compliance with the Organizational Standards by reviewing all available guidance from the State CSBG Office on the interpretation of the standard and required documentation. The review team should also review any State requirements for audits. Specific issues the review team should consider that may affect compliance with standard 8.5 include:

- **Are there differences in State reporting requirements?** Some states may have auditor selection requirements or maximum timeframes that differ from Federal standards. It is important to understand any variances from the Federal requirements to determine if the agency is in compliance with the required state rules, if any. Some states may require a more frequent schedule of auditor solicitation.
- **Does the entity actually have to change auditors every five years?** The standard does not require that the entity actually change auditors every five years. Rather the standard requires that bids for the audit are solicited at least every five years. The procurement process should ensure that the auditor selected, whether it is the current auditor or a new auditor, meets the necessary professional experience requirements for the conduct of a single audit.
- **Is an informal process an acceptable alternative?** The standards require an official bid solicitation process in order to meet this standard. The entity should follow its procurement process, but anything other than an official solicitation would not meet the letter of the standard.
- **Does asking the current auditor to “bid” their fee qualify as a solicitation?** Simply asking the current auditor to provide a price quotation for the audit would not qualify as soliciting the audit. Although cost is typically one of the elements to consider in the procurement process, it is not the only one. Other factors such as experience with similar type engagements, professional understanding of the work to be completed, and peer review results must also be considered when determining the best auditor for the job.
- **Is asking only the current auditor to provide a bid adequate?** Federal procurement standards require maximum competition for purchases. Asking a single provider to bid for services would not meet the letter or intent of Federal requirements or the Organizational Standards.

Several documents may be required to show compliance with this standard which could include (1) documentation of the request for proposals for audit services, (2) responses from CPA firms to the request, and (3) scoring grid or evaluation sheet to document review of the proposals. For this reason, the review team confirm with the State CSBG Lead Agency which are necessary to show compliance with the Standard. Examples of these documents include:

- A copy of the request for proposals prepared by the agency and submitted to potential providers of audit services,
- Responses from the replying CPA firms to the request for proposals, and
- Scoring grid or evaluation sheet by entity’s personnel responsible for review of the proposals.

C. Beyond Compliance: Benchmarking Organizational Performance

It is strongly suggested that the review team use the questions and resources in this section to conduct an evaluation of the audit procurement process.

- **Were an appropriate number of audit firms solicited?** Although the Federal standards and most state standards do not require that a specific number of audit firms be included in the audit process, a reasonable attempt should be made by the agency to obtain the maximum competition possible. Did the entity advertise the request for proposal (RFP) for audit services? Did the agency send the RFP to firms that have a reputation for the conduct of single audits?
- **Where reasonable attempts made to include minority and woman owned firms and smaller audit firms in the process?** All procurements require a positive effort to include minority and woman owned firms and small businesses in the process. The method the entity used to include such firms should be reviewed for adequacy.
- **Did the winning firm best meet the stated criteria?** All RFPs are required to clearly state the basis on which the contract will be awarded. Is there clear documentation that the RFPs were reviewed in an appropriate manner and that the criteria were correctly adhered to in order to determine the most responsive firm to the RFP?

D. Resources

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
<http://www.ecfr.gov/cgi-bin/text-idx?SID=0d9415f781ec5b75b44308ee5b21b67e&mc=true&tpl=/ecfrbrowse/Title02/2chapterII.tpl>

American Institute of Certified Public Accountants Audit Practice Aid
<http://www.aicpa.org/interestareas/governmentauditquality/resources/auditeeresourcecenter/download>

SOUTHEAST MICHIGAN COMMUNITY ALLIANCE (SEMCA) Request for Audit Services
<http://www.semca.org/FinancialAuditServices2015RFP.pdf>

8.6 The IRS Form 990 is completed annually and made available to the governing board for review.

A. Guidance on the Definition and Intent of the Standard

In addition to the year-end audit, an information tax return must also be prepared as part of the conclusion of an agency's fiscal year. CAAs receive their tax exempt status from the Internal Revenue Service (IRS). Part of the social contract an agency has with the public is that it will be exempt from paying income taxes as long as it continues to adhere to its approved tax exempt purpose. As a requirement to maintain its tax exempt status the agency must file an annual informational return with the IRS.

Form 990 is the informational return that must be filed annually. Unlike a typical tax return, the form 990 has a focus on accountability and governance of the non-profit organization not determining a bottom line to compute income tax. Some of the sections contained in the Form 990 are:

- Program service accomplishments
- IRS filings and tax compliance
- Governing body and management
- Policies
- Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors
- Independent contractors
- Financial statements and reporting
- Funding sources

The annual filing of the Form 990 is an essential component of the operating cycle that the board needs to ensure the agency is in compliance with. A lack of filing can result in the elimination of the agency's tax exempt status, which would have a catastrophic impact on its finances. The filing deadline for the form is the 15th of the fifth month following the end of the agency's fiscal year, although it is simple to get a six month extension to file the return.

The return is also subject to public inspection after it is filed. Failure to comply with public inspection requirement can also have significant financial implications as well as being a major public relations embarrassment for the organization. This required availability of the form for public inspection helps the agency remain transparent related to its finances and governance structure.

In addition to the Form 990 for the IRS, many states have some sort of tax form like filing requirements in addition to the Federal requirement. This may also take the form of a non-profit registration or similar annual process. Some of the states require filings when certain hurdles are reached. For example, if entity revenues meet or exceed a certain dollar amount or if individual contributions are in excess of a certain level, return must be filed; otherwise, no filing is required.

B. Guidance on Compliance and Documentation

The review team should initially consult state taxing authorities or tax experts to learn what forms may be required by the state. Specific issues the review team should consider that may affect compliance with standard 8.6 include:

- **If the Form 990 was filed after the initial deadline but within the extended timeframe, does this qualify as timely filed?** As long as the form is filed by the extended deadline, the filing is considered timely filed. The extension is not automatic and an entity must apply for the extension in order for it to be legitimate.
- **If the Form 990 is reviewed by one or more, but not all, Board members, can the entity appropriately say that the Board has reviewed the form?** This would not meet the Organizational Standard. The entire board must receive an opportunity to review the form. The task of reviewing the form may be delegated to the Treasurer and/or Audit Committee, but each board member must have an option to review the return.

There are two types of documentation required to show that an agency is in compliance with Standard 8.6. This includes (1) documentation that confirms an agency has prepared Form 990, and (2) documentation that confirms the agency has made the form available for board review.

Documentation for the first might include:

- A physical or electronic copy of the form 990.

Documentation for the second might include:

- Board agenda;
- Board meeting packet;
- Board meeting minutes;
- Email to the Board members with required forms attached; or
- Physical log with Board signatures attesting to the fact they had reviewed the required forms

C. Beyond Compliance: Benchmarking Organizational Performance

It is strongly suggested that the review team use the questions and resources in this section to conduct a further evaluation of this standard. Such options might include:

- **Making the Form 990 available on the internet.** Some nonprofits post their tax return on their webpage to ensure the public inspection provision is met. The public disclosure mandates that if someone requests to see a copy of the Form 990, the entity must make it available for inspection. Posting the tax return on webpage heightens transparency.
- **Asking the board to review the return increases accountability.** One of the questions on Form 990 is “Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?” (Part VI, Section B, Question 11a) An agency should strive to answer ‘yes’ to this question, if appropriate. In other words, the entity should prepare, or have prepared the Form 990, then circulate it to all board members, before it is submitted to IRS. This review process gives the board an opportunity to provide

input to the return or ask questions related to transparency. This review also ensures the Board knows whether the return has been prepared or not. This is a level of accountability above simply having the return available for review.

