

Board Governance Training

California Housing Finance Agency

Presented by Mandy L. Merchant



Objectives

1 Brief Overview of
Accountability and
Fiduciary Responsibility

2 Specifics for the California
Housing Finance Agency
Board



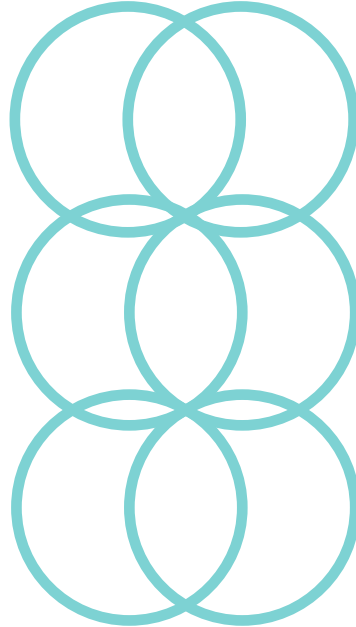
Fiduciary Duties

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.



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.

Duty of Loyalty

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



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
- Completed Annually – CA Fair Political Practices Commission Form 700
- Reporting obligation if:
 - Knew, or
 - Should have known



Financial Reporting Responsibilities

Governing Body



Independent Auditors



Financial Management



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



Three Advisory Committees



Role of the *Audit and Risk Management Committee*



Make recommendations for selection and retention of auditors.



Review audit findings.



Report to the Board.



Review and update the Committee's charter annually



Review of the Enterprise-Wide Risk management framework

Agency Strategic Plan
Annual Business Plan



Annual Report on Information Security Risk Assessment

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.



Role of the New Opportunities Committee

Evaluating new loan products, lending programs and business initiatives aligned with the Agency's Strategic and Business Plans.

Explore feasibility of funding sources and structures, including but not limited to the risks and benefits of all funding sources.

Assess the anticipated viability of any lending opportunity for the Agency in the market, including but not limited to expected long and short-term impacts for low and moderate-income Californians.

Composed of no fewer than three members of the Board selected by the Chairperson.



Audit and Risk Management 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 and Risk Management 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 2024 Global
Study on Occupational
Fraud and Abuse



OUR STUDY COVERED



1,921
CASES

from



138
COUNTRIES and
TERRITORIES

Causing total losses of more than

\$3.1 BILLION

CFEs estimate that
organizations **LOSE**

5%

of revenue
to **FRAUD**
each year

MEDIAN LOSS
PER CASE:

\$145,000

AVERAGE LOSS
PER CASE

\$1.7 MILLION

SCHEMES

ASSET MISAPPROPRIATION SCHEMES
are the most common but least costly



\$120,000
median loss

FINANCIAL STATEMENT FRAUDS
are the least common but most costly



\$766,000
median loss



CORRUPTION

Almost half of all reported cases
included corruption

HIGHEST RISK ASSET MISAPPROPRIATION SCHEMES

MOST COMMON

Billing schemes
22%
OF CASES

Theft of noncash assets
22%
OF CASES

MOST COSTLY

Check and payment tampering
\$155,000
MEDIAN LOSS

Billing schemes
\$100,000
MEDIAN LOSS

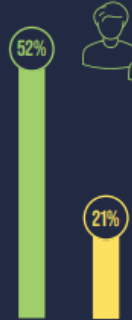


A TYPICAL FRAUD CASE
lasts **12 MONTHS**
before detection

DETECTION



43% of frauds were
detected by tips,
which is more than **3x** as many cases as
the next most common method



More than **HALF**
of tips come
from employees



and nearly **ONE-THIRD**
come from vendors
and customers

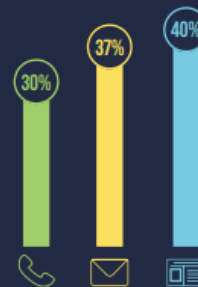
- Employee
- Customer
- Vendor

The most **COMMON MECHANISMS** used to report fraud tips:



Email and web-based
reports **BOTH** surpassed
telephone hotlines

- Telephone
- Email
- Web-based



PERPETRATORS

Median losses for frauds by owners/executives were more than **7X GREATER** than those carried out by employees.



Frauds carried out by **THREE OR MORE** perpetrators caused median losses more than **4X GREATER** than those carried out by a single perpetrator.



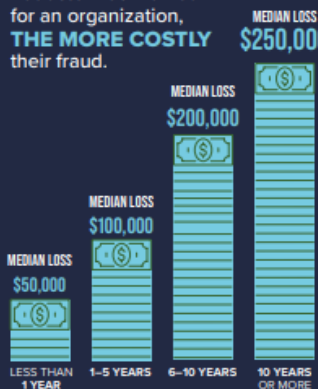
84% of fraudsters displayed at least **ONE BEHAVIORAL RED FLAG**



MORE THAN HALF of all cases came from these five departments:



THE LONGER a fraudster has worked for an organization, **THE MORE COSTLY** their fraud.



