

# 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



GCSA  
GLOBAL CONSUMER  
SERVICES ASSOCIATION

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

Enact the  
school's  
mission and  
vision.

## 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

### [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

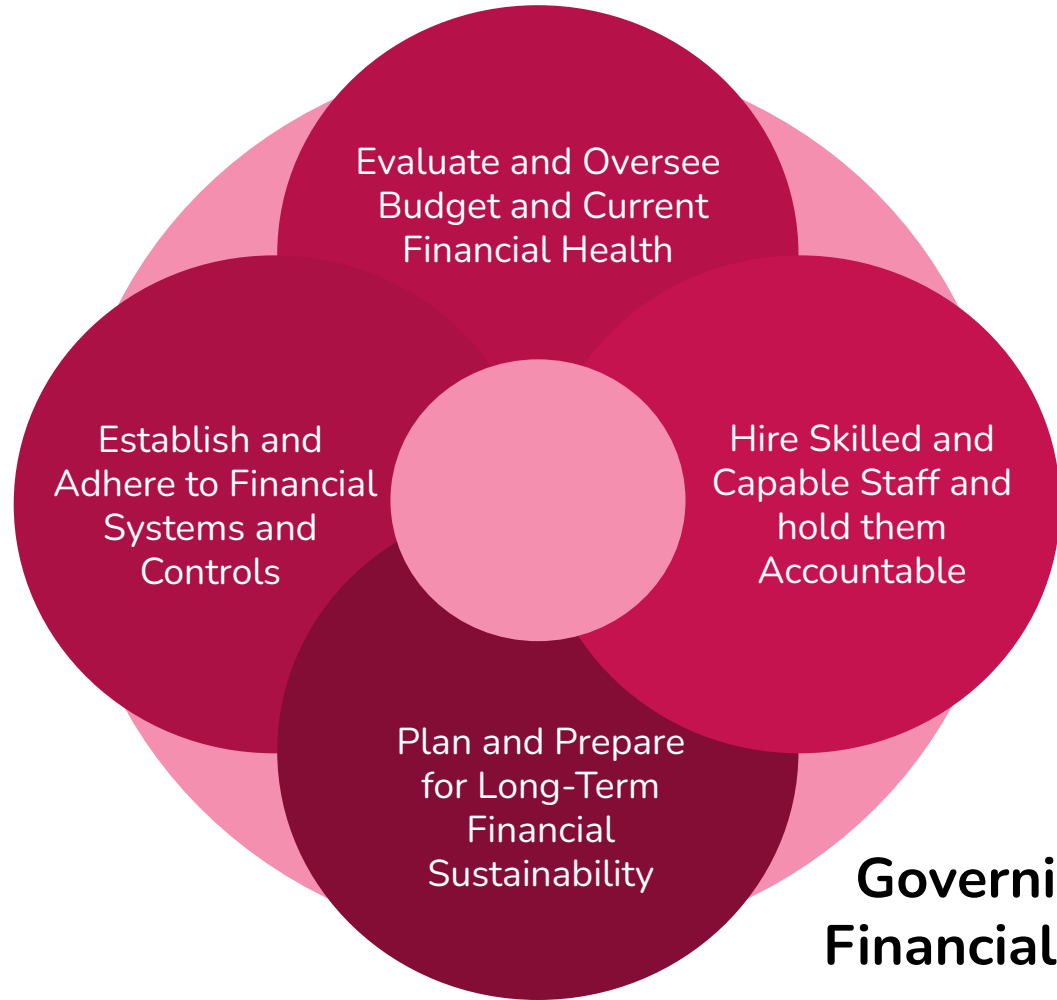
## Duty of Loyalty

- 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



**Governing Board  
Financial Oversight**

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# Board Vs. Finance Committee

