

AGENDA

July 12, 2016

ARKANSAS WORKFORCE DEVELOPMENT BOARD FULL BOARD MEETING

1:00 P.M.

Call to OrderCharlie Clark, Chair

ACTION Item 1

Minutes of April 12, 2016 Full Board Meeting

Report of Chairperson.....Charlie Clark, Chair

Report of Staff.....Daryl Bassett, Director
Arkansas Department of Workforce Services

Cindy Varner, Assistant Director
Arkansas Department of Workforce Services

Report of Committees

- Strategic Planning Committee.....Brian Itzkowitz, Committee Chair
 - Report on PY 2016-2019 WIOA Combined Plan Approval
 - **ACTION Item 2: Revisions to WIOA Combined Plan**
- Program & Performance Evaluation Committee.....Scott Bull, Committee Chair
 - **ACTION Item 4: Revision to Eligible Training Provider Continued Eligibility Policy**
 - **ACTION Item 5: Local Board Annual Reports**
- Temporary Assistance for
Needy Families Oversight Committee.....Tom Anderson, Committee Chair

Board Ethical Behavior and Effective Governance.....Jerry Spratt
Spratt Financial Forensics, Inc.

Open Discussion: The State Plan is Submitted and Now What?.....Charlie Clark, Chair

Embassy Suites Hotel
11301 Financial Centre Parkway
Little Rock, Arkansas



Announcements

Adjournment

NEXT MEETING DATES

October 11, 2016	10:00 a.m. 1:00 p.m.	Committees Full Board Meeting	Little Rock Little Rock
January 10, 2017	10:00 a.m. 1:00 p.m.	Committees Full Board Meeting	Little Rock Little Rock
April 11, 2017	10:00 a.m. 1:00 p.m.	Committees Full Board Meeting	Little Rock Little Rock
July 11, 2017	10:00 a.m. 1:00 p.m.	Committees Full Board Meeting	Little Rock Little Rock
October 10, 2017	10:00 a.m. 1:00 p.m.	Committees Full Board Meeting	Little Rock Little Rock

Embassy Suites Hotel
11301 Financial Centre Parkway
Little Rock, Arkansas



**For Consideration of the
Arkansas Workforce Development Board**

July 12, 2016

AGENDA ITEM 1 – ACTION: Minutes of the April 12, 2016 Full Board Meeting

RECOMMENDATION: It is recommended that the Arkansas Workforce Development Board approve the minutes of the April 12, 2016 full board meeting.

INFORMATION/RATIONALE: Minutes of the meeting are attached.

UNOFFICIAL
MINUTES
ARKANSAS WORKFORCE DEVELOPMENT BOARD
April 12, 2016

A regular quarterly meeting of the Arkansas Workforce Development Board was held on January 19, 2016, beginning at 1:00 p.m., at the Embassy Suites Hotel, 11301 Financial Centre Parkway, in Little Rock, Arkansas. Chair Charles Clark presided with the following members present: Mr. Tom Anderson, Mr. Daryl Bassett by proxy Mr. Ron Snead, Mr. Chad Bishop, Ms. Karen Breashears, Mr. Lindsey Brown, Mr. Scott Bull, Ms. Charisse Childers by proxy Ms. Bridget Bullard, Mr. Robert East, Judge Brandon Ellison, Ms. Diane Hilburn, Ms. Abby Houseworth, Mr. Alan Hughes, Mr. Johnny Key, Mr. Bart Langley, Ms. Holley Little, Mr. Alan McClain by proxy Mr. Jim Moreland, Ms. Katy Morris, Mr. Michael Newcity, Mayor Harold Perrin, Mr. Brett Powell, Mr. Gary Sams, Mr. Kelley Sharp, and Mr. Robert Thorne. Mr. Jeff Griffin, Ms. Melissa Hanesworth, Mr. Brian Itzkowitz, and Mr. Mike Preston were unable to attend.

Agenda Item 1 – ACTION – Minutes of the January 19, 2016 Board Meeting: Chair Clark proceeded to Action Item 1, asking if there were any additions or corrections to the minutes. Hearing none, **a motion to accept the minutes as presented was made by Mayor Harold Perrin, seconded by Mr. Tom Anderson, and the motion carried unanimously.**

Report of the Chair: Chair Clark began by stating that the board currently has three vacancies, due to the resignations of Mr. Randy Hopper, Mr. Dean Inman and Mr. Jerry Riley. He thanked the staff for submission of the State Plan by the April 1st deadline. He discussed his visit to the grand opening of the Arkansas Workforce Center in Magnolia, Arkansas. Next, he discussed a recent trip to the National Governor’s Association (NGA) meeting in Washington, DC. He explained that one of the topics discussed was strategic boards. He stated that while the Workforce Innovation and Opportunity Act (WIOA) does not mandate a major overhaul in system structure, it does direct a new focus and establishes key priorities. He said that while the role of the board is management and oversight of the system, the Act also promotes an extensive strategic leadership role in the visioning and development of talent pipelines. He stated that in the past our workforce board has sometimes operated primarily in a tactical role, completing the work assigned by the Workforce Investment Act (WIA). He said however WIOA offers our board the opportunity to ensure more strategic action by serving as true system leaders that facilitate focused partnerships among programs previously operating in silos, and ensures industry-defined connections between sector strategies and career pathways that meet needs that are truly data-driven and locally determined. He stated it is important that this role is understood by members, elected officials, and other stakeholders.