D. Resources

IRS Form 990

www.irs.gov/pub/irs-pdf/f990.pdf

IRS Instructions for Form 990

www.irs.gov/pub/irs-pdf/i990.pdf

8.7 The governing board receives financial reports at each regular meeting that include the following:

- 1. Organization-wide report on revenue and expenditures that compares budget to actual, categorized by program; and**
- 2. Balance sheet/statement of financial position.**

A. Guidance on the Definition and Intent of the Standard

Accountability and financial stewardship are not just year-end requirements. The governing board should be involved in monitoring the financial stability and use of financial resources on an on-going basis. At a minimum, the Board should receive two reports – budget versus actual for revenues and expenditures and the balance sheet or statement of financial position.

Budget versus actual for revenues and expenditures. This report compares the financial plan or budget to the actual financial operating results for the period to date. The board should receive the report and review the information contained in the report. This report is a progress report against a plan or budget. If there are variances between the actual results to date and the budget, the board should inquire of the entity's management the reason for the variance. The existence of a variance from budget is not a significant concern if there is a reasonable plan to address the variance.

If grant revenue is less than budgeted for a particular program, this could be a problem if expenditures exceed the revenue. However, if grant revenue is below budget and the related grant expenditures are below budget – in essence offsetting variances – no problem is indicated. On the other hand, if grant revenues are in line with budget, but grant expenditures exceed budget, a problem is indicated. This is one of those times that it is important to rely on the financial expert on the board to help interpret what the financial statements mean and if worrisome trends are developing.

Balance sheet or statement of financial position. This statement provides a listing of assets, things the entity owns; liabilities, amounts owed by the entity; and, net assets or the difference between the two. The balance sheet is a financial 'snapshot' of the net financial position of an agency at a specific point in time. Of course, the desired situation is that assets are greater than liabilities. This statement can provide much more detailed assessments of the sustainability of the organization than this simple analysis. For example, the current ratio (current assets divided by current liabilities) reveals the liquidity of an organization, or in other words, can the organization meet its current financial obligations with its current financial assets.

A key issue for both of the above mentioned reports and for financial reports in general is the timeliness of information. The information portrayed in the financial statements is valid as of the last date covered by the report. If the board is receiving information that is 'old' the value of the information is minimal. There are no exact rules on what information is considered timely, but the information must be available in a manner for the board to be able to take corrective action based on the information received. For example, if the board is receiving financial information for the first quarter of the fiscal year well into the third quarter of the fiscal year, the information is too late to allow the board to take action to get the finances back in line before year end.

Also, the information presented to the board must be accurate. If the Board receives inaccurate information, makes a decision based on that information, they are in essence making an inaccurate decision for the real situation. Comparing the accuracy of on-going financial reporting to year-end audit information is one way to determine the validity of information presented to the Board.

Receiving and reviewing financial reports is a crucial role in the accountability of the organization and a key function of the board's fiduciary responsibility. Knowing that someone is watching the finances functions as a basic control so staff understand the importance of doing things correctly.

B. Guidance on Compliance and Documentation

The review team should always begin the process of documenting compliance with the Organizational Standards by reviewing all available guidance from the State CSBG Lead Agency on the interpretation of the standard and required documentation. Specific issues the review team should consider that may affect compliance with standard 8.7 include:

- **The board receives one but not both of the required reports.** The standard is very clear that both reports must be received for each regular meeting. This is a minimum standard. In order to be in compliance for this standard both reports must be received at each regular meeting. The reports each have a different focus and serve a different purpose. Receiving one but not both of the reports would not provide the board information on an ongoing basis to meet its fiduciary oversight role. The board must be able to see the “whole picture.”
- **The Board does not receive reports at a “special” meeting.** The standard requires that the Board receive the delineated reports at each regular meeting. If a special meeting is called to deal with a particular topic – strategic planning, for example, the standard does not require the board receive the stated reports. The board simply needs to receive both reports at every regular meeting during the year.
- **The board misses a regular board meeting.** It is possible that a board which typically meets monthly may take a month off during the summer or over the winter holidays. It is also possible that a board meeting is cancelled due to inclement weather or other causes. Finally, a board meeting may be scheduled and planned to be held, but quorum is not established and the meeting does not count as a regular board meeting. The standard does not require for reports to be provided to the board each and every month. Rather, the standard requires the information is provided to the board at each regular meeting. For organizations providing year to date reports, this would not require any additional reporting of modification of format, as the next report would automatically include any preceding month's financial data. Alternatively, if the organization reports specific data monthly, the following month could simply include two monthly sets of reports to meet the Standard if the board misses a regular meeting for any of the reasons listed above.

The documentation required to show that an agency is in compliance with standard 8.7 might include:

- Board agenda;
- Board meeting packet with required reports included;
- Board meeting minutes;
- Email to the Board members with the required reports attached; or
- Physical log with Board signatures attesting to the fact they had received the forms

C. Beyond Compliance: Benchmarking Organizational Performance

It is strongly suggested that the review team use the questions and resources in this section to conduct a further evaluation of this standard. Such options might include:

- **Are there other types of reports that provide useful financial information?** There are a multitude of additional reports that could be provided to the board that offer additional financial information. It is important to provide the right amount of information to the board without overloading them. After all, it would not be beneficial for the board to spend its entire meeting reviewing financial information. The financial oversight role is an important aspect of what the board does, but it has many other duties as well. Some of the most frequent other financial reports submitted to the board include:
 - *Cash flow information.* Cash is unquestionably the single most important asset for an entity. If cash is not adequate, employees and vendors do not get paid and the agency would cease operating in very short order. Many organizations look back at how cash was generated and used by the organization. Arguably, a more valuable financial tool is to look forward and project upcoming cash in and cash out of the agency to ensure that there is always cash available to keep it solvent and operating.
 - *Grant status report.* This report can take a number of different formats. The basic purpose of this statement is to track that spending against a grant is progressing in accordance with the available resources of the grant. In very simple terms, if one quarter of the fiscal year has expired, one might expect 25% of the grant resources to have been used. Of course there are numerous instances where the spending of a grant has seasonal highs and lows and would not follow a pro-rata scenario. Nevertheless, understanding the status of the grants is an important financial monitoring tool.
 - *Financial dashboard.* Some organizations have established key financial ratios or benchmarks that they have determined are critical indicators of the organization's financial health. These dashboards take as many forms as there are organizations using them. Tracking actual performance against these key metrics and reporting on them to the board can provide a very quick overview of the financial position of the organization at a given time.
 - *Credit card expenditures.* Some organizations and some grants require that the board review a listing of monthly charges on entity credit cards. An alternative is to report this information to a board committee, such as a finance committee, to streamline the information reported to the full board but maintain accountability.
- **What is done with the financial information in the reports?** It is very easy to receive a report. This action does not really provide much value though. What is done with the information in the report is the true value provided by the information. Ideally, the board receives the financial information, reviews it and asks questions related to the information. How the data informs actions to be taken is the true value of the financial information. Correcting an error or changing the direction of an unfavorable trend is true value from the process. The board's role is to set strategic guidance on finance and other issues of the entity and management's responsibility is to operationalize those goals.
- **Is anyone qualified to interpret what the reports say?** Ideally, there is a financial expert on the board who works with financial information and is very comfortable interpreting the

underlying story of the numbers. It is not required that this person be a certified public accountant. There are many individuals that work in finance related professions that possess the expertise beneficial to an agency.

D. Resources

Audit Essentials: What Every Board Member Needs to Know

[https://www.dropbox.com/s/egpkggbzi8fb7ei/Audit%20Essentials What%20Every%20Board%20Needs%20To%20Know_FINAL.pdf](https://www.dropbox.com/s/egpkggbzi8fb7ei/Audit%20Essentials%20What%20Every%20Board%20Needs%20To%20Know_FINAL.pdf)

Fiscal Fundamentals for Executive Directors

www.communityactionpartnership.com/storage/cap/documents/toolkits/fiscal_fundamentals_for_executive_directors.pdf

“Must Have” Financial Information for Boards and CEOs (webinar)

<https://youtu.be/x7fD0nko-24>

8.8 All required filings and payments related to payroll withholdings are completed on time.

A. Guidance on the Definition and Intent of the Standard

A significant risk in the operations of any organization is the lack of compliance with laws and regulations. One of these specific areas relates to compliance with required tax filings. All CAAs employ personnel to carry out the programs and activities they are charged to deliver. Accordingly, this means that agencies have a requirement to comply with the employment laws of the United States and the further requirements of the state or states where that agency conducts its operations.

