

# BOARD GOVERNANCE TRAINING

## California Housing Finance Agency

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Presented By:  
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WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Create Opportunities

# Objectives

- Brief Overview of Accountability and Fiduciary Responsibility
- Specifics for the California Housing Finance Agency Board



# Fiduciary Duties

## Duty of Care

- Diligence and attentiveness to board responsibilities. Act as “an ordinarily prudent person” would “in a like position and under similar circumstances.”

## Duty of Loyalty

- Faithful pursuit of the interests of the organization rather than personal interests or the interest of another person or organization means that decisions are to be made in the best interests of CalHFA.

## Duty of Obedience

- Act with fidelity, within the bounds of law generally, to the organization’s mission.

# Duty of Care

Attend meetings and actively participate in the work of the Board.

Scrutinize the work of committees having authorization of the Board.

Participate in Board actions. If you are there, you are responsible for knowing the board materials prior to the meeting. Be present.

Know the books and records.

Protect the organization's assets consistent with restrictions and legal requirements.

# Duty of Loyalty

Follow your written policies on conflicts of interest.

Do not divert a corporate business opportunity for your own personal gain, own organization, or for another entity.

Adhere to the rules of the Internal Revenue Code regarding self-dealing.

Do not take gifts from individuals or entities subject to the Agency's jurisdiction.

# Governance Vs. Management

- Governance is the ultimate responsibility of the board, while the responsibility of the staff is management.
- The Executive Director is statutorily responsible for the day-to-day operational decisions of CalHFA while the Board is responsible for operational performance of the Agency as a whole.

# Purpose of the Governing Board

- Purposes for the board of directors
  - To provide organizational oversight
  - To maintain accountability to the public and the law
- The Board must ensure:
  - The Future
  - The Mission
  - Effective Governance
  - Effective Operations



# ADDITIONAL REQUIREMENTS

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# Open Meeting Requirement

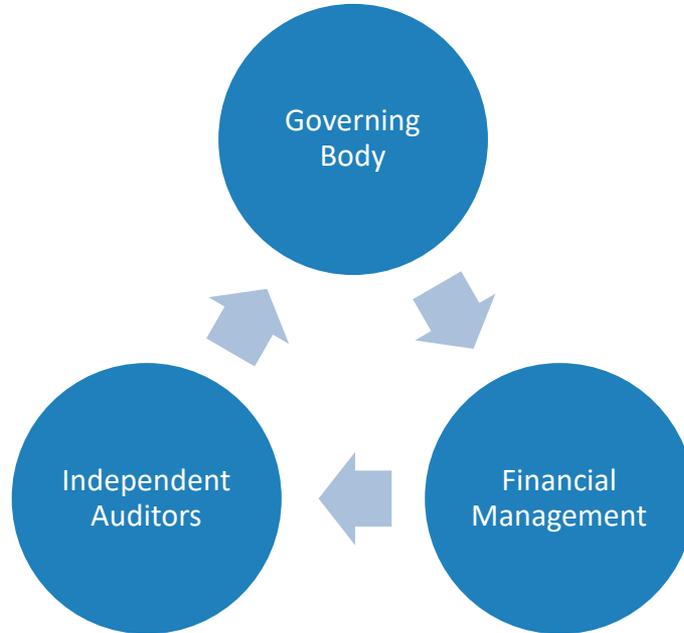
- Meetings conducted in public with 10 days advance notice
- Only vote on matters properly noticed and on agenda
- Majority cannot communicate with each other for CalHFA business except in open meeting
- Closed sessions are limited – authorized by law and on agenda
- Emergency meetings can have less than 10 days notice under special circumstances

# Duty of Disclosure of Economic Interests

- Rely on Agency's disclosure process
- Reporting obligation if:
  - Knew, or
  - Should have known

# Financial Reporting Responsibilities

- Three main groups responsible for quality of financial reporting:



# Financial Oversight

- Financial oversight is a core responsibility of the board
  - That means that ALL board members equally share or have equal representation on the following:
    - ◇ Shared fiduciary responsibility for the organization
    - ◇ Understand the content and significance of financial statements and audit



# Two Advisory Committees



# Role of the Audit Committee

Makes recommendations for selection and retention of auditors.