He posed the question as to whether our board is acting strategically, and answered that according to what he learned at the NGA meeting we are headed in the right direction. He reported that we are not just interested in how individual programs may serve customers, but

focused on the bigger picture of modernizing the workforce system and ensuring it operates as a comprehensive system for all workers and businesses. He stated that we need to go beyond simply looking at workforce and occupational data, but use data to set future goals, create strategic plans, performance improvements, and ensure system excellence. He said that we must understand and allocate resources to respond to current workforce skill needs while simultaneously planning for projected future industry needs. He stated that it was important that we have strong industry partnerships in place informing board decisions. Chair Clark stated that we must move away from managing day to day processes and look more toward capacity building, emphasizing lasting connections between core programs and relationships with industry.

Finally, he stated that we must continue to emphasize regional planning and alignment with economic development strategy, the creation of career pathways, and development of work-based learning for the long term success of the workforce.

Report of the Staff: Chair Clark asked Ms. Cindy Varner to provide the staff report. Ms. Varner reported that the WIOA Combined State Plan due April 1, 2016 had been submitted on time and that more information would be provided during the committee reports. She informed the members that over 900 people attended the *WIOA National Convening*, January 26 – 28, 2016, in Washington, DC, with 18 representing Arkansas. She stated that the Arkansas team included two members of the Governor's staff, two local board directors, and staff from the Department of Workforce Services, the Department of Human Services, the Department of Career Education, Arkansas Rehabilitation Services, Division of Services for the Blind, Adult Education and Temporary Assistance for Needy Families (TANF). She stated that the focus of the meeting was on partnerships, and that all federal agencies involved in WIOA implementation were present at the meeting as well as counterparts from across the country.

Next, Ms. Varner briefly discussed the National Governor's Association meeting that chair Clark had reported attending earlier. She added to his report that Arkansas is ahead of other states in implementing WIOA, stating that one state had not even had a board meeting as of January.

Ms. Varner discussed attending the National Association of Workforce Boards meeting with nine others from Arkansas, including AWDB member and Local Board Chair Gary Sams, which focused on assisting workforce boards. She stated that there were a total of 1,500 attendees at the meeting.

She stated that the U.S. Department of Labor did an assessment of Arkansas's WIOA implementation on March 7 – 10, 2016. The report is not available yet, but we had great feedback from the U.S. Department of Labor representatives. They were impressed with the level of partnership in the state.

Ms. Varner announced several capacity building training dates. The first was held March 8 – 9, 2016, for Monitoring Training, which included three tracks – financial, program and local board directors. She said the training went very well and was attended by 110 from across the state.

She announced the next training date of April 27th for Local Board Member Training. She stated that the facilitator will be Mr. Rick Maher of Maher & Maher, Inc. She said that we have 156 registered to attend to date and that the focus will be on the roles and responsibilities of local board members. Next, she announced Case Management Training to be held May 2 – 3, 2016, which will focus on all principals of case management, developing joint employment plans, referrals to other agencies, supportive services and follow up activities. The training will be open to all WIOA partners and we anticipate at least 300 in attendance. The last training date she announced is the Statewide Partners Meeting, May 23 – 24, 2016, which will be held in Hot Springs. She stated that this is a continuation of bi-annual partners meetings. The last one held in West Memphis in September was well received and attended. She said that the focus for this meeting will be coordinating services to employers, adult education and a tour of the Arkansas Career Training Institute (ACTI) Training Center, which is a comprehensive vocational rehabilitation center located in Hot Springs. She stated that attendance for this training will also be around 300 from across the state.

Committee Reports

Action Item 2 – Committee Action Ratification: Chair Clark asked that Mr. Chad Bishop member of the AWDB Strategic Planning Committee give a report of the committee's activities since the last quarterly meeting.

Mr. Bishop stated that the Strategic Planning Committee met this morning and approved the minutes of the January 19th meeting. He stated that the committee heard a report from Ms. Cindy Varner regarding the submission of the WIOA Combined State Plan. Ms Varner reported to the committee that federal guidance on development of the state plan was finally issued on March 4, 2016 and due to delay in the federal agencies publishing guidelines, the U.S. Department of Labor gave an extension to all states to submit their state workforce plan on April 1, 2016. Staff submitted the state plan on April 1, 2016. A public comment period was held February 9, 2016 through March 10, 2016. A public meeting was held on February 23rd hosted in Little Rock, and held virtually in Jonesboro, Camden, Fayetteville, and Pine Bluff to allow interested persons an opportunity to make comments on the state plan. No one attended the meetings to make comments. Seven individuals sent an email with comments. The multi-agency State Plan Development Team reviewed each of the seven comments, made one correction to performance numbers that were transposed for Adult Education, and determined that the state plan addressed the other issues already, if it was possible to address the issue. Some comments were directed at changes made by the WIOA law rather than the plan itself. The final state plan is over 300 pages. The staff is going to prepare an Executive Summary of the plan that will be a shorter read and summarize the goals and objectives. Staff will email a draft to the committee within the next two weeks. A timeline for federal approval of the plan is not known at this time; however, the plan will be effective on July 1, 2016.

Next, Acting Chair Bishop reported that the committee reviewed two policies – Open Public Meetings Policy, which is available in your full board agenda packet on page eight; and WIOA Title I Funding Distribution Policy, which can be found on page 10. He stated that both policies

are required for WIOA implementation and both have been reviewed by the WIOA Roundtable Interagency Policy Committee prior to being presented to the Strategic Planning Committee. The Open Public Meetings Policy addresses requirements for local boards to make their meeting dates, agendas, and minutes available to the public. The committee made two changes to the policy which were the addition of a requirement that meeting dates be submitted for posting online no later than two weeks prior to the meeting date for regularly scheduled meetings, and requiring local boards to notify the Arkansas Information Reading Service, a subdivision of the Division of Services for the Blind, about meetings so that individuals with visual impairments can be notified.