As an employer, the agency withholds income taxes from its employees and submits them to the appropriate government entity. Most states and some localities also have an income tax and accordingly, the employees are subject to withholding for state and local purposes as well. In addition to income tax withholding, the Federal government and all states have an unemployment compensation program, which requires employers to submit tax payments to the government to fund the program.

As the agency is only acting as the middle person in the transaction, it is essential that it submit the required payroll taxes in a timely manner. In other words, the amounts withheld from employees' paychecks for Federal, state and local income taxes are not an agency asset, but rather an employee asset. This requires that the agency may not use this cash to fund its operations. When the amounts are withheld from the employees, they must be submitted to the appropriate governmental entity. The Federal and state governments have a required timeframe upon which payment for payroll related taxes must be submitted.

Typical employers are subject to a myriad of filing requirements. Some of the requirements employers may have to submit payments for include:

- Federal income tax withholding
- Federal unemployment tax
- State income tax withholding
- State unemployment tax
- Local income tax withholding
- Retirement plan contributions
- Health savings or flexible spending accounts

Failure to make these required payments in a timely manner can subject the agency to fines and other forfeitures. This failure is also a violation of Federal and/or state law, which could become an audit exception jeopardizing further government funding. Not forwarding withheld payroll taxes is considered so egregious that many states allow for criminal prosecution of agency staff and in extreme situations also those responsible for governance. The filing of payroll related tax returns and the submission of withheld funds is a very significant issue. Further, failure to comply with this basic operational requirement is an indicator that even larger financial risks exist in an organization.

B. Guidance on Compliance and Documentation

The review team should always begin the process of documenting compliance with the Organizational Standards by reviewing all available guidance from the State CSBG Lead Agency on the interpretation of the standard and required documentation. Specific issues the review team should consider that may affect compliance with Standard 8.8 include:

- **What payments are required?** Inquiry of the auditor or other business advisor/expert should be able to produce a list of required employee withholdings. A review of state tax websites or inquiry of government officials should also assist in revealing what tax returns and submissions are required.
- **What if some, but not all the required forms and remittances are submitted?** This is another one of those standards that requires full compliance to meet. If the agency is subject to Federal, state and local payroll tax withholdings and does not make all the submissions, the entity would not be in compliance with this Standard. Partial compliance with all of the filings is an indicator that the agency does not have proper systems in place to handle the most basic of financial operations. If the requirements around payroll withholdings are not capable of being addressed, what other operations are not being adhered to within the organization?

The documentation to show that an agency is in compliance with Standard 8.8 might include:

- Payroll tax returns;
- Copies of checks or other documentation showing that amounts due were actually paid;
- Retirement plan documentations;
- Submittal forms to the retirement plan;
- Flexible health spending or other similar plan documents; and
- Required flexible health spending or other similar plan document submittal forms.

C. Beyond Compliance: Benchmarking Organizational Performance

Even though the payment of amounts withheld from employees is a basic business operation, the on-going process and management can be complicated by the myriad of required forms and payment deadlines. Given this situation, questions the review team can ask include:

- **Does the agency have a system that helps the preparer of the tax and other forms track all the deadlines and actual submittal?** This task can be completed by assembling a list of all required forms and payments to be submitted and the respective due dates of each payment.
- **Does the agency have a system of accountability to track the payroll process?** In this case, someone in the agency would be given the responsibility of preparing and submitting the forms and payments. Another individual within the agency would be given the responsibility to follow-up and ensure the schedule has been followed. This segregation of duties means two people are constantly reviewing the agency's compliance with

governmental requirements. An organization cannot be too careful when it comes to these tasks as the potential ramifications for not complying could be catastrophic.

D. Resources

All Federal forms are available at www.irs.gov. Simply go to the website and then search for the specific form.

Quarterly:

- Form 941 – Federal income taxes withheld and Social Security and Medicare tax

Annually:

- Form 940 – Federal Unemployment Compensation
- W-2 – Employee Wage and Tax Statement
- W-4 - Employee's Withholding Allowance Certificate

Required state and local forms are available on the websites for the respective state or locality.

8.9 The governing board annually approves an organization-wide budget.

A. Guidance on the Definition and Intent of the Standard

A budget is the financial plan for an organization for the upcoming fiscal year. It is a basic component of running any organization to have a plan for where you are trying to go. You wouldn't set out on a trip without a map (or a GPS aided app on your smartphone). A budget is that plan or tool for financial purposes. The budget provides the overall financial vision for where the agency is headed in the next year.

All grants have a budget in order to be funded. However, the art of preparing an agency-wide budget is not quite as simple as adding the results of all grants together and calling it an agency-wide budget. Looking at how all of the grants come together for an agency budget is foundational to Community Services Block Grants. CSBG is frequently called the administrative glue that holds a CAA together. In most agencies, CSBG funding is used in many programs to supplement program-specific funding. CSBG may provide the funding to provide administrative support to a program; it may provide a component to a program that is not funded under the program specific funding; or, it may simply provide a greater volume of service than the program specific funding allows. Whatever its function, CSBG is integral to the overall operations of a CAA. This integral nature is a prime justification for looking at the budget of an agency on an organization-wide basis.

This agency-wide approach also provides management, the board, and funders the ability to see the full cost of the programs offered. There are certain administrative costs required to deliver quality service. Some grants do not allow for adequate reimbursement of these administrative costs. Rather CSBG ends up picking up some of these costs. Accordingly, an organization-wide budget allows the full cost of delivering programs to be seen. It also validates whether it is possible to run the portfolio of programs proposed with the funding that is available. An agency-wide budget is an efficient way to view the total operations of an agency.

This holistic approach to budgeting also helps bring down barriers between departments and programs with the agency. By producing one cross-agency budget, every person in the agency has a stake in making sure that all programs run effectively and efficiently. If one program fails, then the whole agency budget will not work. This tool ensures that everyone is working towards the same goals and deliverables. It is one way to bring down the "silos" of an agency.

On an even grander scale it helps create uniformity across the larger Community Action Network. By having an Organizational Standard that requires agency-wide budgets, there is no discussion on how an agency is going to budget and whether its budget is comparable to another agency's budget.

B. Guidance on Compliance and Documentation

The review team should always begin the process of documenting compliance with the Organizational Standards by considering all available guidance from the State CSBG Office on the interpretation of the Standard and required documentation. Specific issues the review team should consider that may affect compliance with Standard 8.9 include:

- **The board reviews but does not formally approve the agency-wide budget.** Reviewing the budget is the first step in the process. The board should review the budget that staff has prepared. However, simply reviewing the budget is not the same thing as approving the budget. The actual approval process makes it very clear to staff and the board what is the final budget. Also, the approval process gives board buy-in and ownership of the budget. When the board approves the budget, it has, in essence, taken the budget and made it officially the board's budget. Now, all interested parties of the organization, staff and board, are working from the same plan. This provides alignment for the organization.
- **If the board reviews individual program budgets, does it really need to review an agency-wide budget?** Reviewing individual program budgets is not the same as reviewing and approving one agency-wide budget. An agency-wide budget brings everything together in one place and provides an overall financial picture of the entity. Reviewing individual program budgets fails to answer many of the questions that a combined budget is able to answer. For example, are there enough resources agency-wide to cover the administrative costs of running the agency?

The two types of documentation required to show that an agency is in compliance with Standard 8.9 include (1) the agency-wide budget, and (2) evidence that the board has approved the agency-wide budget. Examples of this documentation could include:

Examples of the first type of documentation would include:

- A copy of the agency-wide budget.

