



# 2022 Florida Government Training Academy

May 18 & 19, 2022

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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# Welcome & Housekeeping

- CPE Certificates will be emailed one to two weeks following today's presentation to the email that you used to register.
- All presentations will be available at [claconnect.com](https://claconnect.com) under the past events page at the end of this week.





# GASB Update

2022 Government Training Academy

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# Learning Objectives

At the end of the session, you will be able to:

- Recall the GASB Pronouncement Update
- Outline the new accounting standards affecting state and local government accounting and reporting
- Identify GASB 96, Subscription-Based IT Arrangements
- Identify applicable types of IT agreements that apply to this pronouncement, recognition and measurement, and required notes to the financial statements







# Upcoming Standards and Implementation Guides

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# *GASB 89, Accounting for Interest Cost Incurred before the End of a Construction Period*

- Effective for reporting periods beginning after December 15, 2020 (12/31/21, 6/30/22, and 9/30/22)
- Interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.
- Interest cost will no longer be capitalized in business-type activities



# GASB 91, *Conduit Debt Obligations*

- Effective for periods beginning after December 15, 2021 (12/31/22, 6/30/23, and 9/30/23)
- Eliminates the existing option for issuers to report conduit debt as liabilities
- Additional commitments to support debt service payments may be recorded as liabilities
- Disclosures for issuers:
  - Type of commitments
  - Description of each type
  - Aggregate outstanding principal balance



# GASB 92, *Omnibus 2020*

- Effective for fiscal years beginning after June 15, 2021:
  - Requirements related to intra-entity transfers of assets
  - Requirements related to application of Statement 84 to postemployment benefit arrangements and nonrecurring fair value measurements
  - Requirements related to the measurement of liabilities associated with ARO's in a government acquisition



# GASB 93, *Replacement of Interbank Offered Rates*

- Effective for periods beginning after June 15, 2020 (hedge fund accounting) and for periods beginning after June 15, 2021 (LIBOR; lease modifications)
- The London Interbank Offered Rate, or LIBOR, which is included in some variable rate payment agreements, will be eliminated
- This standard addresses hedge fund accounting and provides an exception to the lease modification guidance
  - Statement 53 requires the termination of hedge fund accounting if a critical term, such as the variable rate, is amended
  - Statement 87 considers the replacement of a rate to determine variable payments as a lease modification, requiring remeasurement



# *GASB 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

- Effective for fiscal years beginning after June 15, 2022 (12/31/22, 6/30/23 and 9/30/23)
- Establishes standards of accounting and financial reporting for public-private and public-public partnerships (PPPs) and availability payment arrangements (APAs)



## *GASB 97, Accounting and Financial reporting for Internal Revenue Code Section 457 Deferred Comp Plans*

- Section related to governing boards is effective immediately, section related to 457 plans for periods beginning after June 15, 2021 (6/30/22, 9/30/22, and 12/31/22)
- The absence of a governing board is treated the same as the appointment of a voting majority for CU determination
- 457 plans should be classified as either a pension plan or an other employee benefit plan
- GASB 84 should then be applied to determine whether a fiduciary activity
- If considered a pension plan, all pension accounting and reporting requirements apply





## GASB 98, *The Annual Comprehensive Financial Report*

- Effective for periods ending after December 15, 2021 (12/31/21, 6/30/22, and 9/30/22 (earlier application encouraged))
- Replaces the Comprehensive Annual Financial Report with Annual Comprehensive Financial Report or ACFR



## GASB 99, *Omnibus 2022*

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.



# GASB Implementation Guide No, 2021-1, Question 5.1

Effective for periods beginning after June 15, 2023 (12/31/24 and 6/30/24)

Q – Should a government's capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together?

A – A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant.





# *GASB 96, Subscription-Based Information Technology Arrangements*

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# GASB 96 – Subscription-Based Information Technology Arrangements

- Subscription-Based Information Technology Arrangements (SBITA) – defined as a contract that conveys control of the right to use another party's IT software for a specified period of time
- SBITA is accounted for as a right-to-use subscription asset and a corresponding subscription liability
- GASB 96 is very similar in concept to GASB 87 for leases
- Effective for fiscal years beginning after June 15, 2022



# Exemptions to GASB 96

- Contracts that meet the definition of a lease under GASB 87
- Governments that provide other entities the right to use their own IT software and associated tangible assets through a SBITA
- Contracts that meet the scoping criteria for GASB 94
- Any licensing arrangements providing the entity a perpetual license to use a vendor's computer software falling under the scope of GASB 51



# Identifying a SBITA

- Will this software no longer work/will we no longer be able to log in once the contract term ends?
  - If yes, likely that a SBITA exists
- Determine whether a contract conveys control of the right to use underlying IT assets. According to Statement No. 96, the right to use underlying IT assets means:
  - The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
  - The right to determine the nature and manner of use of the underlying IT assets as specified in the contract





# Recognition and Measurement of a SBITA

- Once a SBITA is identified, governments recognize a subscription asset and liability at the commencement of the subscription term of the SBITA
  - This occurs once the government obtains control of the right to use the underlying IT asset



# Subscription term of a SBITA

- The subscription term is the period that the government has the noncancellable right to use the underlying IT assets, plus the following periods, if applicable:
  - Periods covered by a government's extension option if it is reasonably certain that the government will exercise that option
  - Periods covered by a government's termination option if it is reasonably certain that the government will not exercise that option
  - Periods covered by a vendor's extension option if it is reasonably certain that the SBITA vendor will exercise that option
  - Periods covered by a vendor's termination option if it is reasonably certain that the vendor will not exercise that option



# Subscription Liability

- Calculation is similar to GASB 87
- Present value of the total subscription payments expected to be made to the vendor during the subscription term
- Discount future payments by the interest rate the vendor charges the government which may be the implicit rate in the SBITA
  - If the implicit rate is not readily available, an estimated incremental borrowing rate can be utilized



# Subscription Liability

- Payments included in the present value calculation include:
  - Fixed payments
  - Variable payments based on an index or rate – measured using the index or rate as of the commencement of the subscription term
  - Variable payments that are fixed in substance
  - Termination penalties – if the subscription term reflects the government exercising either an option to terminate the agreement or a fiscal funding or cancellation clause
  - Incentives receivable from vendor
  - Any other payments government is reasonably certain will be paid



# Subscription Liability

- In subsequent periods, the government will accrue interest on the remaining subscription liability at the applicable discount rate
- The subscription payments will be allocated first to the accrued interest, and then to reduce the outstanding subscription liability



# Subscription Asset

- The subscription asset is measured as the initial value of the subscription liability plus:
  - Payments made to the vendor at the commencement of the subscription term
  - Capitalizable initial implementation costs
  - Minus any vendor incentives received at the commencement of the subscription term



# Subscription Asset

- The government will amortize the subscription asset in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT asset
- Amortization of the subscription asset begins at the commencement of the subscription term, and is reported as an outflow of resources by the governmental entity