Next, he stated that the second policy reviewed was the WIOA Title I Funding Distribution Policy, which provides the funding formula to be used for distributing Title I adult, dislocated worker, and youth grant funds to the ten local workforce boards. This policy will be reviewed annually and seeks input from Chief Elected Officials. Both are preliminary policies pending the release of the WIOA federal regulations in June. The committee reviewed a timeline suggested by staff for local workforce board planning. The timeline adopted by the committee is as follows:

- No later than April 30: Draft planning guidelines based on federal guidance provided to local boards
- June: WIOA Federal Regulations Released
- July 12: Final local planning guidance presented to AWDB Strategic Planning Committee
- December 31: Local Plans Due

By direction of the Strategic Planning Committee, Mr. Chad Bishop made a motion to approve the Open Public Meetings Policy and the WIOA Title I Funding Distribution Policy. Chair Clark recognized the motion, asked for any questions from the full board and hearing none, the board voted and the committee's recommendations passed unanimously.

Next, Chair Clark recognized and requested that Mr. Scott Bull, Chair of the AWDB – Program & Performance Evaluation Committee give a report on that committee's activities since the last full board meeting.

Chair Bull reported that the committee met that morning and approved the minutes of the January 19, 2016 meeting. He stated that the committee received an overview of the current state WIOA monitoring procedures for both fiscal and programmatic units and they will be provided a fiscal and program monitoring report update for Local Workforce Development Boards at their next committee meeting in July.

Next, Chair Bull stated that the committee received and reviewed a policy revision for consideration on the performance accountability requirements for WIOA programs. The revision outlined policies for the four core programs in WIOA, Title I Adult, Dislocated Worker, and Youth programs; Title II Adult Education and Family Literacy programs, Title III Wagner-Peyser (Employment Services) programs; and Title IV Vocational Rehabilitation programs. He

stated that the policy revision can be found in the full board agenda on page 16. He reported that the revision added a new section stating that each core partner is responsible for the costs associated with data collection and compilation for performance reporting purposes. He further stated that the addition is a necessary requirement under the common assurances section of the state plan. He also reported that three errors in the WIOA Youth Performance Measure section were corrected to bring the policy in line with the federal law. He stated that this policy is still preliminary pending the publication of the WIOA federal regulations in June. He reported that the committee approved the revisions as presented.

Chair Bull stated that over the last meetings, the committee received information from the staff on performance dashboards that are being utilized in other states for workforce planning and decision making. He stated that the dashboards are used to show governors, state legislators and other policy makers, at a glance, how the state's education and training programs are performing and how the workforce system is doing as a whole. The committee has begun outlining specific modules that would be beneficial for Arkansas's dashboard.

Chair Bull stated that the committee reviewed one policy in November on performance targets established for Eligible Training Providers Continued Eligibility Policy. He directed the members attention to page 13 of their agenda books for a reference point. He stated that the full board has already approved the initial eligibility criteria in June of 2015 and that the policy on page 13 represented continued eligibility for training providers. At the time of the November committee meeting, the Continued Eligibility policy had to be in place by December 2015 per federal law; however, he stated that the U.S. Department of Labor subsequently extended the due date an additional six months through June 2016 for states to have a Continued Eligibility Policy in place.

He reported that staff took advantage of this additional time to research options for lessening the reporting burden on training providers. The committee approved the policy; however due to the six month extension, we did not bring the policy before the board for ratification in case changes needed to be made. Since that time, the staff has met several times with the Arkansas Research Center and local workforce board directors and a reporting mechanism has been identified that will prevent the burdensome reporting that is required by the Workforce Innovation and Opportunity Act. Staff will continue to work with the Arkansas Research Center and the Arkansas Department of Higher Education on this matter.

He stated that the next meeting of the committee is scheduled for July 12, 2016, unless a special meeting is called to address performance issues related to the state plan development.

By direction of the Program & Performance Evaluation Committee, Committee Chair Scott Bull made a motion to approve the Eligible Training Providers Continued Eligibility Policy. Chair Clark recognized the motion, asked for any questions from the full board and hearing none, the board voted and the committee's recommendations passed unanimously.

Chair Clark asked Mr. Tom Anderson, Chair of the AWDB – TANF Oversight Committee to report on the committee’s activities today. Chair Anderson reported that the committee approved the minutes from their previous meeting held January 19, 2016. He reported that the committee heard an update on the implementation of requirements in Act 1205 of 2015, and continued its review of the new drug screening and drug testing program for TANF customers. He stated that the pilot program, developed in response to Arkansas Act 1205 of 2015, requires drug screening of TEA and Work Pays applicants to determine if there is reasonable cause to believe the applicant engages in the use of illegal drugs, then the applicant or recipient will be required to take a drug test. The committee was provided research information that was used to determine the structure of the pilot program.

Next, Mr. Anderson reported that the committee heard a report on the Supplemental Nutrition Assistance Program (SNAP) collaboration between ADWS and the Department of Human Services and a report on the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. He stated that the PRWORA limits the receipt of SNAP benefits to three months in a three year period for able bodied adults without dependents who are not working, participating in and complying with the requirements of a work program for 20 hours or more each week, or a workfare program.

Lastly, Mr. Anderson stated that the next meeting of the AWDB – TANF Oversight Committee will be held on July 12, 2016.

Discretionary Grants Update and New Tech Hire Grant Opportunity: Chair Clark requested that Mr. Mark McManus, ADWS Discretionary Grants Division staff, give an update on all grants. Mr. McManus reviewed the status of seven active grants to include the Disaster Recovery Grant, Training Grant, Arkansas Apprenticeship Pathway Initiative, Arkansas Partnership for Nursing’s Future, Arkansas Promise Grant, Sector Partnerships Initiative, and the National Job Driven Grant. He reported that the agency applied for a new grant, the U. S. Department of Labor Tech Hire Initiative. He stated that the grant would provide approximately four million in funding to train approximately 400 individuals. He stated that the application deadline was March 10, 2016 and that we submitted the application on time. He reported that if we are selected the program will begin on June 1, 2016.