Review audit findings.

Reports to the Board.

Review and update the Committee's charter annually.

# Role of the Executive Evaluation Committee

Evaluate the Executive Director and compensation of key exempt management.

Recommends evaluation of Executive Director to Board.

Develop compensation policies and procedures to attract and retain talent.

Review and discuss management succession.

# Audit Committee Best Practices - Characteristics

- Possess a basic understanding of governmental financial reporting and auditing.
- Have access to at least one financial expert
- Enough members to ensure meaningful discussion and deliberation – minimum of 3.
- Exercise professional skepticism.

# Audit Committee Best Practices - Duties

- Provide independent review and oversight of financial reporting processes, internal control and independent auditors.
- Establish procedures for receipt, retention and treatment of complaints regarding accounting , internal control, or auditing matters.
- Annually present to the full Board – written report of how it discharged its duties and met its responsibilities.



# Understanding of Fraud Risks at the Agency

**Source: ACFE 2020 Global Study on Occupational Fraud and Abuse**

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## OUR STUDY COVERED



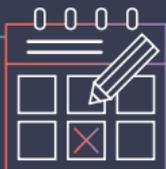
2,504 CASES

from



125 COUNTRIES

Causing total losses of more than  
**\$3.6 BILLION**



### TYPICAL FRAUD CASE

lasts  
**14 MONTHS**  
before  
detection

causes a  
loss of  
**\$8,300**  
per month

CFEs ESTIMATE THAT  
ORGANIZATIONS  
LOSE

**5%** OF REVENUE  
TO FRAUD  
EACH YEAR

MEDIAN LOSS  
PER CASE:

**\$125,000**

AVERAGE LOSS  
PER CASE:

**\$1,509,000**

### CORRUPTION

WAS THE  
MOST COMMON  
SCHEME IN EVERY  
GLOBAL REGION



**ASSET MISAPPROPRIATION  
SCHEMES** are the  
most common and least costly

**86%**  
OF CASES

**\$100,000**  
median loss

**FINANCIAL STATEMENT  
FRAUD SCHEMES** are the  
least common and most costly

**10%**  
OF CASES

**\$954,000**  
median loss



Organizations with **FRAUD AWARENESS TRAINING** for employees were **more likely** to gather tips through