Examples of the second type of documentation would include:

- Minutes of the Board meeting with the actual approval action indicated from the Board

C. Beyond Compliance: Benchmarking Organizational Performance

It is strongly suggested that the review team use the questions and resources in this section to conduct an assessment of this Standard. Such questions include:

- **When did the board approve the budget?** As the budget is a plan for the future, the budget should be adopted *before* the start of the fiscal year for which it is prepared. If the budget is adopted after the fiscal year has already begun, it would be indicative of a process of planning that was rushed and hurried. The budget really needs to be adopted before the fiscal year begins.
- **Is there a connection to the strategic plan?** Ideally, the budget and strategic plan of an agency are intertwined. The budget is the financial resource plan and the strategic plan is the

programmatic outline for the agency. These two concepts go hand in hand. An agency can't deliver programs without financial resources and possessing money doesn't achieve outcomes unless it is appropriately deployed. The highest functioning agencies link the development of the budget and the strategic plan. Each of these directs and informs the other. When complete a high functioning agency will have a budget that can be overlaid on the agency's strategic plan.

- **Does the agency capitalize on linkages between program areas in the budget?** One of the biggest advantages of a CAA is that there are economies of scale by delivering multiple programs. Agencies should scrub their budgets to determine if there are efficiencies that can be gained by operating as a single agency versus a collection of programs. For example, are participants in one program eligible for participation in another program of the agency, thus decreasing intake costs; or, can participants in early Head Start one year, be transitioned to regular Head Start in the following year in a manner that reduces program costs?
- **Does the agency review and revise the budget as necessary after it is adopted?** The budget is a dynamic tool. Every month into the new fiscal year, you know more about the financial realities of that year. It is important to incorporate the new and greater knowledge into the financial plan for the remainder of the year. Many organizations will review and adjust the budget one or two times during the fiscal year. This allows the agency to incorporate changes in funding levels, known cost increases and the inclusion or exclusion of anticipated programs.

D. Resources

Organization-Wide Budgets: Making it Real (webinar).

<https://communityactionevents.webex.com/communityactionevents/ldr.php?RCID=cb43224a4e787c03bb3683d1fb7dd486>

Fiscal Fundamentals for Executive Directors. Community Action Partnership, 2014.

http://www.communityactionpartnership.com/storage/cap/documents/toolkits/fiscal_fundamentals_for_executive_directors.pdf

8.10 The fiscal policies have been reviewed by staff within the past 2 years, updated as necessary, with changes approved by the governing board.

A. Guidance on the Definition and Intent of the Standard

This Standard requires that an agency have adequate policies and procedures in place to appropriately administer the fiscal side of running an organization and the special rules that accompany organizations that administer Federal and state grants. The Standard requires that there are appropriate oversight in place for the process of keeping policies and procedures current and up to date.

The *HHS Grants Policy Statement* requires “The recipient, as the direct and primary recipient of HHS grant funds, is responsible for managing the day-to-day operations of grant-supported activities and is accountable to the OPDIV for the performance of the project, program, or activity; the appropriate expenditure of grant funds by all parties; and all other obligations of the recipient. Recipients may use their established controls and policies, as long as they are consistent with award requirements.”

The *Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards* does not have a specific requirement for a policies and procedures handbook, but does contain a number of requirements throughout that require specific written procedures. A sampling of these required written procedures include:

- Retention requirements for records (200.333)
- Procedures related to payments (200.305)
- Procedures for determining the allowability of costs (200.302)
- Conflict of interest (200.112)
- Maintaining property records (200.313)
- Procurement of goods and services (200.318)
- Travel reimbursement policy (200.474)
- Fringe benefits (200.431)

In addition to the minimum requirements specifically detailed by authoritative guidance, it is common place to have the necessary policies and procedures in place to properly administer the financial operations of an organization. These additional policies and procedures may include:

- Information technology and software security and access
- General journal control and approval
- Financial statement preparation
- Accounting and financial estimates
- Cash control and reconciliation
- Grant administration and reimbursement request process
- Cost sharing, match and in-kind accounting

- Fundraising policy
- Billing and invoicing policies
- Accounts payable management
- Credit card procedures
- Payroll and related policies
- Investment policies
- Debt management
- Budgeting
- Audit
- Insurance

Well written policies provide staff a clear understanding of how transactions of the organization are to be conducted. It enhances the efficiency and effectiveness of an agency's work.

B. Guidance on Compliance and Documentation

The review team should always begin the process of documenting compliance with the Organizational Standards by reviewing all available guidance from the State CSBG Office on the interpretation of the standard and required documentation. The review team should also review any State requirements that may be required in addition to the Federal requirements. Specific issues the review team should consider that may affect compliance with standard 8.10 include:

- **“In process” review of the policies that begin two years after the previous policy review.** An agency may find itself assessed for compliance with standard 8.10 when it is about to begin or is in the process of conducting a review of the fiscal policies, and the previous review was completed more than two years ago. In such cases, it is suggested that the agency inform the State CSBG Office of the situation, confirm whether planned or “in process” review will meet the standard in accordance with the State’s interpretation, and clarify the process for and any associated deadlines with confirming compliance if the anticipated completion date falls after the State’s monitoring process for compliance.
- **The board has approved some but not all changes to the fiscal policies.** The standard requires board approval of all changes staff make to the fiscal policies when they conduct a review. For this reason, staff should conduct a comprehensive rather than piecemeal review so the board can approve any necessary changes at the same time. If in doubt about which policies to include in the review process, the State CSBG Lead Agency should be consulted on what it defines as a fiscal policy and whether it has a list of all policies the agency must review.
- **The board has reviewed but not yet approved changes to the fiscal policies.** Reviewing the changes is a board task, but the official approval of the changes is necessary to comply with this standard. Without the official approval by the board, changes to the policies do not have the weight of the board behind them.
- **A committee of the board has reviewed and/or approved changes to the fiscal policies but the full board has not.** Many agencies have committees that do a significant amount of the detail work with staff, but not always formally approved by the board. If this structure is in place, the standard still requires that the full board approve all changes to the policies. This approval at the board level ensures that the entire board is aware of any changes. Also, this

eliminates any confusion, on the part of staff, that the new policies have the full support of the board.

There are three types of documentation required to show that an agency is in compliance with Standard 8.10. This includes (1) documentation that confirms an agency has fiscal policies, and (2) documentation that confirms that staff has reviewed the policies within the past two years, and (3) documentation that the board has approved the updates and changes.

Documentation for the first might include:

- A physical or electronic copy of the fiscal policies.

Documentation for the second might include:

- Minutes from the staff committee charged with reviewing the policies
- Policies document with suggested changes and ‘red lines’ throughout
- Policy manual with review dated indicated on the document cover

Documentation for the third could include:

- Board agenda
- Board minutes
- Board packet with policies attached

C. Guidance on Further Evaluation of the Standard

It is strongly suggested that the review team use the questions and resources in this section to conduct an evaluation of the review of fiscal policies. No matter what level of effort the team chooses, assigning a score for Standard 8.10 using the “Organizational Standards Evaluation Criteria” at the end of this Guide along with recording brief notes that detail recommendations for ways to improve the next fiscal policies review helps the agency benchmark its performance and improve the process for assessing compliance with the Organizational Standards. Options might include:

- **Does the agency compare its fiscal policies with other CAAs and industry standards?** The review team should constantly be looking for ways to improve the efficiency of operations. The fiscal policies lay out the process for handling certain financial or related transactions. Many organizations – for-profit and non-profit – deal with the same types of transactions. Frequently the experience of another organization can be beneficial to our organization. Adopting best practices of others allows us to gain efficiencies based on what others have already learned.
- **Does the agency provide training to staff on the fiscal policies?** The policies of an organization are only as good as the people who use them. In order for the policies to be effective, staff has to know what the policies are and how that impacts their work. Changing policies and not informing staff virtually guarantees that no change in actions will occur. It is important to inform staff of the correct way of handling fiscal transactions. The communication plan or training plan is especially important when changes are made to a policy. Staff has a current method of handling certain items and will continue to use that methodology unless they are instructed to do it differently.