Announcements: Chair Clark announced that the next meeting of the full board will be held July 12, 2016, at 1:00 p.m., with committees meeting at 10:00 a.m. Staff will provide a location at a later date.

Adjourn: Chair Clark adjourned the meeting at 2:09 p.m., on a motion made by Mr. Kelley Sharp, seconded by Ms. Karen Breashears, and carried unanimously.

Charles Clark, Chairman

Arnell Willis, Director Workforce Investment
Department of Workforce Services

*Minutes recorded by Kim Kight
Department of Workforce Services Staff*

Biography
Jerry Spratt
CPA, CFE, CFF, CFFA, CFCI, MAFF, CFSA, CICA,
CGFM, MBA

Jerry founded Spratt Financial Forensics, Inc., an Arkansas Licensed CPA firm in 2011. The firm was formed to provide forensic financial analysis, fraud investigations, litigation support and instruction.

Prior to founding Spratt Financial Forensics, Inc., Jerry gained 38 years of audit experience during his employment with the Arkansas Division of Legislative Audit. From 1980 until 2006, he directed over 500 fraud examinations and obtained numerous confessions. Jerry also has recent experience in conducting loss damage engagements.

Jerry has developed and/or taught courses on the subject areas of occupational of fraud detection and deterrence, including red flags, risk factors and characteristics of occupational fraud; GAAS, FASB, nonprofit accounting and auditing, and interviewing, internal controls, trial preparation, professional ethics and expert witness testimony. The course sponsoring organizations include American Institute of Certified Public Accountants, Association of Certified Fraud Examiners and local chapters, Arkansas State Society of CPAs and other state societies of CPAs, National Business Institute, National Association of Federal Credit Unions and other organizations. He has taught as an adjunct professor at the University of Arkansas at Little Rock, a graduate level self-authored forensic course entitled, "Accounting 8300 Fraud Audit".

Jerry has experience in organization governance serving multiple years in all officer positions of the Arkansas Federal Credit Union Board of Directors and Supervisory (Audit) Committee and is President of the Arkansas Society of CPAs during the 2016-2017 term, presently and previously serving on numerous Society Committees.

Board Ethical Behavior and Effective Governance

Arkansas Workforce Development Board

Presented by

Jerry Spratt, CPA, CFE, CFF, CFCI,
MAFF, CICA, CFSA, CGFM

1

Contact Information

- *Jerry E. Spratt, CPA, CFE, CFF, CFCI, CFSA, MAFF, CICA, CGFM, MBA*
- *President*
- *Spratt Financial Forensics, Inc.*
- *Telephone # 1-501-837-0901*
- *jspratt@jsffi.com*

2

Professional Ethics Concepts

3

What's The Difference In A Belief and Law - Examples?

- Belief - Board member believes there is not a problem furnishing their wife's organization, which also submitted a grant application, copies of other organization grant applications which are considered confidential
- Law - Arkansas conflict of interest law specifically prohibits a board member disclosure of confidential information for the benefit of a board member or immediate family

4

Morality And Ethics Are They Synonymous?

- **Morality** involves society's belief of a system of values
 - Based upon society's principles that are consistently applied to all activities sometimes, regardless of absolute standards
 - Society sometimes relates this to religious beliefs
- **Ethics** involves society's system of acceptable behavior standards
 - Involves a set of standards we use to conduct our life in discharging our duties and obligations
 - Ethical positions are justified through normal ethical behavior

5

What are the components of acceptable society values?

- **Integrity** – observe principles of objectivity and independence and of due care
- **Honesty** - telling the truth and all the truth
- **Believability** – do what you say you will do
- **Independence** – free of outside and inside duress
- **Caring** – being concerned about how your actions affect others
- **Compassionate** – understanding and being concerned about others
- **Accountability** – held to standards, consequences for violators
- **Respect** - laws, rules, personal dignity, life
- **Loyalty** – family, friends, employers, others and the US
- **Confidentiality** – volunteer activities
- **Trustworthy** – reliable, you do what you say
- **Excellence** – meet or exceed work quality expectations
- **Due care** – proper preparation for board meetings

6

Do we have to decide between ethical and legal behavior sometimes?

Example

- Board member is allowed by law and regulation to bill actual travel expenses to their organization
- Board member incurs extravagant travel expenses
- **Is it ethical for the board member to incur and claim extravagant expensive travel expenses?**

7

Have you ever encountered a situation where morality (what is accepted practiced value) is in conflict or different than ethics (standards of conduct)?

Ethics Trumps Morality Sometimes
Sweep Accounts

8

- ***Culture and perceived accepted behavior is always in motion and not absolute***

We must guard against unacceptable practiced values becoming the society norm, and therefore, the ethical standard

Remember

- ***Morals - system of accepted practiced values***
Ethics - system of accepted behavior standards

Ex. Terrorism

9

The Road To Becoming Ethical

- Fitbit goal
- **Marathon** of tries, tribulations, learning, failures and accomplishments
- Encounters lot's of activities, controllable and uncontrollable
- **To receive the medal you must continue the journey regardless of the encounters**

10

Ethical Activity Should Be Founded In The Following **Concepts**

- **Rationality** – associated with reasonable activity
- **Least harm** – the activity chosen should cause the least harm
- **Consistency** – hallmark of virtuous activity
- **Impartiality** – treat everyone alike unless there is a reason to waver

11

How Do Principles/Laws Relate To Ethics and Morality?

