A Board’s Guide to Sound Financial Policies

March 14, 2023
Although our investigation is ongoing and detailed findings will have to await its conclusion, the FTX Group’s collapse appears to stem from the absolute concentration of control in the hands of a very small group of grossly inexperienced and unsophisticated individuals who failed to implement virtually any of the systems or controls that are necessary for a company that is entrusted with other people’s money or assets.

- John Ray, CEO FTX Debtors

Testimony before the U.S. House Financial Services Committee
December 13, 2022
To give a sense of [John Ray’s] background and how I ended up in this role: I have over 40 years of legal and restructuring experience. I have been the Chief Restructuring Officer or Chief Executive Officer in several large and vexing corporate failures involving allegations of criminal activity and malfeasance, including the Enron bankruptcy. I also have experience in bankruptcies involving novel financial and cross-border asset recovery and maximization.

Nearly all of these situations share common characteristics, ranging from gross mismanagement, excessive leverage, failures of internal controls, failures of external checks as a result of audit firm failures, or insufficient board governance. But never in my career have I seen such a failure of corporate controls at every level of an organization from the lack of financial statements to a complete failure of any internal controls or governance whatsoever.
BOARDS (GOVERNANCE)

- Evaluate school and leader
- Set goals and create metrics for measurement
- Approve budget
- Create school policies
- Know local and state charter laws
- Fundraise for the school

LEADERS (MANAGEMENT)

- Make curricular decisions
- Hire Staff
- Manage day-to-day affairs of the school
- Interact with the parents
- Report to the board
- Implement the board’s suggestions and strategies

Enact the school’s mission and vision.

Starting Strong: Best Practices in Starting a Charter School
Marisa Cannata, Grant Thomas, Zaia Thombre
Fiduciary Duties

A Fiduciary Duty is the obligation to act for another’s benefit.

The Fiduciary is one whom another has placed the utmost trust and confidence to manage and protect interests, property, or money.
Duty of Care
- Act in Good Faith
- Exercise Due Diligence
- Exercise care and skill of a reasonable, prudent person

Duty of Loyalty
- Act in the Interest of:
  - The Charter School
  - its Students
  - the Public

Duty of Obedience
- Ensure Actions Meet:
  - The Charter Contract
  - Applicable Rule and Law
  - Mission and Vision
  - Ethical Obligations

Upholding Fiduciary Duties
Evaluate and Oversee Budget and Current Financial Health

Establish and Adhere to Financial Systems and Controls

Plan and Prepare for Long-Term Financial Sustainability

Hire Skilled and Capable Staff and hold them Accountable

Governance Board Financial Oversight
Starting Strong: Best Practices in Starting a Charter School
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# Board Vs. Finance Committee

<table>
<thead>
<tr>
<th>Role of the Board</th>
<th>Role of the Finance Committee</th>
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<tr>
<td>• Vote to approve</td>
<td>• Vote to recommend</td>
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<td>• Review financial statements at an even higher level</td>
<td>• Review financial statements at a high level</td>
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<td>• Challenge only the biggest assumptions</td>
<td>• Challenge all major assumptions</td>
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<td>• Meet (minimally) quarterly or bi-monthly/monthly</td>
<td>• Meet monthly</td>
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<td>• Works closely with the school leader</td>
<td>• Works closely with the CFO</td>
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Board Policies are Actions by that provide Clear Directives for the future.

Policies:
- Direct Implementation of Mission, Vision, Charter
- Ensure Actions and Application of Rules are Consistent
- Promotes Compliance, Equity, and Confidence
- Preserves Knowledge and Continuity
- Mitigates Risk

Effective Policies are **Clear**, **Specific**, and **Implemented**
GADOE Recommendations

Financial policies should cover these topics, at a minimum:

- Operating Budget
- Capital Budget
- Revenues
- Cash & Investments
- Fund Balance
- Purchasing
- Debt
- Accounting, Auditing, and Financial Reporting
Policies vs. Procedures

Policy
- Broad and Guiding Principle
- Adopted by Governing Board
- Further Mission, Vision, and Charter Contract
- Provides or Limits Staff Authority

Procedure
- Specific and Detailed Actions
- Established by Staff
- Step-by-Step Instructions
- Answers: “How do we...”
What are processes and procedures?

A **policy** is a guiding principle used to set direction in an organization.

A philosophy or Point of View

A **process** is a broad set of actions steps to be taken to turn input into outputs

A **procedure** is a detailed series of steps to be followed as a consistent and repetitive approach to accomplish a specific result
How are policies, processes, and procedures related?

Tenured employees in good-standing will be paid for unused PTO days annually.

HR will determine list of eligible employees; Managers will review and provide feedback on list; Finance will verify payout amounts; HR will run payroll with payout amounts.

HR will run staff list and remove any with < 3 years tenure and those not in good-standing by 6/1; managers will be provided this list with detailed instructions and return by 6/8; HR will review feedback and adjust by 6/15; Finance will verify payout amounts by 6/22 and submit to payroll; Payroll will process payouts and run on 6/30 payroll
Procedure Manuals

- Provide Consistent and Comprehensive Guidance for School Operations
- Remain Current and Updated to Reflect Changing Obligations and Practices
- Ensure Knowledge and Processes are Written and Reinforced
- Mitigate Risk and Protect Staff
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What Makes a Good Financial Policy?

- Clear and Unambiguous
- Consistent with Mission, Vision, and Charter
- Consistent with applicable law and regulations
- Address the Specific Needs of the School
- Consistent with Financial Management for Georgia LUAs
- Adequate Internal Controls
The Importance of Internal Controls

- **Protect** School Assets and Liability
- **Protect** Staff
- **Promote** the School’s Mission, Vision, and Charter
- **Improve** Compliance
- **Mitigate** Risk
- **Minimize** Errors and Omissions
- **Provide** Checks and Balances
- **Instill** Confidence, Integrity, and Trust
Segregation of Duties

- Segregating Duties involves more than one individual to complete, record, and report operational tasks.
- Minimize Fraud, Waste, and Abuse
- When you can - Segregate, Segregate, Segregate
  - Authorization
  - Custody
  - Recordkeeping
  - Reconciliation
Segregation of Duties

● Examples:
  ○ **Authorization**: Multiple Approvers; Committee/Board Approval
  ○ **Custody of Assets**: Limit Access to Assets and Resources - (e.g. Director of Ops obtains key from School Leader)
  ○ **Recordkeeping**: Create and Verify written records of receivables
  ○ **Reconciliation**: Verify Actuals to Expected - Reviewing account statements
If you can’t Segregate - Compensate:

- Include Independent Review Points to Identify Concerns
- Mitigates the risk and damage of misfeasance
- If it’s a review - it’s not preventative, but it may lessen the impact of error or omission.
- Recovering from financial loss consumes much more time and resources than preventing that loss.
Policy Development

1. Create calendar and action plan
2. Determine which policies need to be created or refined
3. Review sample policies
4. Draft your most important 5-7 policies
5. Create stakeholder engagement plan
6. Share drafts with stakeholders & gather feedback
7. Present policies to Board
8. Incorporate Board feedback
9. Board vote to adopt policies
Policy Implementation

1. Release the newly approved policies to all stakeholders
2. Conduct training sessions on all policies
3. State the consequences of non-compliance
4. Check for understanding with key stakeholders
5. Document non-compliance as needed
Followed?  Effective?  Compliant?

Efficiency?  Compliance?  Clarity?

Communicate  Train  Follow

Implement

Develop

Evaluate

Governing Board Policy Cycle
Gregg Stevens
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