# Other Capitalized Outlays

- In addition to subscription payments, there can be capitalized costs for other activities associated with SBITAs. The type and timing of the activity dictates the accounting treatment of these costs. Other activities associated with SBITAs are grouped into three stages:
  - Preliminary Project Stage
  - Initial Implementation Stage
  - Operation and Additional Implementation Stage



# Example – Case Facts

- Below are additional details of the Beach Town Government SBITA:
  - Subscription Start Date: July 1, 2022
  - Subscription End Date: June 30, 2024
  - First Payment Date: July 1, 2022
  - Payments: \$10,000 annually, paid in advance (on July 1st)
  - Discount Rate: 3%



# Example – Stage Costs

- In addition to the annual \$10,000 subscription payments, the Beach Town Government also incurs additional costs during the following stages:
  - Preliminary project stage costs - \$2,000 for outside consultant to assist with selection and evaluation of lease accounting software
  - Initial implementation stage costs - \$2,500 for data migration costs to the lease accounting software
  - Operation and additional implementation stage costs - \$1,500 for operational challenges requiring additional support services that did not add to the functionality of the lease accounting software



# Example – Present Value Calculation

- \$10,000 annual subscription payments in advance
- 2 year (24 months) subscription term
- 3% borrowing rate
- Subscription Liability:
- Present Value = \$19,708.74
- $=PV(0.03,2,-10000,0,1)$

Function Arguments

PV

Rate	0.03	= 0.03
Nper	2	= 2
Pmt	-10000	= -10000
Fv	0	= 0
Type	1	= 1

= 19708.73786

Returns the present value of an investment: the total amount that a series of future payments is worth now.

**Rate** is the interest rate per period. For example, use 6%/4 for quarterly payments at 6% APR.

Formula result = \$19,708.74

[Help on this function](#)

OK Cancel

# Example – Calculation of Subscription Asset

- $\$19,708.74 + \$2,500 = \$22,208.74$
- Subscription Liability + Initial Implementation Costs = Subscription Asset
- Preliminary project stage – \$2,000 expensed as incurred (these costs are always expensed as incurred)
- Initial implementation stage – \$2,500 capitalized (these costs are typically capitalized as part of the subscription asset)
- Operation and additional implementation state – \$1,500 expensed as incurred as it did not add value to the functionality or efficiency of the software



# Example – Amortization Calculation

A1 $\times$ $\checkmark$ $f_x$ =PV(0.03,2,-10000,0,1)										
	A	B	C	D	E	F	G	H	I	J
1	\$19,708.74									
2	<b>GABS 96 SBITA Amortization Schedule</b>									
3	Period	Cash	Interest Expense	Liability Reduction	Accrued Interest	Cumulative Accrued Interest Liability	Subscription Liability	Amortization Expense	Net Subscription Asset Balance	Accumulative Amortization
4	Beginning Balance						\$19,709		\$22,209	
5	Jul-22	10,000	-	10,000	-	-	9,709	925	21,283	925
6	Aug-22	-	24	-	24	24	9,709	925	20,358	1,851
7	Sep-22	-	24	-	24	49	9,709	925	19,433	2,776
8	Oct-22	-	24	-	24	73	9,709	925	18,507	3,701
9	Nov-22	-	24	-	24	97	9,709	925	17,582	4,627
10	Dec-22	-	24	-	24	121	9,709	925	16,657	5,552
11	Jan-23	-	24	-	24	146	9,709	925	15,731	6,478
12	Feb-23	-	24	-	24	170	9,709	925	14,806	7,403
13	Mar-23	-	24	-	24	194	9,709	925	13,880	8,328
14	Apr-23	-	24	-	24	218	9,709	925	12,955	9,254
15	May-23	-	24	-	24	243	9,709	925	12,030	10,179
16	Jun-23	-	24	-	24	267	9,709	925	11,104	11,104
17	Jul-23	10,000	24	9,709	(267)	-	-	925	10,179	12,030
18	Aug-23	-	-	-	-	-	-	925	9,254	12,955
19	Sep-23	-	-	-	-	-	-	925	8,328	13,880
20	Oct-23	-	-	-	-	-	-	925	7,403	14,806
21	Nov-23	-	-	-	-	-	-	925	6,478	15,731
22	Dec-23	-	-	-	-	-	-	925	5,552	16,657
23	Jan-24	-	-	-	-	-	-	925	4,627	17,582
24	Feb-24	-	-	-	-	-	-	925	3,701	18,507
25	Mar-24	-	-	-	-	-	-	925	2,776	19,433
26	Apr-24	-	-	-	-	-	-	925	1,851	20,358
27	May-24	-	-	-	-	-	-	925	925	21,283
28	Jun-24	-	-	-	-	-	-	925	-	22,209



# Example – Journal Entries

- On July 1, 2022, the JE is made to record the subscription asset and liability:

Account	Debit	Credit
Gross Subscription Asset	22,209	
Subscription Liability		19,709
Cash (for initial implementation costs)		2,500

- To record initial subscription asset and liability as well as payment of implementation costs.





# Example – Journal Entries

- In July 2022, the JE is made to recognize the activity throughout the month:

<b>Account</b>	<b>Debit</b>	<b>Credit</b>
Amortization Expense	925	
Subscription Liability (reduction)	10,000	
Accumulated Amortization		925
Cash (for subscription payment)		10,000

*To record the initial subscription payment and recognize activity for the month of July 2022.*



# Example – Journal Entries

- In the next month, August 2022, the following JE is recorded, despite the government not making a cash payment:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Amortization Expense	925	
Interest Expense	24	
Accrued Interest Liability		24
Accumulated Amortization		925

*To record the amortization of the subscription asset and liability in August.*

- The entry would continue monthly through subscription term.

# Example – Journal Entries

- In July 2023, the JE is made to recognize the payment:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Amortization Expense	925	
Subscription Liability (reduction)	9,709	
Accrued Interest Liability	267	
Interest Expense	24	
Accumulated Amortization		925
Cash (for subscription payment)		10,000

*To record the final subscription payment and recognize activity for the month of July 2023.*



# Subscription Based IT Arrangements

- Step 1: Identifying a SBITA
- Step 2: Determine whether a contract conveys control of the right to use underlying IT assets
- Step 3: Determine the length of the subscription term
- Step 4: Measurement of subscription liability
- Step 5: Measurement of subscription asset
- Step 6: Capitalization of other outlays
- Step 7: Amortization



# Disclosures

- General description of the government's SBITAs including the basis, terms, and conditions of any variable payments not included in the measurement of the subscription liability
- Total amount of subscription assets and related accumulated amortization reported on a separate line item from other capital assets
- The maturity of the subscription liability separated into principal and interest for each of the five years subsequent to the reporting period and in five-year increments for the remaining term of the SBITA



# Disclosures

- The amount of outflows of resources recognized in the current period for:
  - Variable payments not included in the measurement of the subscription liability
  - Any other payments (ex. Penalties) not included in the measurement of the subscription liability
- Any SBITA commitments not yet reported as a subscription liability on the statement of net position (ex. Prior to the commencement of the subscription term)
- Any impairment loss and the applicable adjustment