- **Principles** – rules framework
 - Requires judgmental interpretation
 - Ex. - Board members should be independent in decision making concerning grant approval
- **Rules/laws** – specific guidance for activity
 - Ex. – Board members having direct pecuniary interest concerning grant approval should not vote on the matter

12

When using ethical principles to make decisions which of the following trumps the other?

- Substance – spirit of **principle**
- Form - **rules**

13

When using ethical principles to make decisions which of the following trumps the other?

- **Substance – spirit of principle**

14

“Our research points to one essential element in any successful company. Those that are best have built a set of core values and lived by them.”

- **Jim Collins, author, “Good To Great”**

15

Organization Ethical Requirements

- **Association of Government Accountants Ethics Handbook**
 - Requires trustworthiness and accountability
- **Institute of Management Accountants Statement of Ethical Practice**
 - Principles are honesty, fairness, objectivity, and responsibility

16

In considering these Professional Ethics Concepts which of the following should be considered?

- Appearance
- Facts

17

In considering these Professional Ethics Concepts which of the following should be considered?

- Appearance
- Facts
- **Consider Bill Clinton's discussion with the US Attorney in the airport**

18

AICPA Code of Conduct Professionalism Principles

- Responsibility
- Public interest principle
- Integrity
- Objectivity
- Independence
- Due care

19

AICPA Code of Conduct Core Professional Ethics Concepts

- Independence
- Integrity
- Objectivity

20

Responsibility

- Accept the obligation to act in a way that will
 - Serve the public interest
 - Honor the public trust
 - Demonstrate a commitment to professionalism
- **What entities/parties rely on us to observe the principle of responsibility?**
- Individuals, grantors, grantees, governments, not-for profits, employers, employees, investors, the business and financial community, and others rely on the **objectivity, integrity and independence of board members to maintain the proper administration of public funds**

21

Public Interest Definition

- **The collective well-being of the community of people and institutions that you serve**

22

Definition of Integrity

- An element of character fundamental to professional recognition
- It is the **quality from which the public trust derives and the benchmark against which a board member must ultimately test all decisions**
- Requires a board member to be, among other things, **honest and candid within the constraints of organization confidentiality**
- Service and the public trust **should not be subordinated to personal gain and advantage**
- **Can accommodate the inadvertent error and honest difference of opinion**

23

Definition of Integrity (cont'd)

- Integrity also requires a board member to **observe** the principles of **objectivity, independence and due care**
- **Incorruptible**
- **Complete**
- **Sound in your positions**

24

Measurement of Integrity

- Integrity is measured in terms of what is **right and just**
- In the absence of specific rules, standards, law or other guidance or in the face of conflicting opinions, a board member should test decisions and deeds by asking: **“Am I doing what a person of integrity would do? Have I retained my integrity?”**
- Integrity requires a board member to **observe both the form and the spirit of technical and ethical standards**; because **circumvention of those standards constitutes subordination of judgment which relates to lack of independence**

25

- ***“We learn by observation, imitation and repetition.”***
- ***“A life lived with integrity - even if it lacks the trappings of fame and fortune is a shining star in whose light others may follow in the years to come.”***
- Dennis Waitley, author of 16 non-fiction books, including several international best sellers, ***“Seeds of Greatness,” “Being the Best,” “The Winner's Edge,” “The Joy of Working”, and “Empires of the Mind.”***

26

Definition of Objectivity?

- **A state of mind**, a quality that lends value to a board member's services
- The **principle of objectivity imposes the obligation to be**
 - **Impartial**
 - **Intellectually honest**
 - **Free of conflicts of interest**
- **Independence precludes relationships that may appear to impair a board member's objectivity**

27

Conflicts of Interest

28

Conflicts of Interest

- In determining whether a professional service, relationship, or matter would result in a conflict of interest, **a member should use professional judgment, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists**

29

What's The Problem With A **Conflict of Interest**?

- A conflict of interest **creates threats to independence, objectivity and integrity**
- **Threats** - are relationships or circumstances that could impair independence

30

Board Members Should

- Board members often serve multiple interests in many different capacities and must demonstrate their objectivity in varying circumstances
- Regardless of service or capacity, **board members should**
 - Protect their integrity
 - Maintain objectivity
 - Avoid any subordination of their judgment

31

Board Member Objectivity and Independence – How Do You Maintain It?

- **The maintenance of objectivity and independence requires a continuing assessment of business and personal relationships and public responsibility**
- **Board members should**
 - **Be independent in fact and appearance**
 - **Maintain objectivity and avoid conflicts of interest**

32

In identifying whether a conflict of interest exists or may be created, a board member should take reasonable steps to determine

- a. The nature of the relevant interests and relationships between the parties involved and
- b. The nature of the services and its implication for relevant parties

33

In **evaluating the significance of an identified threat**, board members should consider the following:

- a. The significance of relevant interests or relationships
- b. In general, the more direct the connection between the member and the matter on which the parties' interests are in conflict, the more significant the threat

34

What Should A Board Member Do If A Threat Is Not At An Acceptable Level?

- **If possible, apply safeguards to eliminate the threat or reduce it to an acceptable level**
- Safeguards include:
 - A. Withdrawing from the decision making process related to the matter giving rise to the conflict of interest
 - B. Consulting with third parties, such as a professional body, i.e. legal counsel
 - C. Full disclosure to Board and affected organization of the conflict
 - D. Terminate the relevant relationships or dispose of the relevant interests

35

What's The Difference Between An Arms-length and Non Arms Length Related Party Transaction?

Which Type of Transaction Is More Risky For The Organization?