**43%** OF SCHEMES WERE DETECTED BY TIP, and half of those tips came from employees 



**FORMAL REPORTING MECHANISMS**

**56%** of tips with training

**37%** of tips without training

**TELEPHONE HOTLINE** and **EMAIL**

were each used by whistleblowers in

**33%**  
**OF CASES**

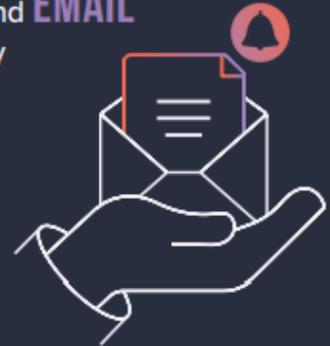
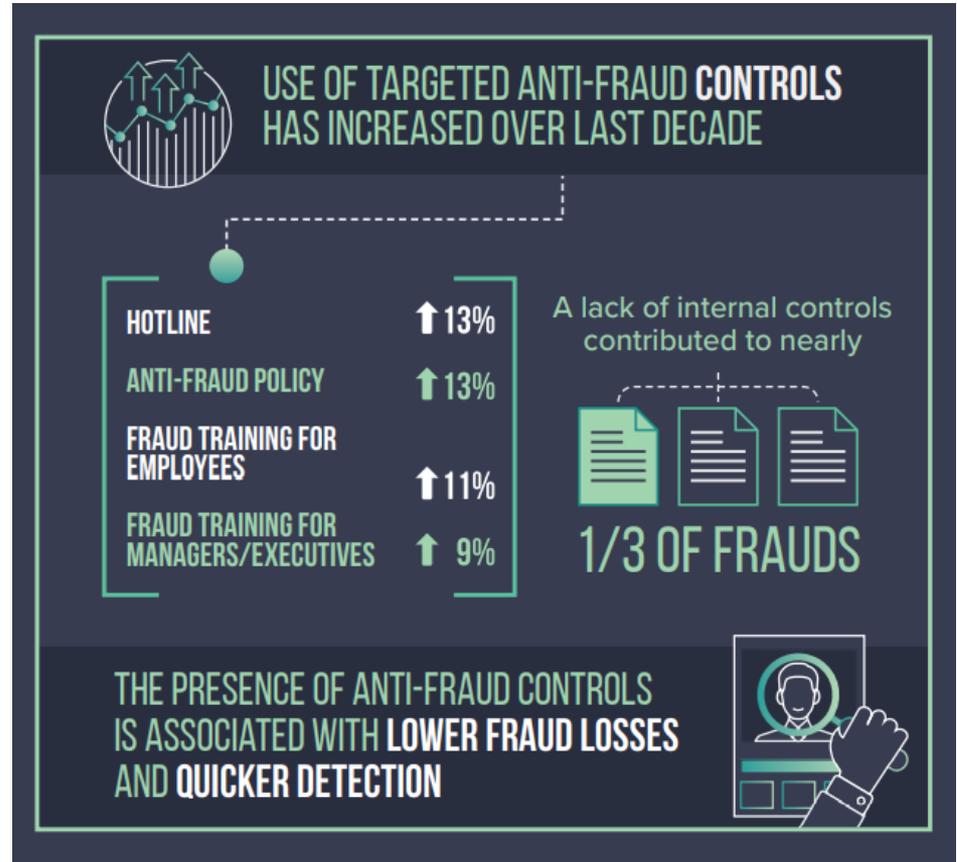
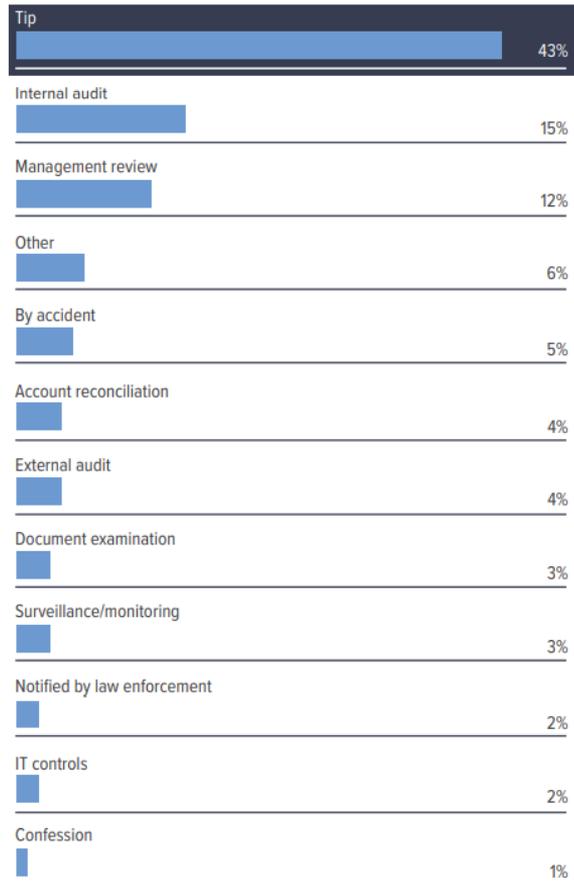




FIG. 9 How is occupational fraud initially detected?





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