# GASB 96 Conclusion

- Effective for fiscal years beginning after June 15, 2022
- Subscription-Based Information Technology Arrangements (SBITA) – defined as a contract that conveys control of the right to use another party's IT software for a specified period of time
- SBITA is accounted for as a right-to-use subscription asset and a corresponding subscription liability
- GASB 96 is very similar in concept to GASB 87 for leases
- Additional disclosures required





# Questions?

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# Comprehensive Projects

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# Financial Reporting Model – Reexamination of Statements 34, 35, 37, 41, and 46

- Current Stage: Exposure Draft Redeliberation – Final statement Spring 2023
- GASB is reexamining the current financial reporting model now that GASB 34 has been in effect for some time
- Project includes consideration of the following areas:
  - Management's Discussion and Analysis
  - Governmental Fund Financial Statements
  - Proprietary Fund and Business-Type Activity Financial Statements
  - Budgetary Comparisons
  - Other Issues



## Management's Discussion and Analysis Considerations:

- Enhancing the financial statement analysis component
- Elimination of requirements that are boilerplate or no longer necessary
- Clarify guidance for presenting currently known facts, decisions, or conditions expected to have a significant effect on financial statements



# Governmental Fund Financial Statement Considerations:

- A conceptually consistent measurement focus and basis of accounting
- Develop a presentation format consistent with the measurement focus and basis of accounting



## Proprietary Fund and Business-Type Activity Fund Financial Statement Considerations:

- Evaluate operating indicator alternatives
- Evaluate guidance for the separate presentation of operating and nonoperating revenues and expenses



# Budgetary Comparison Considerations:

- Basic financial statements v. RSI presentation
- Whether and which budget variances should be required to be presented



## Other Issues Considerations:

- Options for more timely financial reporting
- Options to reduce overall complexity, such as presentation of special and extraordinary items and major component unit information



# Revenue and Expense Recognition

- Current Stage: Preliminary Views Redeliberation – Exposure Draft Spring 2025
- Objective is to develop a comprehensive model that would establish guidance applicable to a wide range of revenue and expense transactions
- Issues to address:
  - Specific guidance for exchange transactions
  - Consider a performance obligation approach to recognition of revenue
  - Consider revisions to statements 33 and 36





# Thank You!

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# GASB 87 – Leases

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# Learning Objectives

- At the end of the session, you will be able to:
- Describe the GASB 87 lease standard
- Recognize whether a contract contains a lease and identify the lease term
- Identify accurate and complete financial statement presentation of leases including journal entries and lease schedules





# Overview of GASB 87

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# Effective Date

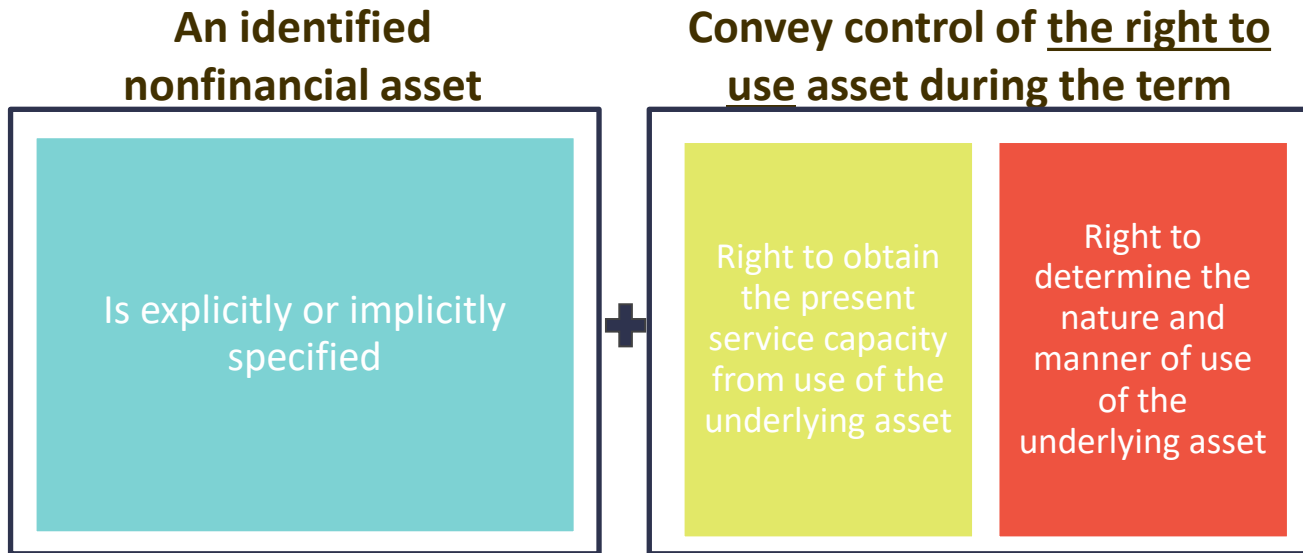


- Effective for reporting periods beginning after June 15, 2021 (fiscal year ending June 30, 2022, September 30, 2022 or December 31, 2022)
- For leases that were reported as operating leases prior to the implementation of Statement 87, the leases should be measured using the facts and circumstances that existed at the beginning of the period of implementation.



# Definition of a Lease

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.



# Exclusions

- Biological Assets
- Conduit Debt Arrangements (GASB91)
- Service Concession Arrangements/PPP or APA Arrangements (GASB 60/94)
- Inventory
- Intangible Assets (mineral rights, patents, software, copyrights)
- Supply Contracts
- Subscription Based IT Arrangements (GASB 96)



# Examples

- Common

- Office Space (Lessee/Lessor)
- Vehicles
- Cell Tower (Lessor)
- Copiers
- Computers

- Uncommon

- Server space
- Land lease
- Water Wells
- Camera Systems

Major pitfall: Assuming that because a contract does not say lease that it's not eligible as a lease.

(Interlocal Agreements, MOUs, Master Services Agreements, etc....)







## Example of Lessee

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# Initial Recording - Lessee

- Lease Asset (right to use asset) – Initial measurement of lease liability, plus prepayments and initial direct costs to place asset in service, less any lease incentives received at or before lease commencement.
- Liability - Present Value of future lease payments for the lease term
- Governmental funds – expenditure and other financing source should be reported in the period the lease is initially recognized



# Case Study #1 – Copiers (Lessee)

- Lease Commencement Date: August 1, 2022
- Full Lease price: \$52,743.04
- Lease Term: 3 Years
- Options: 2 years, expect to extend (Only Lessee has option to cancel)
- Stated Interest Rate: 6%
- PV of min lease payments: \$38,526.52
- Payment due at the beginning of the month - \$741.12
- 12/31/2022 Year End Entity



# Case Study #1 – Copiers (Lessee) – Journal Entries

## Accrual Accounting

### Initial entry to record lease:

Dr. Right-to-Use Asset	38,526.52	
Cr. Lease Liability		38,526.52

### End of Year Entry 12/31/2022:

Dr. Amortization Expense: Right-to-Use Asset	535.09	
Cr. Accumulated Amortization: Right-To-Use Asset		535.09
Dr. Lease Liability	2,788.71	
Dr. Interest Expense	916.89	
Cr. Cash		3,705.60