36

Conflict of Interest Examples

- Serving in a governance capacity that is approving certain grants for the company in which one of those specific investments will increase the value of the personal investment portfolio of the member or his or her immediate family member
- Approving a grant or vendor contract for the board member's organization when the member or his or her immediate family member could benefit financially from the transaction

37

Defined Elements of Independence

- *a.* **Independence of mind** is the **state of mind** that **permits a board member to perform an service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism**
- *b.* **Independence in appearance** is **the avoidance of circumstances that would cause a reasonable and informed third party who has knowledge of all relevant information, including the safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism is not compromised**

38

Independence Concept Is Not Absolute

- **This definition should not be interpreted as an absolute**
- For example, the **phrase “without being affected by influences that compromise professional judgment” is not intended to convey** that the board member must be free of any and all influences that might compromise objective judgment
- **Instead, the board member should determine whether such influences, if present, create a threat that is not at an *acceptable level* that a board member would not act with integrity and exercise objectivity (includes independence) and professional skepticism in the conduct of a particular engagement or would be perceived as not being able to do so by a reasonable and informed third party with knowledge of all relevant information**

39

Independence Concept Definitions

- **Acceptable level.** A level at which a reasonable and informed third party who is aware of the relevant information would be expected to conclude that a board member’s compliance with the rules is not compromised
- **Safeguards.** Actions or other measures that may eliminate a threat or reduce a threat to an acceptable level
- **Threat(s).** Relationships or circumstances that could compromise a board member’s compliance with the rules

40

Threats To Independence

- **Adverse interest threat.** The threat that a board member will not act with objectivity because the board member's interests are opposed to the interests of the grantee. Examples of adverse interest threats include the following:
 - A board member has charged, or expressed an intention to charge, the grantee with violations of law
 - A board member or the member's immediate family or close relative has a financial or another relationship with a vendor, customer, competitor, grantee or potential acquisition of the grantee
 - A board member has sued or expressed an intention to sue the grantee or its officers, directors, or employees

41

Threats To Independence

- **Familiarity threat.** The threat that, due to a long or close relationship with a person or organization, a board member will become too sympathetic to their interests or too accepting of the person/organization's work or service. Examples of familiarity threats include the following:
 - A board member uses an immediate family's or a close relative's company as a supplier to the organization
 - A board member may accept an individual's work product or service with little or no review because the individual has been producing an acceptable work product for an extended period of time
 - A board member's immediate family or close relative is employed by the organization
 - A board member regularly accepts gifts or entertainment from a vendor or customer of the organization

42

Threats To Independence

- **Self-interest threat.** The threat that **a board member could personally benefit, financially or otherwise, from an interest in, or relationship involving Organization A doing business with the board members Organization B.** Examples of self-interest threats include the following:
 - A board member's immediate family or close relative has a financial interest in Organization B
 - A member holds a financial interest (for example, shares or share options) in Organization B, and the value of that financial interest is directly affected by the board member's decisions

43

Threats To Independence

- **Undue influence threat.** The threat that **a board member will subordinate his or her judgment** to that of an individual associated with Organization B or any relevant third party due to that individual's position, reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the member. **Examples** of undue influence threats include the following:
 - A board member is pressured to become associated with board misleading information
 - A board member is pressured to deviate from a required policy
 - A board member is pressured to change a conclusion regarding an organization decision

44

Safeguards

- Safeguards may partially or completely eliminate a threat or diminish the potential influence of a threat

45

The effectiveness of a safeguard depends on many factors, including those listed

- a. **The facts and circumstances specific** to a particular situation
- b. The **proper identification** of **threats**
- c. Whether the safeguard is suitably designed to meet its objectives
- d. The **party(ies) who will be subject to the safeguard**
- e. How the safeguard is **applied**
- f. The **consistency** with which the safeguard is applied
- g. **Who applies** the safeguard
- h. **How the safeguard interacts with a safeguard from another category**

46

Examples Of Safeguards Created By The Profession, Legislation, Or Regulation

- a. Education and training requirements on ethics and professional responsibilities
- b. Continuing education requirements on ethics
- c. Legal standards and the threat of discipline
- d. Legislation establishing prohibitions and requirements for entities and employees
- e. Professional resources, such as hotlines, for consultation on ethical issues

47

Conceptual Framework

- Identify threats
- Evaluate the significance of a threat
- Identify and apply safeguards
- Determine if safeguards reduce the threat to an acceptable level
- If not, you do not participate in the activity

48

Who Should Board Members Be Independent From?

- Be independent from the **agency employees**
- Be independent from **grantees**
- Be independent from **vendors**
- Be independent from **other board members**

49

Due Care Principle

- A board member should **observe laws, regulations, internal policies and other requirements striving continually to improve competence and the quality of services delivered, and discharge their responsibility to the best of the board member's ability**
- **Due care imposes the obligation to perform services to the best of a board member's ability, with concern for the best interest of those for whom the services are performed, and consistent with the board members responsibility to the public**

50

Commitment To Competence

- Competence is derived from a synthesis of education and experience
- The maintenance of competence requires a commitment to learning and professional improvement that should continue throughout a board member's professional life
- It is a board member's individual responsibility
- Board members should achieve a level of competence that will assure that the quality of the services meets the high level of safe, efficient and effective delivery

51

Ethical Questions To Ask Yourself

- Do you have and follow a clear consistent ethics strategy in decision making
- Do you demonstrate ethical behavior by walking the talk

52

Ethical Decision Tests

- **Golden Rule Tests** – do to others as you would like for others to do to you
- **WSJ Test** – If you read an article on your decision the day after you made it in the Wall Street Journal and you were ok with it, its probably ok
- **Platinum Rule Test** – Did you exceed the proper expectations concerning your decision

53

Arkansas Law

54

21-8-1001 Conflicts of interest

- **(a) (1)** No member of a state board or commission or board member of an entity receiving state funds shall participate in, vote on, influence, or attempt to influence an official decision if the member has a pecuniary interest in the matter under consideration by the board, commission, or entity
- **(2)** A member of a state board or commission or board member of an entity receiving state funds may participate in, vote on, influence, or attempt to influence an official decision if the only pecuniary interest that may accrue to the member is incidental to his or her position or accrues to him or her as a member of a profession, occupation, or large class to no greater extent than the pecuniary interest could reasonably be foreseen to accrue to all other members of the profession, occupation, or large class
- **(b)** No member of a state board or commission or board member of an entity receiving state funds shall participate in any discussion or vote on a rule or regulation that exclusively benefits the member

55

21-8-1002. Use of position for privileges or exemptions.