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Role of the Board	Role of the Finance Committee
<ul style="list-style-type: none"><li>• Vote to approve</li></ul>	<ul style="list-style-type: none"><li>• Vote to recommend</li></ul>
<ul style="list-style-type: none"><li>• Review financial statements at an even higher level</li></ul>	<ul style="list-style-type: none"><li>• Review financial statements at a high level</li></ul>
<ul style="list-style-type: none"><li>• Challenge only the biggest assumptions</li></ul>	<ul style="list-style-type: none"><li>• Challenge all major assumptions</li></ul>
<ul style="list-style-type: none"><li>• Meet (minimally) quarterly or bi-monthly/monthly</li></ul>	<ul style="list-style-type: none"><li>• Meet monthly</li></ul>
<ul style="list-style-type: none"><li>• Works closely with the school leader</li></ul>	<ul style="list-style-type: none"><li>• Works closely with the CFO</li></ul>

# The Importance of Board Policies

- **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

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**Financial policies should cover these topics, at a minimum:**

Operating Budget

Capital Budget

Revenues

Cash &  
Investments

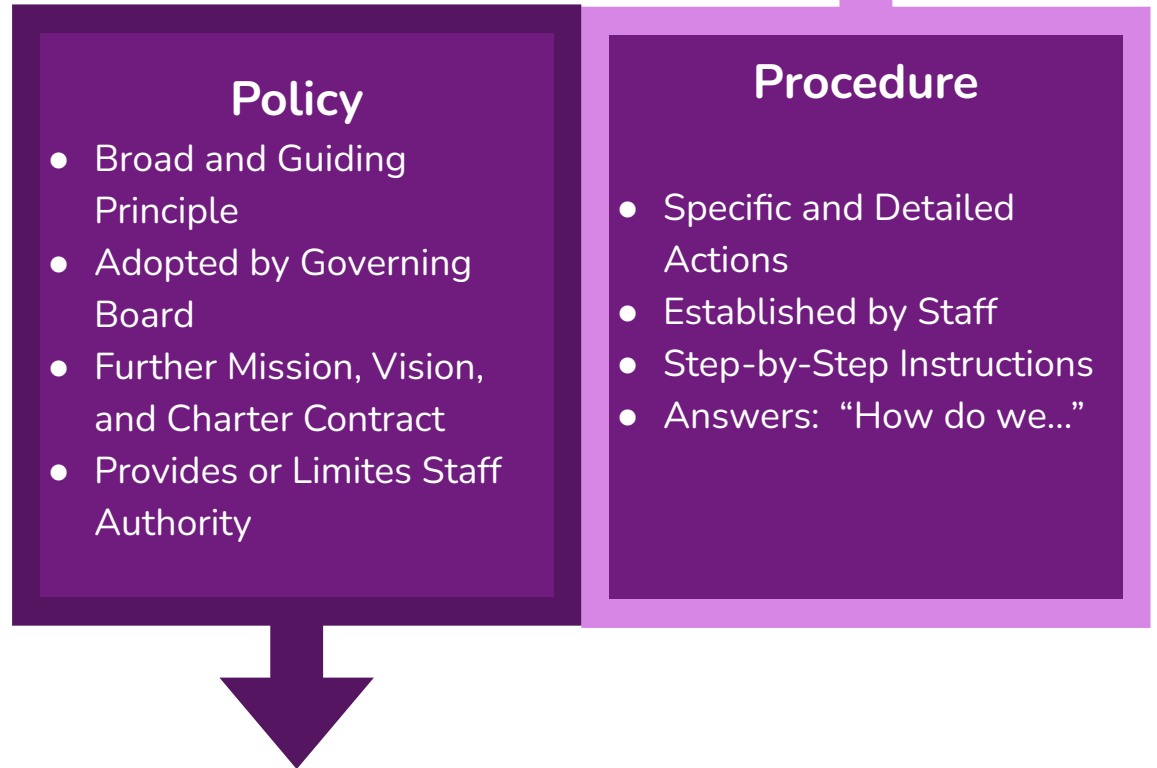
Fund Balance

Purchasing

Debt

Accounting,  
Auditing, and  
Financial  
Reporting

# Policies vs. Procedures



# What are processes and procedures?

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

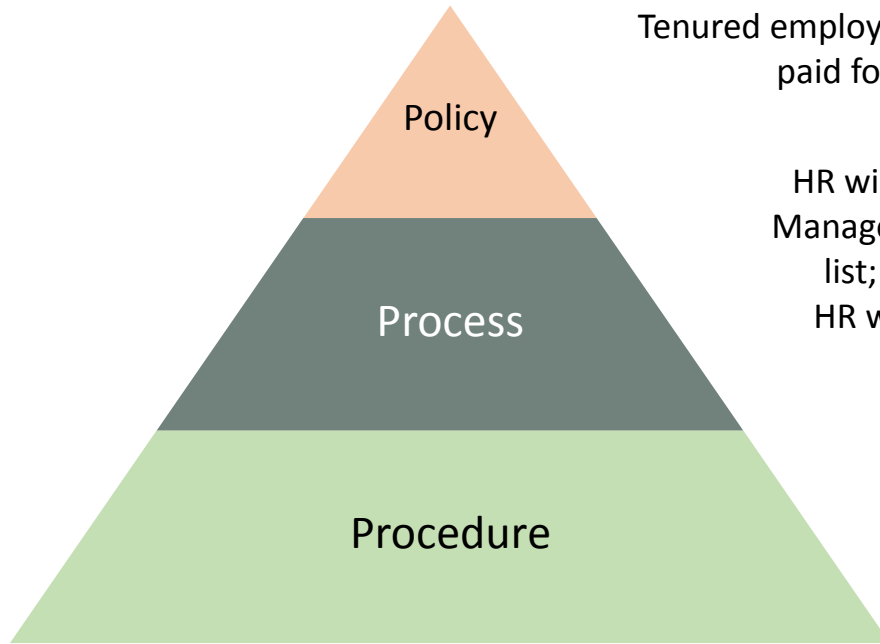
A philosophy or  
Point of View

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?

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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

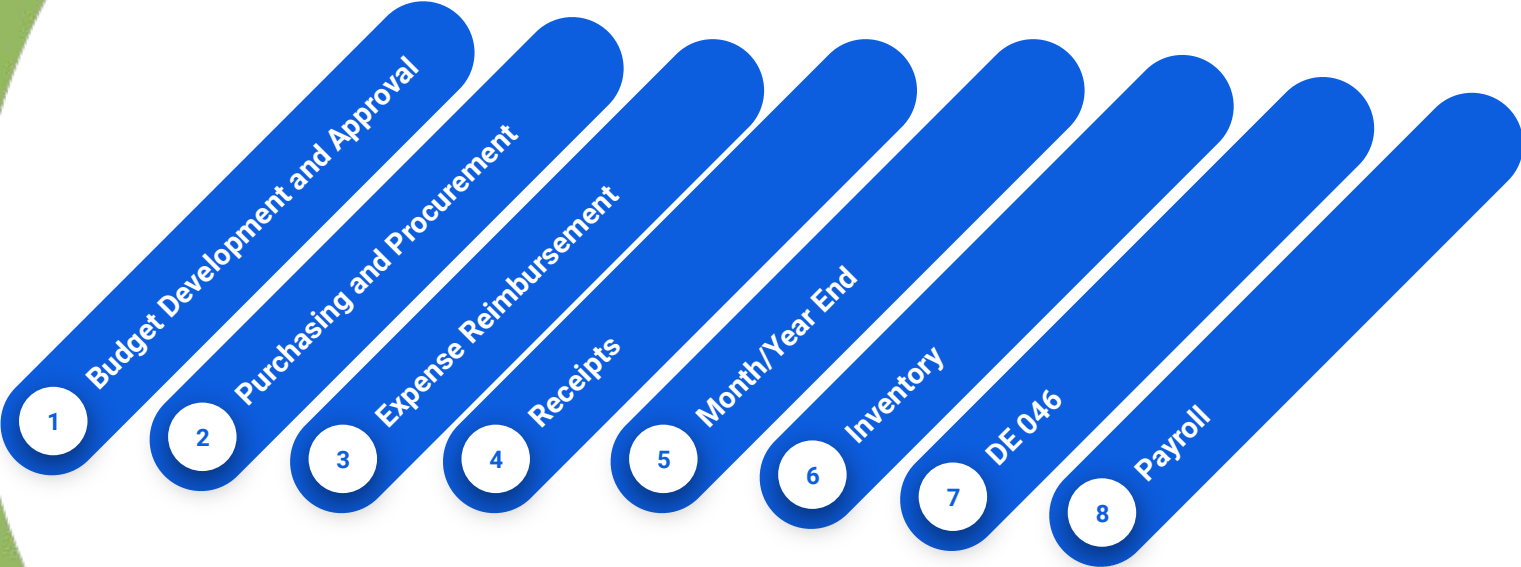
Remain Current  
and Updated to  
Reflect Changing  
Obligations and  
Practices