# Case Study #1 – Copiers (Lessee) – Financial Statement Presentation

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Cash and investments	\$ 143,100,153	\$ 40,399,078	\$ 183,499,231
Receivables (net of allowance)			
Property taxes	51,318,210	—	51,318,210
Accounts	458,782	3,787,045	4,245,827
Accrued interest	732,330	290,160	1,022,490
Other	5,172,709	20,116	5,192,825
Prepaid expenses	598,445	2,000	600,445
Inventories	73,726	1,006,379	1,080,105
Due from other governments	11,636,346	—	11,636,346
Internal balances	(3,647,045)	3,647,045	—
Net pension asset	209,890	—	209,890
Capital assets			
Nondepreciable	97,001,405	2,931,639	99,933,044
Depreciable (net of accumulated depreciation)	408,453,554	295,267,025	703,720,579
Total assets	715,108,505	347,350,487	1,062,458,992

Right to use assets included in the Capital asset section and additional details in the Capital Asset Note Disclosure



# Case Study #1 – Copiers (Lessee) – Financial Statement Presentation

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 12,038,276	\$ -	\$ (4,280)	\$ 12,033,996
Construction in progress	31,222,996	12,890,833	(30,025,559)	14,088,270
Total capital assets not being depreciated	43,261,272	12,890,833	(30,029,839)	26,122,266
Other capital assets				
Buildings and improvements	240,126,741	30,072,509	(1,949,759)	268,249,491
Equipment and fixtures	26,200,540	2,239,879	(31,254)	28,409,165
Leased buildings	636,731	57,791	-	694,522
Leased equipment and fixtures	5,005,414	-	-	5,005,414
Total other capital assets at historical cost	271,969,426	32,370,179	(1,981,013)	302,358,592
Less accumulated depreciation for				
Buildings and improvements	(67,806,215)	(7,317,012)	1,579,277	(73,543,950)
Equipment and fixtures	(18,380,429)	(2,365,552)	31,254	(20,714,727)
Less accumulated amortization for Leased assets	(1,938,346)	(1,105,860)	-	(3,044,206)
Total accumulated depreciation and amortization	(88,124,990)	(10,788,424)	1,610,531	(97,302,883)
Other capital assets, net	183,844,436	21,581,755	(370,482)	205,055,709
Capital assets, net	\$ 227,105,708	\$ 34,472,588	\$ (30,400,321)	\$ 231,177,975

Leased assets will be separated and detailed with similar to other Capital Assets

# Case Study #1 – Copiers (Lessee) – Financial Statement Presentation

## LIABILITIES

Accounts payable	9,390,342	1,513,015	10,903,357
Accrued payroll	5,394,913	316,493	5,711,406
Retainage payable	609,528	137,627	747,155
Deposits payable	10,220,187	60,848	10,281,035
Claims payable	5,943,405	—	5,943,405
Unearned revenue	2,710,572	132,322	2,842,894
Long-term liabilities			
Due within one year	5,312,717	6,718,083	12,030,800
Due in more than one year	255,804,616	54,333,213	310,137,829
Total liabilities	295,386,280	63,211,601	358,597,881

- Lease Liabilities will be reported in the Long-term Liabilities section of the financial statements and additional line added into the notes for that disclosure.







# Example of Lessor



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# Initial Recording - Lessor

- Lease Receivable – Present Value of future payments
- Continue to report the leased asset
- Deferred Inflows – Equal to lease receivable plus any cash received up front related to future periods.



# Case Study #2 – Building (Lessor)

- Lease Commencement Date: July 1, 2022
- Full Lease price: \$36,000.00
- Lease Term: 3 Years
- Options: 2 years, expect to extend (Only Lessee has option to cancel)
- Stated Interest Rate: 4%
- PV of min lease payments: \$33,983.67
- Payment due at the beginning of the month - \$1,000.00
- 09/30/2022 Year End Entity



# Case Study #2 – Building (Lessor) – Journal Entries

## Accrual Accounting

### Initial entry to record lease:

Dr. Lease Receivable	33,983.67	
Cr. Deferred Inflows		33,983.67

### End of Year Entry 09/31/2022:

Dr. Deferred Inflows	2,831.97	
Cr. Lease Revenue		2,831.97
Dr. Cash	3,000.00	
Cr. Interest Revenue		320.93
Cr. Lease Receivable		2,679.07





# Lease Schedule Completeness

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# Does Completeness Matter?

- In short “Yes”
- As the standard is implemented, ensuring that you have performed additional testing/procedures to look for additional leases is recommended.
- Why? – One of the questions that your auditors will be asking about the implementation of the lease standard is “How do you know if you captured and evaluated all potential lease contracts?”



# What can be done to make sure I got them all?

1. Get all the lease details which have already been reported in your financial statements.
2. Check your revenues for potential income from lessor contracts. (Miscellaneous revenues, Cell Tower Revenue, Lease/Building Revenues)
3. Analyze your expense accounts for reoccurring payments to vendors.
4. Analyze any active contracts or agreements which are in effect.



# Evaluation of accounts/contracts

- Look specifically at reoccurring and/or large payments to vendors.
  - Cross reference those vendors to known exclusions. (I.e. utility providers [in general], professional service companies, employee benefits companies.)
  - Pay close attention to accounts like repairs and maintenance, contract expense, service expense, similar.
  - Research those which you are unsure if it might qualify.
- Same logic will apply when reviewing contracts. If unsure, take the time to read them.



# Pitfalls

- Pitfalls
  - Assuming its not a lease because it doesn't say lease. (Interlocal, MOUs, etc.)
  - Intentionally making leases not eligible under the standard.
    - (Possible loss of assets, greater risk)
  - Assuming your termination for convenience clause makes it short-term.
  - Documentation
    - As you preform your analysis, review various documents and apply the rules create documentation which demonstrates all the steps which you took to comply with the standard.





# How to make it smooth during Audit?

- Document, Document, Document

- Completeness procedures
- Contracts ready
- Assumptions
- Discount rates
- Other relevant documents
  - Lease acceptance
  - Renewals
  - Change Orders





# Lease Term Determination

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# Lease Term

- The lease term is the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:
- Keep in mind, these have to be reasonably certain (of being/not being) exercised, based on all relevant factors...

---

Periods covered by a lessee's option to extend the lease

---

Periods covered by a lessee's option to terminate the lease

---

Periods covered by a lessor's option to extend the lease

---

Periods covered by a lessor's option to terminate the lease



# Lease Term... Keep in Mind

- Rolling month-to-month or holdover leases are cancelable if both lessee and lessor have option to terminate at any time.
- Periods where both lessee and lessor have an option to terminate without permission from the other party (or if both parties have to agree to extend) are cancelable periods and excluded from the lease term.
- Termination penalty causes do not affect if the period is considered cancelable or not.
- Fiscal funding clauses are not considered to be a cancelable unless reasonably certain to exercise the clause



# Lease Term – Odd Clauses

- Beware of clauses which could look like both parties have to agree but do by electing the extension.
  - One clause which I have seen many times in real estate contracts is a clause which allows the lessee to extend, and rate is based on prevailing market rate.
  - Some of these clauses provide an out as both sides have to agree to market rate.
  - Some provide for determination by average rates provided by experts.
- Always verify when/if the opposing party can terminate.