ANTI-FRAUD CONTROLS

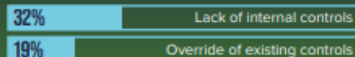
The presence of anti-fraud controls is associated with



82% of victim organizations **MODIFIED** their anti-fraud controls following the fraud.

27% of these modifications are expected to be **EXTREMELY EFFECTIVE** in preventing similar frauds in the future.

More **THAN HALF** of occupational frauds occur due to a lack of internal controls or an override of existing internal controls.



CASE RESULTS

68% of perpetrators were terminated by their employers

57% of cases referred to **LAW ENFORCEMENT**

72% of those referrals resulted in a **CONVICTION**

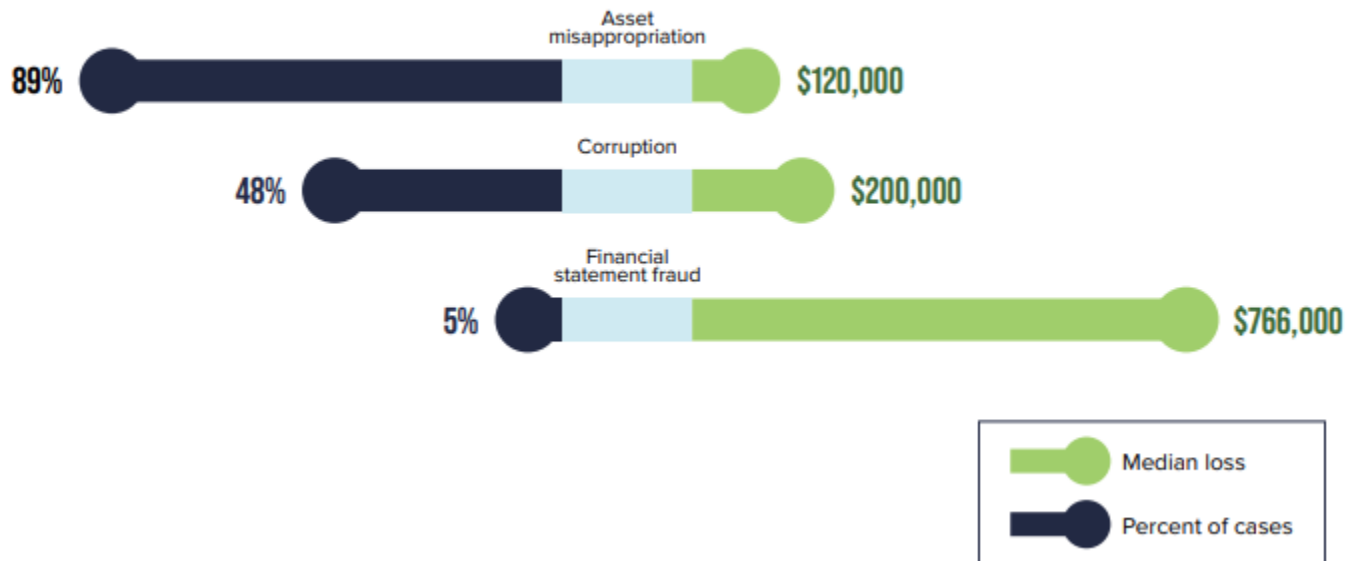
Of organizations that did not refer to law enforcement:

49% cited **INTERNAL DISCIPLINE** as the reason

34% cited fear of **BAD PUBLICITY** as the reason



FIG. 2 HOW IS OCCUPATIONAL FRAUD COMMITTED?



WHO COMMITS OCCUPATIONAL FRAUD IN GOVERNMENT ORGANIZATIONS?

Executive



\$313,000
MEDIAN LOSS



Manager



\$224,000
MEDIAN LOSS



Employee

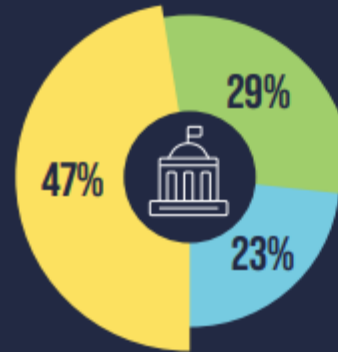


\$50,000
MEDIAN LOSS



ONLY 19% of perpetrators in government organizations were at the executive level, but **FRAUDSTERS AT THE TOP CAUSED THE LARGEST LOSSES.**

Median losses were largest at the **NATIONAL LEVEL OF GOVERNMENT**



■ National ■ State/provincial ■ Local

\$210,000



\$92,000



\$148,000



THE IMPORTANCE OF PROVIDING FRAUD AWARENESS TRAINING

Providing fraud awareness training to staff at all levels of an organization is a vital part of a comprehensive anti-fraud program. Our study shows that training employees, managers, and executives about the risks and costs of fraud can help reduce fraud losses and ensure frauds are caught more quickly.