D. Resources

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

<http://www.ecfr.gov/cgi-bin/text-idx?SID=0d9415f781ec5b75b44308ee5b21b67e&mc=true&tpl=/ecfrbrowse/Title02/2chapterII.tpl>

Model Policies, Forms and Agreements

<http://www.caplaws.org/resources/modelpolicies.html>

8.11 A written procurement policy is in place and has been reviewed by the governing board within the past 5 years.

A. Guidance on the Definition and Intent of the Standard

Standard 8.11 requires that a written procurement policy is in place and has been reviewed by the governing board within the past 5 years. The procurement policy is the guidance provided to all internal staff of an agency on the appropriate procedures to follow in securing goods and services. As a user of public resources, CAAs have a responsibility to acquire goods and services at a reasonable price in a transparent manner. Most procurement policies do not require an agency to purchase the lowest cost goods or services. Rather a prudent procurement policy appropriately balances securing a fair and reasonable price for a quality good or service that allows the agency to deliver its mission at the expected level of quality.

The *Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards* requires “The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part.” The *Uniform Requirements* contains further minimum requirements of such a policy. These include:

- “Non-Federal entities must maintain oversight to ensure that contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.”
- “The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts.”
- “The non-Federal entity’s procedures must avoid acquisition of unnecessary or duplicative items.”

The standards require the creation of a procurement system that operates in a manner providing full and open competition. This required transparency of the system is further modified in that the agency is required to take all necessary affirmative steps to assure that minority businesses, women’s business enterprises and labor surplus area firms are used when possible. Specific minimum requirements of documentation and solicitation are required based on the dollar amount of the acquisition. These tiers are:

- Micro-purchase, purchase size under \$3,000, require equitable distribution of purchases amongst qualified providers;
- Small purchase acquisition, or transactions over \$3,000 but less than \$150,000, mandate receipt of an appropriate number of rate or price quotations; and
- Items over the \$150,000 can be acquired through:
 - Sealed bids
 - Competitive proposals
 - Or, noncompetitive proposals

While the *Uniform Guidance* provides minimum standards for certain transactions, it does not provide the complete framework for a procurement policy. Accordingly, an entity needs to produce its own procurement policy that contains the minimum requirements delineated by the *Uniform Guidance*. One additional consideration to the mandated elements in the *Uniform Guidance* is that state procurement requirements may also flow through to the CAA. As most CSBG resources flow through the states on their way to the agencies, the CSBG dollars pick up the requirements contained in state law related to procurements as well. As the review team is assessing the minimum requirements of the agency's procurement policy it is important to consider the policy provisions against the state requirements as well as the Federal requirements.

Numerous examples of procurement policies can be found on the internet. A model procurement policy is located on the webpage of Community Action Program Legal Services, Inc. or CAPLAW at www.caplaw.org/resources/modelpolicies.html#financial. The best approach is to review many sample policies and take the best practices of each and incorporate that into one final policy.

Further, the Organizational Standard requires a review of the procurement policy at least every five years. It is possible that procurement standards at either the Federal or state level may change more frequently and the agency's procurement policy should change as either the federal or state rules change.

B. Guidance on Compliance and Documentation

The review team should always begin the process of documenting compliance with the Organizational Standards by reviewing all available guidance from the State CSBG Office on the interpretation of the standard and required documentation. The review team should also consider any State requirements that may be applicable in addition to the Federal requirements. Specific issues the review team should consider that may affect compliance with Standard 8.11 include:

- **“In process” review of the procurement policy that begins five years after the previous procurement policy.** An agency may find itself assessed for compliance with Standard 8.11 when it is about to begin or is in the process of conducting a review of the procurement policy, and the previous review was completed more than five years ago. In such cases, it is suggested that the agency inform the State CSBG Lead Agency of the situation, confirm whether planned or “in process” review will meet the standard in accordance with the State's interpretation, and clarify the process for and any associated deadlines with confirming compliance if the anticipated completion date falls after the State's monitoring process for compliance.
- **The procurement policy meets Federal requirements but not state requirements.** Most CAAs receive their CSBG grants as sub-grantees of a state. Accordingly, many agencies are also subject to the respective procurement rules that may be in place in the respective state. States may have lower dollar thresholds for certain components of the policy or there may be additional requirements that the state requires above the Federal requirements. The agency would be subject to both the Federal limitations and the state limitations. Accordingly, the agency's procurement policy should be written to incorporate, at a minimum, both sets of requirements. The best way to determine these additional state requirements is to inquire of the state CSBG officials or to consult the grant contracts which should contain the requirements or reference a resource for the requirements.

- **A committee of the board has reviewed the procurement policy but the Board has not yet conducted a review.** Many agencies have committees that do a significant amount of the detail work and the board approves or adopts the work of the committee. If this structure is in place, the standard still requires that the board review the policy. This review by the board ensures that the entire board is aware of the policy. Also, this eliminates any confusion, on the part of staff, that the policy has the full support of the board.
- **The procurement policy is one of the policies incorporated into the fiscal policies of the entity.** Many entities include the procurement policy as a fiscal policy and therefore include it in the entity's fiscal policies. This approach is completely appropriate. Nothing in the standard requires a "standalone" procurement policy. It is essential that there is only one procurement policy, however. In other words, there should not be a "standalone" procurement policy and then a different policy that is included in fiscal policies. An entity can only have one procurement policy so that purchasing is consistent across the organization. This also precludes confusion on the part of staff who then would not know which procurement policy to follow.

There are two types of documentation required to show that an agency is in compliance with Standard 8.11. This includes (1) documentation that confirms an agency has a procurement policy, and (2) documentation that the board has reviewed the policy. Documentation for the first would be a physical or electronic copy of the procurement policy.

Documentation for the second might include:

- Board agenda
- Board minutes
- Board packet with procurement policy attached

C. Beyond Compliance: Benchmarking Organizational Performance

It is strongly suggested that the review team use the questions and resources in this section to conduct an evaluation of the entity's procurement policy. No matter what level of effort the team chooses, assigning a score for Standard 8.11 using the "Organizational Standards Evaluation Criteria" at the end of this Guide along with recording brief notes that detail recommendations for ways to improve the procurement policy and helps the agency benchmark its performance and improve the process for assessing compliance with the Organizational Standards. Options might include:

- **Compare the entity's procurement policy with other agencies and industry standards.** The review team should always be looking for ways to improve the efficiency of operations. The procurement policy provides guidance and limitations on procuring goods and services to be acquired by the entity. As many organizations have similar such policies, it would be prudent to review a sample of other procurement policies to see if there are refinements that could be made to our policy to make it either more efficient or effective.

D. Resources

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal

Awards [http://www.ecfr.gov/cgi-bin/text-](http://www.ecfr.gov/cgi-bin/text-idx?SID=0d9415f781ec5b75b44308ee5b21b67e&mc=true&tpl=/ecfrbrowse/Title02/2chapterII.tpl)

[idx?SID=0d9415f781ec5b75b44308ee5b21b67e&mc=true&tpl=/ecfrbrowse/Title02/2chapterII.tpl](http://www.ecfr.gov/cgi-bin/text-idx?SID=0d9415f781ec5b75b44308ee5b21b67e&mc=true&tpl=/ecfrbrowse/Title02/2chapterII.tpl)

CAPLAW Model Procurement Policy

www.caplaw.org/resources/TrainingModuleDocuments/CAPLAW_Procurement_ModelProcurementPolicy.pdf

8.12 The organization documents how it allocates shared costs through an indirect cost rate or through a written cost allocation plan.

A. Guidance on the Definition and Intent of the Standard

Costs chargeable to a grant can either be direct or indirect. Direct costs are expenses that directly benefit one program. Examples of a direct cost are salaries for employees who only work in one program, weatherization supplies that only benefit the weatherization program, food specifically for a senior nutrition program, transportation costs to transport students for Head Start only, or financial counselors that only serve participants of one program.