# Lease Term – Best Practices

- Get your dates clear and if they are not listed directly in the contract have your additional supporting documentation included with your lease.
- If you considered a lease not eligible due to lease term, note the clause and any applicable reasons. (Especially if your exercising a term provision)
- Carefully evaluate any termination provisions you are asserting. If the lease still exists after your asserted termination date, this will lead to additional questions.
- Consider all renewal provisions which you have a right to exercise and document the expectations. Remember that if you say yes to renew at implementation this does not lock you into renewing the contract if circumstances change.



# Lease Term – Examples

- Entity has a lease for ten years with two (5) five-year renewal options and the ability for either party to cancel with two-year notice.
  - What's the Lease Term length of the contract?



# Lease Term – Examples

- Entity has a lease for 4 years with two (2) two-year renewal options. There are no provisions to cancel and the Entity has ability to renew without approval.
  - What should the Lease Term be?





# Thank You!

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# 10 Minute Break

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# CLA's Experience



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Create Opportunities




# Single Audit Update

2022 Florida Government Training Academy

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# Learning Objectives



To identify and update COVID-19 impact on Single Audits
To identify major changes to the single audit compliance supplement, federal programs, and audit requirements
To review major program determination and compliance requirements
To identify common single audit issues and best practices to prevent or remedy the issues.





# COVID-19 Continued Impact

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# Impact of Coronavirus on Single Audits

## Significant inflows of Federal Funds

- Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funding
- American Rescue Plan Act (ARPA) funding

## Additional COVID-19 legislation stemming from CARES, extended by ARPA

- Coronavirus Preparedness and Response Supplemental Appropriations Act
- Families First Coronavirus Response Act
- Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)



# CARES Funding: Recap

---

Coronavirus Aid,  
Relief and Economic  
Security Act (CARES)

\$2.2 trillion

Passed by 116<sup>th</sup> US Congress  
and signed into law on March  
27, 2020

---

Additional \$900 billion

Attached to the Consolidated  
Appropriations Act of 2021 on  
December 27, 2020

---

Funds must be used by  
December 31, 2021

---

Allowable costs included  
unbudgeted, supported efforts  
related to COVID-19 and a  
necessity

---



# CARES Funding: Recap

## State & Local Governments

- Received Federal assistance from different federal agencies in addition to Coronavirus Relief Fund (CRF)
- Received pass-through funding as subrecipients
- FEMA donated PPE

## Healthcare Entities

- Received Provider Relief Funds (PRF)
- Healthcare entities that have not previously had Single Audits may have received significant PRF.

## Commercial entities

- Federal agencies incorporating audit requirements into certain COVID-19 programs applicable to commercial entities
- Single Audit requirements > \$750,000 expenditures
- Commercial entities- financial statement GAGAS audit or Single Audit
- Sheltered Venue Operator Grant



# ARPA Funding

American Rescue  
Plan (ARPA)

\$1.9 trillion

Passed on March 10, 2021



Provisions on aid to state and local governments, hard-hit industries, communities, tax changes affecting individuals and business, and other provisions

Funds must be obligated by December 31, 2024

Funds must be spent by December 31, 2026

State and Local Fiscal Recovery Funds (SLFRF)

Treasury has disbursed more than \$350 billion to state, local and tribal governments



# Impact of Coronavirus on Single Audits

## Federal oversight

- Office of the Inspector General has performed monitoring reviews and published results on their website.
- The OIG has also published updates on GrantSolutions closeout procedures, etc. [CARES Act Reporting and Record-Keeping Information | Office of Inspector General \(treasury.gov\)](#)

## Local government challenges

- Remote and hybrid work environments
- Evolving guidance from federal and state grantors



# Impact of Coronavirus on Single Audits

## Prolonged and revised federal compliance requirements for existing and new programs

- 2 addendums for the 2021 compliance supplements
- Increase in major programs

## Changes to federal requirements related to new entities that received funding

- Grants to private business
- Determining a sub recipient vs beneficiary





# OMB Compliance Supplement and Compliance Requirement Changes

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# 2021 OMB Compliance Supplement – What's New

## Final Supplement

Released August 13, 2021

Added 5 programs

Deleted 4 programs

Provided updates on CARES programs

## Addendum 1

Added 2 ARPA programs to Part 4 of the Compliance Supplement:

CSLFRF (Assistance Listing 21.027)

EESF (Assistance Listing 84.425)

## Addendum 2

Designates additional higher risk programs



# 2021 OMB Compliance Supplement – What's New

Higher risk programs are intended to test the funding provided under the following Acts:

Coronavirus  
Preparedness and  
Response Supplemental  
Appropriations Act

Families First  
Coronavirus Response  
Act

Coronavirus Aid, Relief,  
and Economic Security  
Act (CARES Act)

Coronavirus Response  
and Relief Supplemental  
Appropriations Act  
(CRRSAA)

American Rescue Plan  
Act (ARPA)





# 2021 OMB Compliance Supplement – What's New

## New Federal Programs

- 10.542 Pandemic EBT Food Benefits
- 10.649 Pandemic EBT Admin Costs
- 16.034 Coronavirus Emergency Supplemental (2020)
- 21.027 Treasury's Coronavirus State and Local Fiscal Recovery Funds (2021)
- 21.019 Coronavirus Relief Fund (2020, **higher risk 2021**)
- 21.023 Emergency Rental Assistance (2020, **higher risk 2021**, no Part 4 until 2022)
- 32.006 Telehealth Program (2020)
- 52.075 Shuttered Venue Operators Grant (2021)
- 93.498 Provider Relief Program
- 93.461 Uninsured Testing Portal (2020, **higher risk 2021**)
- 84.425 Education Stabilization Fund (2020, **higher risk 2021**)

## Existing Federal programs w/ COVID-19 funding

- 10.001 USDA Multiple Program COVID19 Waivers for Food and Nutrition Service Programs
- 14.871 Section 8 Housing Choice Vouchers
- 17.225 Unemployment Insurance (not a grant)
- 93.153 Coordinated Services and Access to Research for Women, Infants, Children, and Youth
- 93.914 HIV Emergency Relief Project Grants
- 93.917 HIV Care Formula Grants
- 93.918 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
- 20.106 Airport Improvement Program (**higher risk 2021**)
- 93.499 Low Income Household Water Assistance Program
- 93.575 Child Care Development Back Grant



# 2022 OMB Compliance Supplement

## Breaking news

- Released May 11, 2022
- Effective for audits of fiscal years beginning after June 30, 2021.
- Supersedes the 2021 Compliance Supplement and addenda
- CSLFRF designated as a higher risk program
- Federal Audit Clearinghouse Transition



# Changes to Federal Compliance Requirements

## Federal Funding Accountability and Transparency Act Reporting (FFATA)

- Signed on September 26, 2006
- Removed from audit coverage, although auditees were still required to complete FFATA reporting
- Resurfaced as a compliance requirement in the 2020 OMB Compliance Supplement
- For fiscal years ending after September 30, 2020, applies to all major programs



# Changes to Federal Compliance Requirements

## FFATA Requirements

- Applies to direct recipients who make first tier subawards and contracts that award first tier subcontracts.
- Must report each first-tier subaward, subcontract or amendment that results in an obligation of \$30,000 or more of federal funds.