- No member of a state board or commission or board member of an entity receiving state funds shall use or attempt to use his or her official position to secure unwarranted privileges or exemptions for himself or herself or others

56

21-8-1003. Confidential information.

- No member of a state board or commission or board member of an entity receiving state funds shall disclose confidential information acquired by him or her in the course of the member's official duties or use such information to further his or her personal interests

57

21-8-1005. Subchapter supplemental to other laws.

- This subchapter shall be supplemental to all other laws concerning ethics or conflicts of interest

58

AR Code 21-8-304

Prohibited Activities

- **a)** No public official or state employee shall use or attempt to use his or her official position to secure special privileges or exemptions for himself or herself or his or her spouse, child, parents, or other persons standing in the first degree of relationship, or for those with whom he or she has a substantial financial relationship that are not available to others except as may be otherwise provided by law
- **(b)** No public official or state employee shall accept employment or engage in any public or professional activity while serving as a public official which he or she might reasonably expect would require or induce him or her to disclose any information acquired by him or her by reason of his or her official position which is declared by law or regulation to be confidential

59

AR Code 21-8-304

Prohibited Activities

- **(c)** No public official or state employee shall disclose any such information gained by reason of his or her position, nor shall he or she otherwise use such information for his or her personal gain or benefit

60

Arkansas Ethics Commission Rules On Gifts Public Servant Definition

- **Section 300 (j) Public Servant** – As used in these rules, the term “public servant” means all public officials, public employees, and public appointees

61

Arkansas Ethics Commission Rules on Gifts – Public Servants

- **No public servant** shall receive a gift for the performance of the duties and responsibilities of his or her office or position
- **(b)** For purposes of this rule, a gift shall be prohibited if it is intended to reward a public servant for doing his or her job or it is intended as a reward for past or future action. In contrast to bribery which requires a showing that a gift and some official action motivated each other, a gift is prohibited by this rule if the gift is for or because of the action. In order for a gift to be prohibited, it need not be shown that the official action was for or because of the gift.
- **(c)** A public servant is not prohibited from receiving an item conferred to show appreciation for the public servant’s job performance (i.e., to reward the public servant for doing his or her job) so long as the value of the item does not exceed \$100
- **(d)** A public servant is not prohibited from receiving all gifts. For example, a public servant may accept a gift conferred on account of a bona fide personal, professional, or business relationship independent of his or her official status

62

Reporting Ethical Violations and Fraud

- Allegations of ethical violations or fraud may be reported to the Arkansas State Employees' Fraud, Waste, and Abuse Report Center (1-800-952-8248) or to the Office of Accounting - Internal Audit Section by telephone (682-0370)

63

Policy on Certification of Local Workforce Development Boards Section G, Conflict of Interest Adopted June 19, 2015

64

Section G - Conflicts of Interest

- A member of a local board must neither cast a vote on, nor participate in, any decision-making capacity on the provision of services by such member (or by an organization that such member directly represents); nor on any matter that would provide any direct benefit to such member or the immediate family of such member
- Any board member (or specific entity represented by that member) who participates in the development of contract specifications or standards is prohibited from receiving any direct financial benefit from any resulting contract

65

Section G - Conflicts of Interest

- Any board member who participates in a board decision relating to specific terms of a contract, the determination of specific standards for performance of a contract, the development of Invitations for Bid or Requests for Proposals or other such bid processes leading to a contract, or any similar decisions is prohibited from receiving any direct financial benefit from any resulting contract. In addition, no corporation, partnership, sole proprietorship, firm, enterprise, franchise, association, trust, foundation or other entity shall receive the contract if it would create a conflict of interest for the Board member who participated in this manner

66

Section G - Conflicts of Interest

- Any board member with a potential or actual conflict of interest must disclose that fact to the local Board as soon as the potential conflict is discovered and, to the extent possible, before the agenda for the meeting involving the matter at issue is prepared. If it is determined during a meeting that a conflict of interest exists, the member must verbally declare such conflict of interest, such declaration must be clearly noted in the minutes, and such member must excuse himself from the remainder of the discussion and voting on that item
- Each board member is responsible for determining whether any potential or actual conflict of interest exists or arises for him or herself during his tenure on the board

67

Section G - Conflicts of Interest

- If a contract or purchase is made by the local board involving its own member with a conflict of interest, the local board shall justify the terms and conditions of the contract or purchase and document that the contract or purchase was adequately bid or negotiated and that the terms of the contract or price of the purchase are fair and reasonable
- Local board members who are also one-stop center operators shall not serve on any committees that deal with oversight of the one-stop system or allocation of resources that would potentially be allocated to that member's program
- All members of the local board are subject to all other provisions of the Arkansas State law not outlined above

68

COSO

Applying Good Governance Principles

69

Internal Control Component and Related Principles

Internal Control Component	Related Principles
Component	
Control Environment	1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority, and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
Risk Assessment	6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assess Fraud Risk 9. Identifies and analyzes significant change
Control Activities	10. Selects and develops control activities 11. Selects and develops controls over technology 12. Deploys through policies and procedures
Information and Communication	13. Uses relevant information 14. Communicates internally 15. Communicates externally
Monitoring Activities	16. Conducts ongoing or separate evaluations 17. Evaluates and communicates deficiencies