Indirect costs are those costs that benefit most or all of the programs of an agency. Examples of these costs may be the Executive Directors salary, the cost of running the human resources department, the financial services staff costs, or rent on the main office building that houses personnel from all of the programs.

Federal grants can only be charged expenses to the extent that the program benefits from that cost. In other words, the cost has to further the objectives of the program or help achieve the program outcomes. Indirect costs benefit all or most of the programs so they rightfully deserve some amount of charge for these agency-wide functions. The challenge is always how much of the indirect charges should be pro-rated to each program, remembering that the program must benefit from the expense before it is an allowable cost to that program.

The method that is used to get the correct or allowable amount of indirect costs to the respective program or grant is the process of cost allocation. Organizations have three options for handling these indirect costs:

- **Cost Allocation.** Indirect costs are charged to “pools” and the pools are allocated to the various grants based on some allocation basis. For example, the costs of running the finance department are charged to a pool and then allocated to each program or grant based on the number of transactions processed that period for each program or grant.
- **De minimus Indirect.** This is a new method of indirect cost rate that may become an option for an agency, if it has never had a federally approved indirect cost rate. This methodology charges all indirect costs to a cost center and charges each grant a flat 10% of Modified Total Direct Cost as an indirect charge. The difference between the 10% de minimus charge and the actual indirect charges flows to the non-profit.
- **Indirect Cost Rate.** Before the beginning of the fiscal year, the entity negotiates with the approved Federal agency to establish a federally approved indirect cost rate. The entity charges all indirect costs to a cost center and charges each grant this approved rate for indirect costs. Again, the net plus or negative between the indirect charges and the actual costs is a revenue or expense to the agency.

Regardless of which of the three methods an agency uses to address the issue of cost recovery of indirect charges, there must be documentation of the method used. The method selected must be used consistently and cannot change from month to month during the fiscal year.

If the cost allocation method is selected, a cost allocation plan must be prepared by the agency. This plan documents what type of costs are indirect costs and how they should be accumulated or pooled. Further, the allocation basis must then be detailed so that the reader of the plan can understand how costs are split or allocated to the various grants. In many cases, this allocation plan must receive funder approval before it is used.

The de minimus plan requires documentation of what is included and what is excluded as an indirect cost. The rate is a stated 10% so not much further detail is required.

If an indirect cost rate is the decided option, a packet of information must be prepared and sent to the Federal agency responsible for determining the indirect cost rate. This packet of information is a prescribed list of schedules and reports. If this is the desired approach to indirect costs, the Federal agency should be contacted to determine the correct information to prepare. After the information is submitted an actual negotiation process takes place to arrive at a mutually agreed upon rate.

Choices exist for the handling of indirect costs by an entity. Regardless of the method selected, documentation of the decision is necessary to ensure a consistent approach is used related to indirect costs.

B. Guidance on Compliance and Documentation

The review team should always begin the process of documenting compliance with the Organizational Standards by considering all available guidance from the State CSBG Office on the interpretation of the standard and required documentation. Specific issues the review team should consider that may affect compliance with Standard 8.12 include:

- **The negotiation is “in process” with the Federal cognizant agency responsible for indirect rate approval.** An agency may find itself assessed for compliance with Standard 8.12 when it is about to begin or is in the process of conducting a renewal or an initial negotiation for an indirect cost rate. There can be significant delay from the submission of the application for an indirect rate and final approval of the rate. In such cases, it is suggested that the agency inform the State CSBG Lead Agency of the situation, confirm whether planned or “in process” review will meet the standard in accordance with the State’s interpretation, and clarify the process for and any associated deadlines with confirming compliance if the anticipated completion date falls after the State’s monitoring process for compliance.
- **The agency purports to have an approved indirect cost rate, but is not able to locate the final approval letter from the cognizant agency.** The process of a negotiated Federal cost is not complete until the entity has received final approval of the rate. This is evidenced by a letter from the cognizant agency containing the final rate. If the agency is unable to locate said letter, they should contact the cognizant agency and get a duplicate letter to evidence compliance with this standard.
- **If using a cost allocation plan, determine who must approve the plan or if it must be approved at all.** When an entity is using cost allocation, it may be necessary for the cost allocation plan to be approved before it can be used to allocate costs. The State CSBG Lead Agency should be consulted to determine who needs to approve the plan.

The documentation required to show that an agency is in compliance with Standard 8.12 depends on the methodology chosen by entity to charge indirect expenses.

- If a negotiated Federal cost rate is selected, the entity should have an approval letter from cognizant agency responsible to negotiate the rate with the entity.
- If cost allocation is used, the entity should have an updated cost allocation policy document laying out the methodology used for accounting for indirect costs.
- If the entity is using the de minimus indirect cost rate, this should be indicated on the grant forms received from the funding agencies.

C. Guidance on Further Evaluation of the Standard

It is strongly suggested that the review team use the questions and resources in this section to conduct an assessment of the agency's cost allocation or indirect plan. No matter what level of effort the team chooses, assigning a score for Standard 8.12 using the "Organizational Standards Evaluation Criteria" at the end of this Guide along with recording brief notes that detail recommendations for ways to improve the procurement policy and helps the agency benchmark its performance and improve the process for assessing compliance with the Organizational Standards. Options might include:

- **Is the agency using a cost allocation plan that is current?** The cost allocation plan should be reviewed and modified by staff every two to three years to ensure that the plan accurately reflects the expenses currently in place at the agency. Also an on-going review process ensures that the grants and contracts being allocated to are appropriate and timely. Further a review process helps align the Federal and/or state regulation in place at the time, is accurately reflected in the policy being used by the agency.
- **Does the cost allocation plan need to be reviewed by the state or other funding agency?** Some states require that cost allocation plans are pre-approved before the expenses are allocated to grants. When in doubt, the review team should always consult with the State CSBG Lead Agency to determine that the agency is following the proper procedure.

D. Resources

Cost Allocation: Red Flags and Remedies

https://www.dropbox.com/s/zga0zdzvo5k623l/COST%20ALLOCATION_FINAL%2010%2024%2012.pdf

Cost Allocation and Super Circular Update (webinar)

<https://youtu.be/KERdbOSjc8k>

Cost Allocation: Red Flags and Remedies (webinar)

http://www.caplaw.org/conferencesandtrainings/recordings/CAPLAW_CostAllocation_September2012.wmv

Example Cost Allocation Plan

http://www.michigan.gov/documents/mde/Model_Cost_Allocation_Plan_357993_7.pdf

Indirect Cost Proposal

- <http://www.muni.org/Departments/budget/indirectCost/2014%20Indirect%20Cost%20Proposals/HHS%20ICP%202014.pdf>
- <http://www.epa.gov/ogd/recipient/sample1.htm>
- <https://rates.psc.gov/fms/dca/shortform1.pdf>
- https://rates.psc.gov/fms/dca/np_exall2.html

8.13 The organization has a written policy in place for record retention and destruction.

A. Guidance on the Definition and Intent of the Standard

Sarbanes-Oxley was one of the biggest modifications to the governance of Boards of Directors ever. Although Sarbanes-Oxley pertains directly to for-profit businesses and not non-profit organizations, there are two provisions that specifically apply to non-profits:

- Whistle Blower Policy
- Records Retention Policy

It is important to note that Organizational Standard 7.7 also requires the agency to have a whistleblower policy approved by the board. The provisions in Sarbanes-Oxley that apply to a records retention policy state that an organization must have in place a policy that informs employees of the need to retain their correspondence and other documents, when a legal investigation is in process. In other words, it is unacceptable for employees of an organization currently being investigated to delete e-mails or throw away paper documents that related to that on-going or pending investigation.

In addition to the high level requirements of Sarbanes-Oxley, the Organizational Standards require an entity to have a written policy in place for the retention and destruction of records. An entity produces a large amount of information and correspondence in a given year. There is a cost to retain such records, so it is prudent to have a policy in place that requires a minimum and maximum amount of time that records must be maintained. This assures that there is uniformity across the organization.