# Changes to Federal Compliance Requirements

## When is FFATA tested?

- When direct & material
- “The prime awardee is required to file a FFATA” sub-award report by the end of the month following the month in which the prime recipient awards any sub-grant greater than or equal to \$30,000.

## Common FFATA reporting scenarios:

- If the initial award is below \$30,000 but subsequent grant modifications result in a total award equal to or over \$30,000, the award will be subject to the reporting requirements, as of the date the award exceeds \$30,000.
- If the initial award equals or exceeds \$30,000 but funding is subsequently de-obligated such that the total award amount falls below \$30,000, the award continues to be subject to the reporting requirements of the Transparency Act and this Guidance.



# Changes to Federal Compliance Requirements Federal Emergency Management Agency (FEMA)

## Increased Federal Support

- 100% for previously determined eligible costs from beginning of pandemic (January 2020) through July 1, 2022
- 90% after July 1, 2022

## Federally Funded PPE

- Disclose in SEFA the fair market value of federal funded PPE donated to non-federal entities
- Mark as “unaudited”; will not impact single audit major program determination

## SEFA Reporting for FEMA funding

- Include on SEFA:
  - When FEMA has approved the non-federal entity’s PW and
  - The non-federal entity has incurred eligible expenditures





# Major Program Determination

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# How does your auditor decide which programs to test?

- a) Random sampling techniques
- b) All programs over \$300,000
- c) Risk based approach
- d) Roll of the dice