70

Control Environment Principles

1. Commitment to integrity and ethical values
2. Board oversight and independence (proper oversight over management's development of internal controls)
3. Appropriate authority, responsibilities, and reporting
4. Commitment to competence (hires employee capable to accomplish org. goals)
5. Accountability at the employee level for execution of internal controls

71

1. Present Control Environment Principle: **Commitment to Integrity and Ethical Values**

- Points of focus: **Board Oversight Responsibilities**
 - Sets the tone at the top
 - Establishes standards of conduct
 - Defined in code of conduct
 - Establishes right and wrong
 - Reflects governing laws, rules, regulations, standards and expectations
 - Understood by employees
 - Evaluates adherence to standards of conduct
 - Processes in place to evaluate employees standards of conduct
 - Addresses deviations in a timely manner
 - Applied consistently

72

2. Present Control Environment Principle: **Exercises Oversight Responsibility**

- Points of focus:
 - **Establishes oversight responsibilities**
 - Development and performance of internal control
 - **Applies relevant expertise**
 - Evaluates skills and expertise of board
 - **Operates independently**
 - Independent from management and objective in evaluations and decision making
 - **Provides oversight for the system of internal control**
 - Management design, implementation and conduct of internal control

73

3. Current Control Environment Principle: **Oversights Management Establishment of Structure, Authority, and Responsibility**

- Points of focus: Board Oversight
 - Considers all structures of the entity
 - **Management and the board of directors** consider the multiple structures used (including operating units, legal entities, geographic distribution, and outsourced service providers) to support the achievement of objectives.
 - Establishes reporting lines
 - Management designs and evaluates lines of reporting for each entity structure to enable execution of authorities and responsibilities and flow of information to manage the activities of the entity.
 - Defines, assigns, and limits authorities and responsibilities

74

4. Current Control Environment Principle: **Demonstrates Commitment to Competence**

- Points of focus: Board Oversight Responsibilities
 - Establishes policies and practices
 - Entity – level policies and practices reflect expectations of competence necessary to support the achievement of objectives.
 - Evaluates competence and addresses shortcomings
 - The human resources function of an organization often **defines competence** and staffing levels **by job role**, **facilitating training** and maintaining completion records, and evaluating the **relevance and adequacy of individual professional development** in relation to the entity's needs.
 - The board of directors and management evaluate competence across the organization and in outsourced service providers
 - Attracts, develops, and retains individuals
 - The organization provides the **mentoring and training needed to attract**, develop, and retain sufficient and **competent personnel** and outsourced service providers to support the achievement of objectives.
 - Plans and prepares for succession

75

5. Control Environment Principle: **Enforces Accountability**

- Points of focus: Board Oversight Responsibilities
 - Enforces internal controls accountability through structures, authorities, and responsibilities
 - Develops processes to hold employees accountable
 - Establishes performance measures, incentives, and rewards
 - Performance and standards of conduct related to internal controls
 - Evaluates performance measures, incentives, and rewards for ongoing relevance
 - Rewards relate to fulfillment of effective IC and objective accomplishment
 - Considers excessive pressures
 - Pressures need to be managed and incentives obtainable
 - Evaluates performance and rewards or disciplines individuals

76

GAAS Definition of Internal Control

- ▶ Internal control is a **process**—**effected** by those charged with **governance, management, and other personnel**—that is **designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.**
- ▶ Internal control over the **safeguarding of assets against unauthorized acquisition, use, or disposition** may include controls related to financial reporting and operations objectives.

77

COSO Effective Board of Directors Characteristics

- (1) Independent directors
- (2) Internal control mindset
- (3) Market and entity knowledge
- (4) Financial expertise (including financial reporting)
- (5) Legal and regulatory expertise
- (6) Social and environmental expertise
- (7) Incentives and compensation knowledge
- (8) Relevant systems and technology knowledge
- (9) Information systems expertise
- (10) Varied other types of expertise represented on board

78

What Is The Internal Control Over Top Management?

- **Board and Audit Committee**

79

Board Members Responsibilities

- **Establish the strategic vision and strategic goals of the entity**
- **Oversight managements internal control structure**
- **Approve financial budgets**
- **Oversight the agency conduct of business in accordance with agency by-laws**
- Exercise due diligence concerning board meeting issues
 - Monitor progress toward achieving strategic goals
 - Monitor grant disbursements and reporting
 - Review financial condition
 - Approve major policies, programs, and other financial issues
 - Review audits and management's responses
- Follow and document board activity in accordance with Robert's Rules of Order
- Continue education concerning the organization, industry, pertinent laws, regulations and policies
 - Attend conferences
 - Conducting personal research
 - Attending board meetings
- Prepare program for board member succession planning

80

Board Members Meeting

- **Meeting preparation responsibilities**
 - Prepare for meeting by reading and understanding all agenda material
 - Submit issues of concern to Board Chair who has responsibility to set the meeting agenda
 - Ask questions prior to meeting
 - Board management
 - Board chair
 - Board attorney
 - Prepare questions and comments for the meeting
 - Formulate tentative positions on meeting agenda items

81

Board Members Meeting

- **General Meeting agenda**
 - **Consent agenda**
 - Board minutes
 - Routine board issues not requiring discussion
 - **Action items**
 - Financials
 - Management reports
 - Audits and management resolution of audit issues
 - By-law changes and other items requiring board approvals
 - Committee and management reports
 - **Keeping you informed** – items for discussion not requiring board action
 - **New business**
 - **Old business**
 - **Adjournment**
- **Executive meeting**

82

**Thank You For The Opportunity To
Address The Arkansas Workforce
Development Board**

83