Further, the IRS Form 990 asks “Did the organization have a written document retention and destruction policy?” (Question 14, Section B, Part VI). Federal grants require that supporting information on the grant, including the financial detail, be maintained for three years from the submission date of the final report of grant.

B. Guidance on Compliance and Documentation

The review team should always begin the process of documenting compliance with the Organizational Standards by considering all available guidance from the State CSBG Office on the interpretation of the standard and required documentation. Specific issues the review team should consider that may affect compliance with Standard 8.13 include:

- **The development of a policy is “in process” but not yet complete.** An agency may find itself assessed for compliance with Standard 8.13 when it is about to begin or is in the process of preparing a written policy on record retention. In such cases, it is suggested that the agency inform the State CSBG Lead Agency of the situation, confirm whether planned or “in process” development will meet the standard in accordance with the State’s interpretation, and clarify the process for and any associated deadlines with confirming compliance if the anticipated completion date falls after the State’s monitoring process for compliance.

- **The plan includes paper or electronic forms of records, but not both.** Records can take the form of paper or electronic. The policy needs to include a definition of what is considered a record. In order to be complete, the policy should include both paper and electronic records.
- **The method of record destruction is not provided.** The Organization Standard requires that the policy include the retention of records and the destruction of records. When records are no longer to be kept, the standard requires how those records will be destroyed to be part of the policy.

The documentation required to show that an agency is in compliance with standard 8.13 is a written policy on record retention and destruction.

C. Guidance on Further Evaluation of the Standard

It is strongly suggested that the review team use the questions and resources in this section to conduct an assessment of the agency's record retention and destruction policy. No matter what level of effort the team chooses, assigning a score for Standard 8.13 using the "Organizational Standards Evaluation Criteria" at the end of this Guide along with recording brief notes that detail recommendations for ways to improve the procurement policy and helps the agency benchmark its performance and improve the process for assessing compliance with the Organizational Standards. Questions the review team can ask include:

- **Is the policy consistent for the entire organization?** Does each department have its own policy or does the organization have one overall policy? A much stronger approach is for the agency to have one standard policy that applies to all departments, divisions or units of the entity. Multiple department policies can lead to confusion and misapplication of the policy.
- **Has the policy been reviewed by the board?** As with any agency-wide policy, it is advisable that the policy have been reviewed by the board. This gives the policy credence and clear indication that adherence to the policy is expected from the board.
- **Does the policy have minimum holding periods but no maximum holding periods?** In order to be effective, a policy must include the minimum period of time that documents must be held. A best practice would also include a maximum period to retain records. Ideally, the policy would require the destruction of records as soon as the holding period is ended. This ensures that space is not used by maintaining records that are no longer required. This mandatory destruction also potentially mitigates risk for the contents of old records. When the accountability period has expired, there is nothing to be gained by maintaining records longer.

D. Resources

CAPLAW Sample Record Retention Policy

http://www.capl原因.org/resources/modelpoliciesDocuments/CAPLAW_SampleRecordRetentionPolicy.pdf

The Community Action Partnerships online Risk Management Portal available at through the link below also has a customizable record retention policy template in its “My Risk Management Policies” section.

http://www.communityactionpartnership.com/index.php?option=com_content&task=view&id=88&Itemid=272#ONLINE

Standard 8.1 The Organization's annual audit (or audited financial statements) is completed by a Certified Public Accountant on time in accordance with Title 2 of the Code of Federal Regulations, Uniform Administration Requirements, Cost Principles, and Audit Requirement (if applicable) and/or State audit threshold requirements.	<ul style="list-style-type: none"> 								
Standard 8.2 All findings from the prior year's annual audit have been assessed by the organization and addressed where the governing board has deemed it appropriate.	<ul style="list-style-type: none"> 								
Standard 8.3 The organization's auditor presents the audit to the governing board.	<ul style="list-style-type: none"> 								

	Unacceptable	Unsatisfactory	SATISFACTORY	Advancing	Outstanding
Standard 8.1	An audit firm has not been selected to perform the annual audit. There is no plan in place to procure an audit.	The Organization's annual audit (or audited financial statements) is completed by a Certified Public Accountant but not on a timely basis. The audit and related reports were not submitted to the Single Audit Clearinghouse within the nine month deadline.	The Organization's annual audit (or audited financial statements) is completed by a Certified Public Accountant on time in accordance with Title 2 of the Code of Federal Regulations, Uniform Administration Requirements, Cost Principles, and Audit Requirement (if applicable) and/or State audit threshold requirements.	The Organization's annual audit (or audited financial statements) is completed by a Certified Public Accountant on time in accordance with Title 2 of the Code of Federal Regulations, Uniform Administration Requirements, Cost Principles, and Audit Requirement (if applicable) and/or State audit threshold requirements. Audit adjustments were few or none. The audit report had no findings or questioned costs.	The Organization's annual audit (or audited financial statements) is completed by a Certified Public Accountant on time in accordance with Title 2 of the Code of Federal Regulations, Uniform Administration Requirements, Cost Principles, and Audit Requirement (if applicable) and/or State audit threshold requirements. There have been no audit adjustments, findings, or questioned costs for the past three years.
Standard 8.2	None of the findings from the prior year's annual audit have been assessed by the organization and addressed where the governing board has deemed it appropriate.	Some, but not all of the findings from the prior year's annual audit have been assessed by the organization and addressed where the governing board has deemed it appropriate.	All findings from the prior year's annual audit have been assessed by the organization and addressed where the governing board has deemed it appropriate.	All findings from the prior year's annual audit have been assessed by the organization and addressed where the governing board has deemed it appropriate. Corrective action plans for each finding have been prepared by staff and implementation of the plans have begun.	All findings from the prior year's annual audit have been assessed by the organization and addressed where the governing board has deemed it appropriate. Corrective action plans for each finding have been prepared by staff. The corrective action plans have been reviewed by the Board if feasible and appropriate and by the impacted funding agencies. Implementation of the plans have begun.
Standard 8.3	The Board of Directors does not receive the audit from the organization's auditor.	The organization sends the audit reports to the Board of Directors.	The organization's auditor presents the audit to the governing board.	The organization's auditor presents the audit to the governing board and is available to answer questions and provide clarification (either in person, by email, or over the phone).	The organization's auditor presents the audit to the governing board and a robust conversation about the audit results.

Category 8: Financial Operations and Oversight – Assessment Scale

	Documentation Used	Unacceptable	Unsatisfactory	Satisfactory	Advancing	Outstanding	Action to be Taken	Individual(s) Responsible	Target Date(s)
Standard 8.4 The governing board formally receives and accepts the audit.	•								
Standard 8.5 The organization has solicited bids for its audit within the past 5 years.	•								
Standard 8.6 The IRS Form 990 is completed annually and made available to the governing board for review.	•								

	Unacceptable	Unsatisfactory	SATISFACTORY	Advancing	Outstanding
Standard 8.4	The agency does not have an audit or the board did not receive the results.	The board received but did not formally accept the audit.	The governing board formally receives and accepts the audit.	The governing board formally receives and accepts the audit. The agency also provides prior board training on how to read an audit,	The governing board formally receives and accepts the audit, receives prior training on how to read an audit, and is provided the opportunity to fully discuss audit results.
Standard 8.5	The organization has never solicited bids for its audit and continues to use the same audit firm year after year.	The organization has solicited bids for its audit but it has been more than 5 years ago.	The organization has solicited bids for its audit within the past 5 years.	The organization has solicited bids for its audit within the past 5 years. Staff have reviewed the proposals and present the suggested auditor to the board for approval.	The organization has solicits bids for its audit every 3 years. Staff and board have reviewed the proposals and jointly select an auditor. The criteria included in the Federal grant guidance are used to select the winning auditor. The board approves the auditor and signs the audit engagement letter.
Standard 8.6	The IRS Form 990 is not completed.	The IRS Form 990 is completed, but the form is not made available to the governing board for review.	The IRS Form 990 is completed annually and made available to the governing board for review.	The IRS Form 990 is completed annually and made available to the governing board for review. The Form 990 is filed in a timely manner and is made available on the agency's website.	The IRS Form 990 is completed annually and made available to the governing board for review. The governing board takes official action to approve the Form 990. The Form 990 is filed in a timely manner, is available on the agency's website, and the agency communicates its availability to the public.