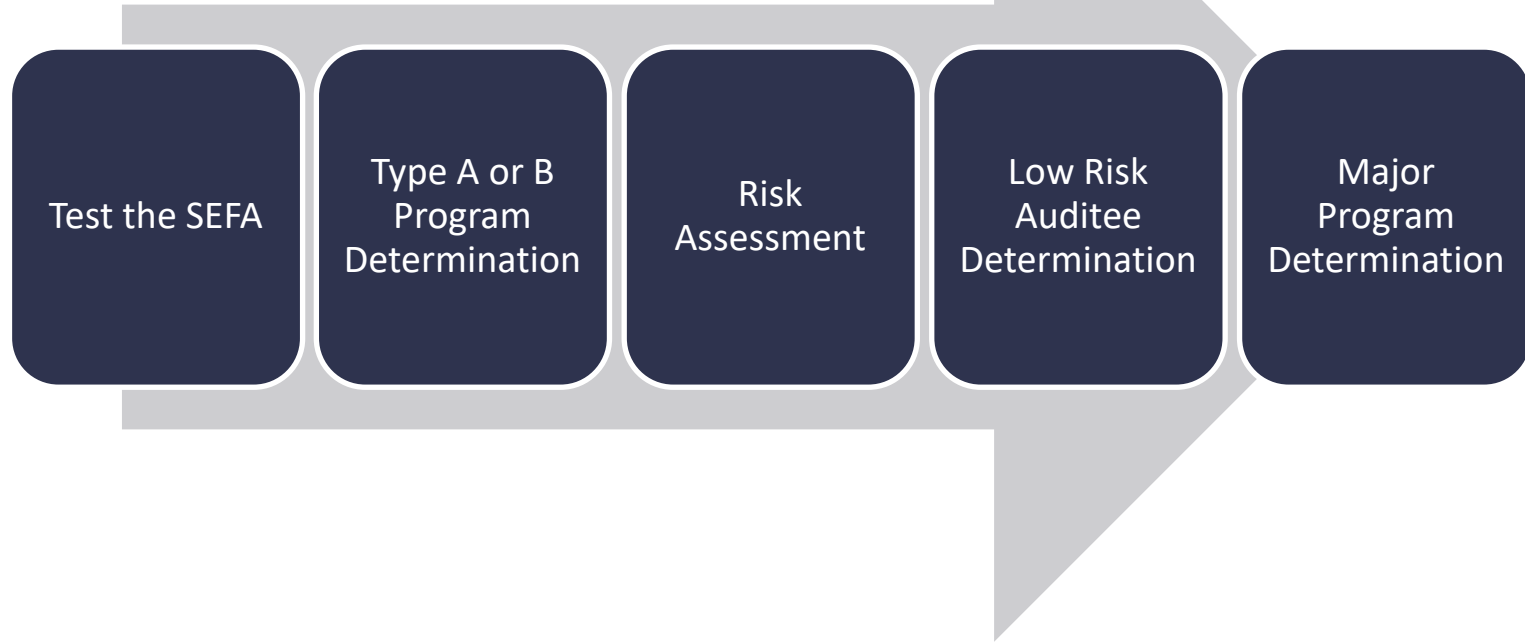


# How does your auditor decide which programs to test?

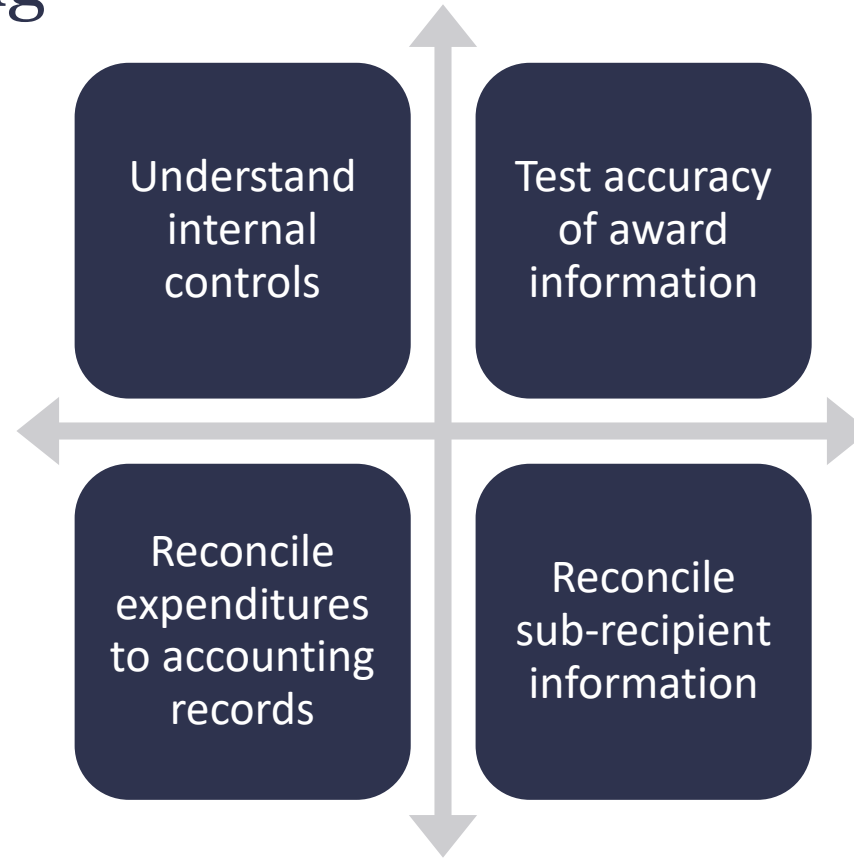
## c) Risk based approach



# Major Program Determination



# SEFA Testing



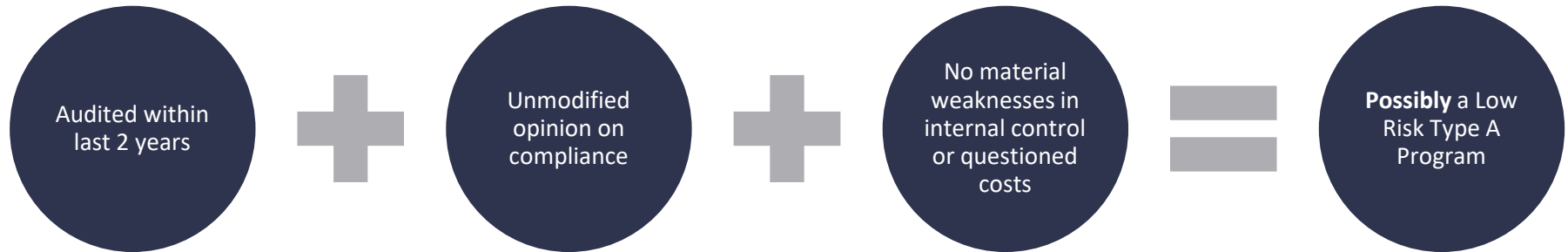
# Type A & B Program Determination

<i>Total federal award expended</i>	<i>Type A threshold</i>
<b>Equal to or exceed \$750,000 but less than or equal to \$25 million</b>	\$750,000.00
<b>Exceed \$25 million but less than or equal to \$100 million</b>	Total Federal awards expended times .03.
<b>Exceed \$100 million but less than or equal to \$1 billion</b>	\$3 million.
<b>Exceed \$1 billion but less than or equal to \$10 billion</b>	Total Federal awards expended times .003.
<b>Exceed \$10 billion but less than or equal to \$20 billion</b>	\$30 million.
<b>Exceed \$20 billion</b>	Total Federal awards expended times .0015.



# Type A & B Program Determination

## Low Risk Type A Program Criteria



OMB designation as high-risk would override these factors!

# Type A & B Program Determination

## Considerations in Risk Assessment

- Level of oversight
- Prior audit findings
- Personnel and systems
- Multiple internal control structures
- Use of subrecipients
- Nature of the program
- Phase of program in life cycle at federal agency
- Phase of program in life cycle at auditee
- Large awards



# Low Risk Auditee Determination

- Must meet the following criteria for the preceding two audit periods:
  - Single audits performed on an annual basis, including submitting the data collection form within the earlier of 30 calendar days after receipt of the auditor's reports, or nine months after the end of the audit period.
  - Auditor's opinion on the financial statements and the SEFA were unmodified.



# Low Risk Auditee Determination (continued)

- Must meet the following criteria for the preceding two audit periods:
  - No deficiencies in internal control were identified as material weaknesses under GAGAS
  - Auditor did not report a substantial doubt about auditee's ability to continue as a going concern





# Low Risk Auditee Determination (continued)

- Must meet the following criteria for the preceding two audit periods:
  - None of the Federal programs had audit findings from any of the following in either of the preceding two audit periods in which they were classified as Type A programs:
    - Internal control deficiencies that were identified as material weaknesses in the auditor's report on internal control for major programs
    - A modified opinion on a major program in the auditor's report on major programs
    - Known or likely questioned costs that exceeded five percent of the total Federal awards expended for a Type A program during the audit period.



# Low Risk Auditee Determination (continued)

**Low Risk  
Auditee**

Test 20% of total  
federal expenditures

**Not a Low  
Risk Auditee**

Test 40% of total  
federal expenditures



# How does your auditor decide which compliance requirements to test?

- a. They test every requirement they can find
- b. They use the OMB's compliance supplement
- c. They test the ones they think they can write us up for
- d. Roll of the dice



# How does your auditor decide which compliance requirements to test?

## **b. They use the OMB's compliance supplement**

Compliance Supplements are available on the OMB's website:  
[Office of Federal Financial Management | The White House](#)



# Matrix of Compliance Requirements

Requirement	A	B	C	E	F	G	H	I	J	L	M	N
Program Number	Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
20.106	Y	Y	N	N	Y	Y	N	N	N	Y	N	Y



# Florida Single Audit

- Much of the Florida Single audit act mirrors the Federal requirements.
- Resources are available:  
[Florida Single Audit Act \(fldfs.com\)](https://fldfs.com)





# Common Grantee Issues and Best Practices

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# Common Grantee Issues

What are your government's biggest challenges when it comes to grant administration, and how have you overcome them?





# Schedule of Expenditures of Federal Awards

## Assistance Listing Number

- Replaces Catalog of Federal Domestic Assistance (CFDA) Number

## Clusters

- Include sub-total for the cluster

## Pass-through Grants

- Identify pass-through agency
- Include identification number

## Totals

- Total by Assistance Listing Number
- Total by Federal agency

## COVID-19 Awards

- Must be separately identified



# Schedule of Expenditures of Federal Awards

Example: Assistance Listing No. 14.218 Community Development Block Grant with COVID-19 funding and regular entitlement funding.

Presentation would be as follows:

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
<b><u>Federal Awards</u></b>				
<b>U.S. Department of Housing and Urban Development</b>				
COVID-19 Community Development Block Grant	14.218		\$ 1,000,000	\$ -
Community Development Block Grant	14.218		3,000,000	500,000
Total Community Development Block Grant			<u>\$ 4,000,000</u>	<u>\$ 500,000</u>

COVID-19 notations should also be included in the Data Collection Form.



# Common Single Audit Findings

## Internal Control

- Internal control structure is not documented or consistently performed
- Lack of written procedures as a result continuity of procedures
- Increase in electronic processes - lack of documentation to support review and approval

## Time and effort

- Lack of written procedures for budgetary reporting of time and effort process
- COVID-19 – lack of documentation to support allocation of hours/pay
- Budgetary reporting – lack of documentation to support adjustments to employee hours charged to the grant



# Common Single Audit Findings (cont.)

## Reporting

- Maintain submitted report and related documentation
- For electronically submitted reports, print out the report along with the electronic communications supporting submission
- Maintain evidence of supervisory review
- Untimely and Inaccurate Reporting
  - Quarterly or annual reports are not filed timely
  - Submitted reports are not supported by documentation
  - Numerous errors in the reported data (most qualitative finding)

## Procurement

- Inadequate support for sole source vendor
- Lack of supporting documentation in the vendor file. (i.e. vendor selection, 3 quotes for small purchases)
- Lack documentation to support contractor's suspension and debarment status



# Common Single Audit Findings (cont.)

## Subrecipient Monitoring

- Subaward does not contain required information
- Subs are not monitored timely (in accordance with pass-through entity procedures)
- Lack of written procedures over subrecipient process
- Inadequate monitoring documentation maintained
- Lack of proper identification of noncompliant subrecipients and noncompliance remedies

## FFATA

- Reporting not performed



# Best Practices

## Educate

- Keep program and accounting staff educated on Uniform Guidance compliance.
- New changes are not always communicated by grantors.
- Review contracts and the compliance supplement for the program.