A GROWING PERCENTAGE OF ORGANIZATIONS ARE PROVIDING FRAUD AWARENESS TRAINING FOR THEIR STAFF

Fraud awareness training for
EMPLOYEES



Fraud awareness training for
MANAGERS/EXECUTIVES



Organizations that
DID NOT PROVIDE fraud
awareness training lost nearly
2X MORE.

TRAINING BOTH employees and managers/executives



TRAINING NEITHER employees nor managers/executives



33%

of employee
whistleblowers **DID**
NOT HAVE fraud
awareness training

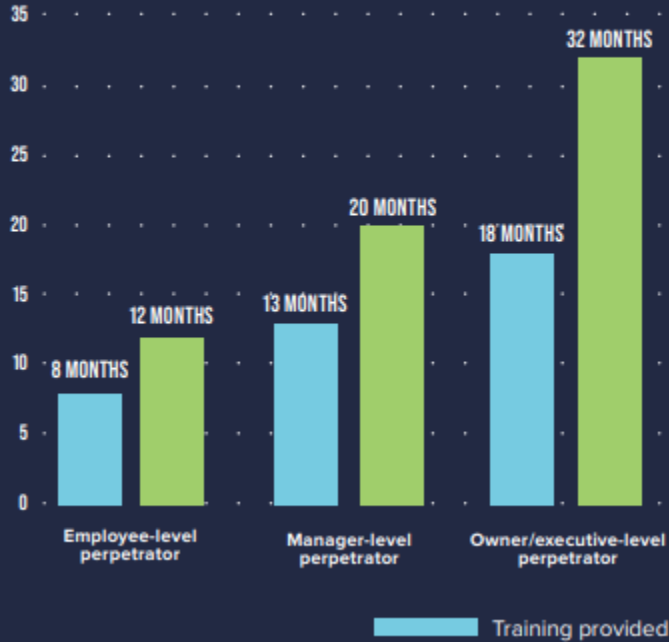


67%
of employee
whistleblowers
HAD fraud
awareness training

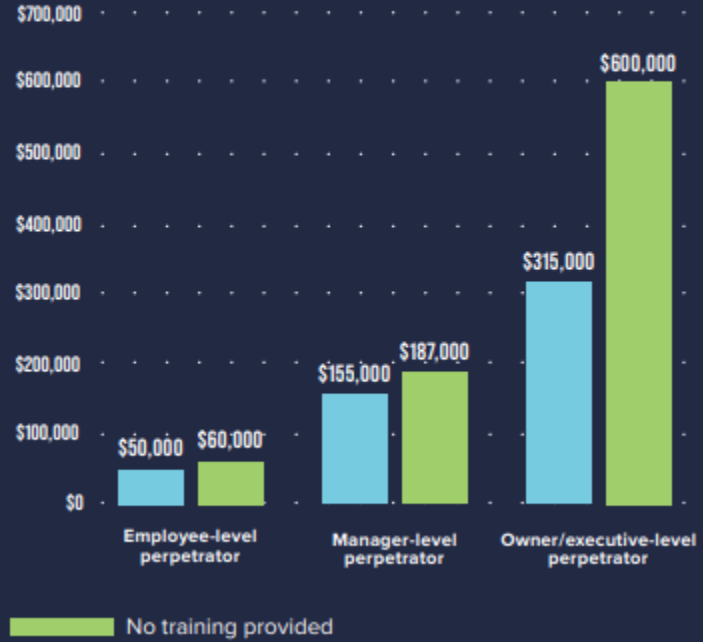
TIPS ARE TWICE as likely to come from
employees who received fraud awareness
training as from employees who did not.