Category 8: Financial Operations and Oversight – Assessment Scale

	Documentation Used	Unacceptable	Unsatisfactory	Satisfactory	Advancing	Outstanding	Action to be Taken	Individual(s) Responsible	Target Date(s)
Standard 8.7 The governing board receives financial reports at each regular meeting that include the following: 1. Organization-wide report on revenue and expenditures that compares budget to actual, categorized by program; and 2. Balance sheet/statement of financial position.	•								
Standard 8.8 All required filings and payments related to payroll withholdings are completed on time.	•								
Standard 8.9 The governing board annually approves an organization-wide budget.	•								

	Unacceptable	Unsatisfactory	SATISFACTORY	Advancing	Outstanding
Standard 8.7	The governing board does not receive any financial reports at its regular meetings.	The governing board receives either the organization-wide report on revenue and expenditures compared to budget or the statement of financial position, but not both. Alternatively, the governing board receives at a minimum both required reports but does not consistently receive them at each of their regular meetings.	The governing board receives financial reports at each regular meeting that include the following: 1. Organization-wide report on revenue and expenditures that compares budget to actual, categorized by program; and 2. Balance sheet/statement of financial position.	The governing board receives financial reports at each regular meeting that include the following: 1. Organization-wide report on revenue and expenditures that compares budget to actual, categorized by program; and 2. Balance sheet/statement of financial position. In addition to the two required reports, the governing board receives additional financial information that either it has requested to assist in the analysis of the financial position of the entity or that staff feel would be helpful.	The governing board receives financial reports at each regular meeting that include the following: 1. Organization-wide report on revenue and expenditures that compares budget to actual, categorized by program; and 2. Balance sheet/statement of financial position. In addition to the two required reports, the governing board receives additional financial information that either it has requested to assist in the analysis of the financial position of the entity or that staff feel would be helpful. Further, the board receives training on reading financial reports.
Standard 8.8	Not all required filings and payments related to payroll withholdings are completed.	All required filings and payments related to payroll withholdings are completed, but not in a timely manner.	All required filings and payments related to payroll withholdings are completed on time.	There is systematic quarterly oversight to ensure all required filings and payments related to payroll withholdings are completed on time.	There is systematic quarterly oversight to ensure all required filings and payments related to payroll withholdings are completed on time. Any problems with filings and payments are reported directly to the board.
Standard 8.9	No budget is prepared for the organization.	Either an organization-wide budget is approved by the governing board subsequent to the start of the fiscal or individual grant budgets, but not an organization-wide budget, is approved by the board.	The governing board annually approves an organization-wide budget.	The governing board annually approves an organization-wide budget prior to the start of the fiscal year.	The governing board annually approves an organization-wide budget prior to the start of the fiscal year. The budget is tied to the strategic plan of the organization.

Category 8: Financial Operations and Oversight – Assessment Scale

	Documentation Used	Unacceptable	Unsatisfactory	Satisfactory	Advancing	Outstanding	Action to be Taken
Standard 8.10 The fiscal policies have been reviewed by staff within the past 2 years, updated as necessary, with changes approved by the governing board.	•						
Standard 8.11 A written procurement policy is in place and has been reviewed by the governing board within the past 5 years.	•						
Standard 8.12 The organization documents how it allocates shared costs through an indirect cost rate or through a written cost allocation plan.	•						
Standard 8.13 The organization has a written policy in place for record retention and destruction.	•						

	Unacceptable	Unsatisfactory	SATISFACTORY	Advancing	Outstanding
Standard 8.10	Either there are no written fiscal policies or they have not been reviewed.	The fiscal policies have been reviewed by staff but more than 2 years ago.	The fiscal policies have been reviewed by staff within the past 2 years, updated as necessary, with changes approved by the governing board.	The fiscal policies have been reviewed by staff within the past year and updated as necessary, with changes approved by the governing board.	Fiscal policies are reviewed and updated as changes occur, with all changes approved by the governing board.
Standard 8.11	There is no written procurement policy in place.	A written procurement policy is in place and has been reviewed by the governing board more than 5 years ago.	A written procurement policy is in place and has been reviewed by the governing board within the past 5 years.	A written procurement policy is in place and has been reviewed by the governing board within the past 3 years.	A written procurement policy is in place, has been reviewed by the governing board within the past 2 years, and periodic checks occur to ensure compliance with the policy.
Standard 8.12	The organization does not have a plan to allocate shared costs.	The organization has a plan to allocate shared costs, but the plan is not in writing.	The organization documents how it allocates shared costs through an indirect cost rate or through a written cost allocation plan.	The organization documents how it allocates shared costs through an indirect cost rate or through a written cost allocation plan. The plan has been reviewed and by the governing board.	The organization documents how it allocates shared costs through an indirect cost rate or through a written cost allocation plan. The plan has been reviewed and approved by the governing board. Each cost center in the agency reviews its budget annually to adjust for any changes in the indirect rate.
Standard 8.13	The organization has no record retention or destruction plan.	The organization has a record retention and destruction plan but it is not in writing or only one of the elements is present in the written policy	The organization has a written policy in place for record retention and destruction.	The organization has a comprehensive written policy in place for record retention and destruction that is uniform in requirements for all units/divisions of the organization and approved by the board.	The organization has a comprehensive written policy in place for record retention and destruction that is uniform in requirements for all units/divisions of the organization and approved by the governing board. Regular checks are conducted to ensure compliance with the policy.

Category 8: Financial Operations and Oversight – Assessment Scale

For all the latest information on Organizational Standards, check out the **“Updates on CSBG Organizational Standards and ROMA Next Generation”** quicklink on Community Action Partnership’s website at www.communityactionpartnership.com



The screenshot shows the Community Action Partnership website. A red arrow points to the 'quicklinks' section on the left sidebar. The main content area features a banner for the 'COMMUNITY ACTION PARTNERSHIP ANNUAL CONVENTION' held in San Francisco, CA, in August 2015. Below this, there is a section for the '2016 MANAGEMENT AND LEADERSHIP TRAINING CONFERENCE' in New Orleans, LA, scheduled for January 6-8, 2016. The right sidebar contains links to the 'NATIONAL TRAINING CENTER', 'RESOURCES', 'LEARNING COMMUNITIES RESOURCE CENTER', and 'HOW YOU CAN HELP'.

quicklinks

- Partnership Membership Form
- Updates on CSBG Organizational Standards and ROMA Next Generation
- Annual Convention
- Certified Community Action Professional (CCAP)
- Subscribe to the eNews
- Community Action Code of Ethics
- New Reality Initiative
- Community Economic Development Website
- Managing My Money Financial Literacy Website
- 2015 Community Action Partnership Fact Sheet

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Thanks to everyone who helped make the Convention a success. Presentations will be posted on the [Convention webpage](#) as they are made available.

COMMUNITY ACTION PARTNERSHIP ANNUAL CONVENTION

COMMUNITY ACTION 2015: EMPOWERING FAMILIES, TRANSFORMING COMMUNITIES

August 25–28, 2015
San Francisco Marriott Marquis
San Francisco, California

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THE PROMISE OF COMMUNITY ACTION

Community Action changes people's lives, embodies the spirit of hope, improves communities, and makes America a better place to live. We care about the entire community, and we are dedicated to helping people help themselves and each other.

HOW YOU CAN HELP

Community Action Partnership
1140 Connecticut Avenue, NW
Suite 1210
Washington, DC 20036
phone 202 265 7546

- Technical Assistance Guides
- Update Webinars
- Assessment Tools
- Videos for Governing boards
- Technical Assistance Webinars
- Communications from OCS
- Glossary of Terms
- ...and more!



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