Ensure  
Knowledge and  
Processes are  
Written and  
Reinforced

Mitigate Risk  
and  
Protect Staff

# Procedure Manual: The Essentials





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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

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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

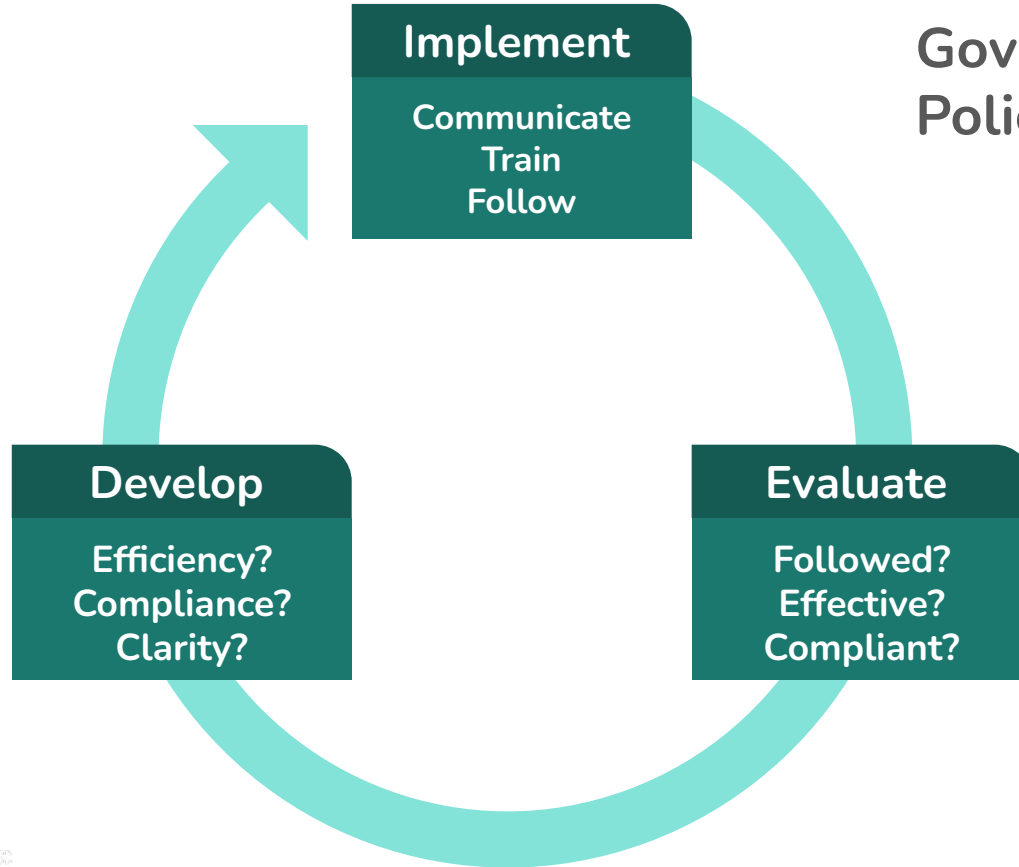
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1. Release the newly approved policies to all stakeholders
2. Conduct training sessions on all policies
3. State the consequences of non-compliance
4. Check for understanding with key stakeholders
5. Document non-compliance as needed





# Governing Board Policy Cycle





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