DURATION OF FRAUD WITH AND WITHOUT FRAUD AWARENESS TRAINING FOR MANAGERS/EXECUTIVES

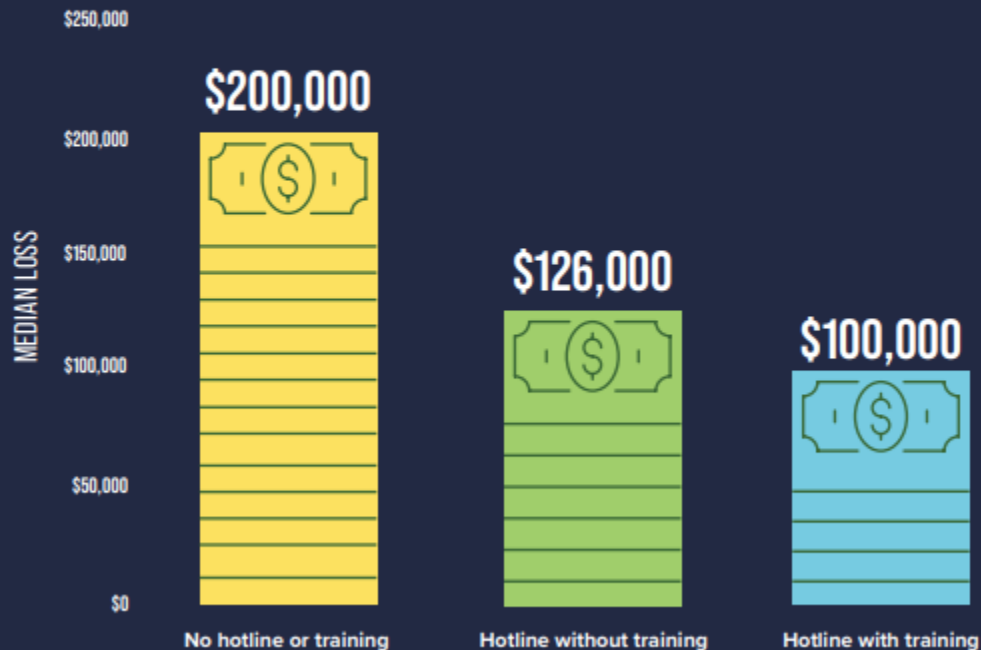


MEDIAN LOSS WITH AND WITHOUT FRAUD AWARENESS TRAINING FOR MANAGERS/EXECUTIVES



HOTLINE & TRAINING

While the presence of a **HOTLINE** is associated with reduced fraud losses, the impact is even greater when the hotline is accompanied by **FRAUD AWARENESS TRAINING**



2025 Fraud Trends

Source: ACFE Top 5 Fraud Trends of 2025





Decrease in “Pig Butchering” Schemes

- What is a pig butchering scheme?
 - Pig butchering is an investment scam where fraudsters gain the trust of victims over time and then deceive them into investing in fake crypto assets or another fraudulent investment opportunity.
- There has been an increase in awareness surrounding these schemes, which will likely force fraudsters to change their tactics



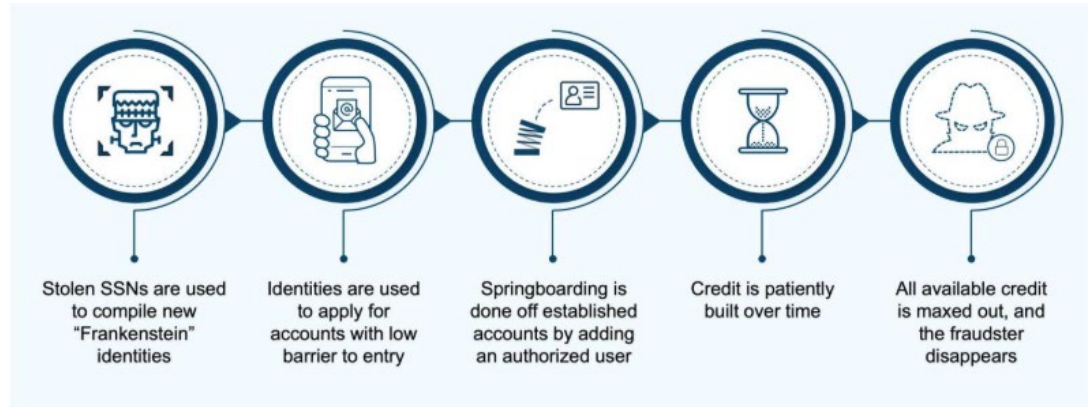
Continuation of Cyber-Scam Losses

- Last year it was estimated that \$3 trillion worth of profits were stolen from cyberfraud
- These scams are considered a “lower risk” for the fraudsters
- Examples of cyber fraud include phishing, tech support scams, identify theft, fake online shopping sites and ransomware



Increase in Synthetic Identity Fraud

- A synthetic identity is a fabricated persona created by combining real and fake information
- AI tools such as deepfakes, image and document generation and automation have all been used to create synthetic identities to target government and private organizations at a higher rate





Increased Blame on Institutions

- The increased volume in fraud is generally accompanied by a general inclination to find new places to point blame
- Since fraud revenues generally must pass through financial institutions or other lenders, these types of businesses will likely face increased pressure from governments, regulators and victims



Shift in the Anti-Fraud Professional Landscape

- The increasing fraud risks facing the private and public sectors are being met with an increased demand for technological solutions (think AI) that will complement human efforts, which will require many anti-fraud professionals to learn how to best utilize and work alongside these tools





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