## Coordinate

- There are many steps and deadlines in a single audit.
- Coordinate due dates and project management both internally and with your auditor.!



# Best Practices

## Document

- Ensure that all relevant policies are documented and available.
- Single audit will test that your entity's policies meet compliance requirements and then test transactions against your policy (procurement, subrecipient monitoring).
- Retain documentation throughout the year supporting any judgments on why a cost was reasonable, allocable, allowable and necessary.

## Consult

- Reach out to your auditor with questions throughout the year.
- We are here to help!



# Best Practices

## Grant Summary Sheets

- Prepare a summary sheet for each award with all pertinent information
- Include award period, amount, matching provisions, reporting deadlines, and any special terms and provisions
- Share with program and accounting staff

## Leverage Accounting Software

- Use accounting software to separately track all revenues and expenses of each award.
- Consider project tracking modules

## Eliminate Repeat Findings

- Ensure corrective action plans are implemented or document why not.
- Follow up on management responses to prior year findings throughout the year.

## Reporting

- Maintain submitted report and related documentation.
- For electronically submitted reports, print out the report along with the electronic communications supporting submission.
- Maintain evidence of supervisory review.





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# Cybersecurity Threats for 2022

## Ransomware, Phishing and Service Provider Risks

May 2022

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# Learning Objectives

- *At the end of the session, you will be able to:*
- Identify the latest threat developments
- Recognize critical dependencies and risks in outsourced service provider relationships
- Indicate where organizations can focus valuable risk mitigation resources
- Identify how to develop and refine a framework of knowledge to plan future security efforts



# Cyber Security Services

Information Security offered as specialized service offering for over 25 years

- Penetration Testing and Vulnerability Assessment

  - Black Box, Red Team, and Collaborative Assessments

- IT/Cyber security risk assessments

- IT audit and compliance (HIPPA, CIS, NIST, CMMC, DOL, GLBA/FFIEC, etc...)

- PCI-DSS Readiness and Compliance Assessments

- Incident response and forensics

- Independent security consulting

- Internal audit support



**HITRUST**  
Authorized CSF Assessor



C:\whoami  
> zojo

- “Professional Student”
- Self Taught and Formally Educated Computer Guy
- Telecom → IT Consultant → Project Manager → Hacker
- Prefer to work on “technical” assessments and networks
- US Army



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- 

## “Presence”



Sun Tzu:

*“Know your enemy, know yourself and you can fight a hundred battles without disaster”*

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# Cybercrime and Black-Market Economies

- Black market economy to support cyber fraud
  - Business models and specialization
  - Underground Marketplace (The Dark Web)
- Most common cyber fraud scenarios we see affecting our clients
  - Theft of information
    - Credit card information
    - PII, PFI, ePHI, account profiles, etc...
    - Log-in Credentials
  - Ransomware and interference w/ operations

➤ To the Hackers, we all look the same...

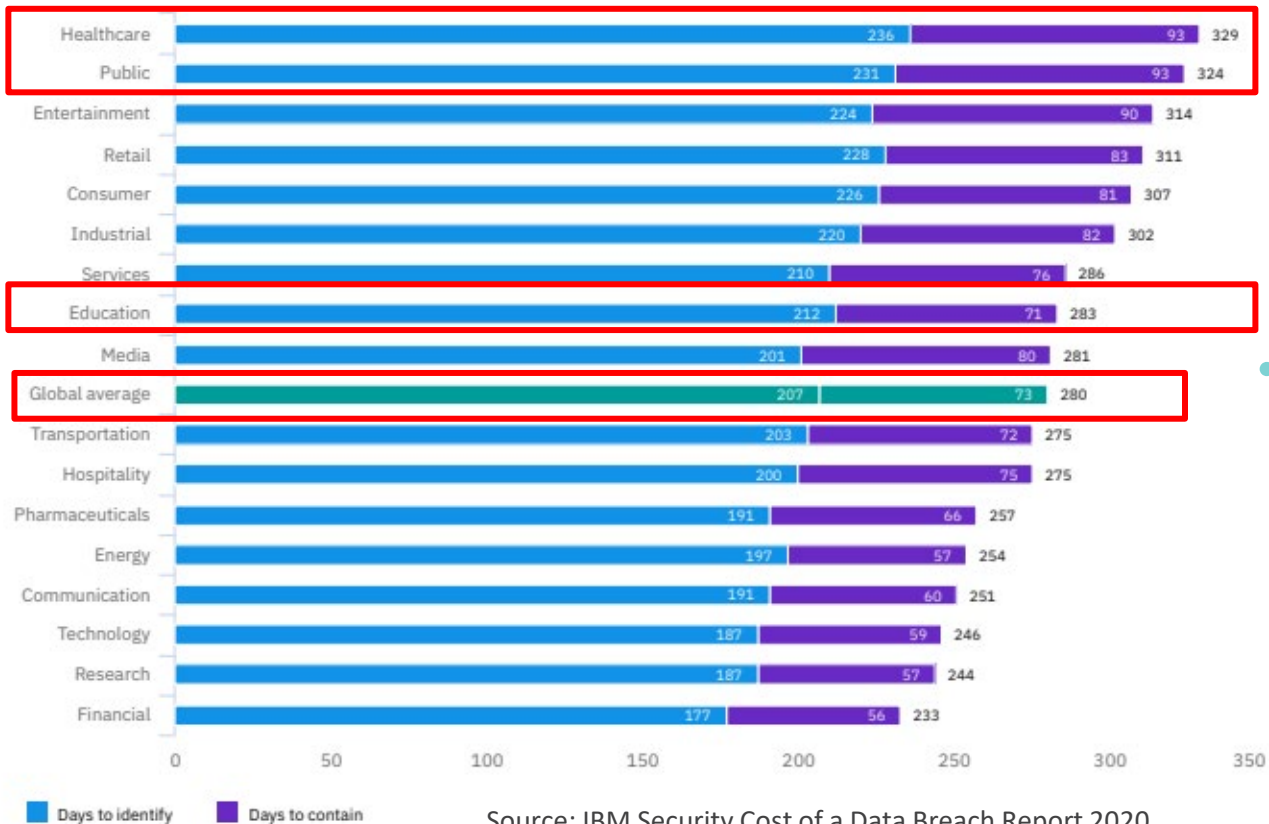


They will hit you with any or all of the following:

1. Email Spear Phishing Attacks
2. Password Guessing and Business Email Account Takeovers
3. Payment and Funds Disbursement Transfer Fraud
4. Ransomware
5. Extortion to avoid breach disclosure



# Average Days to Identify and Contain a Data Breach



Source: IBM Security Cost of a Data Breach Report 2020

- Global average is 280 days
  - 207 days to identify a breach
  - 73 days to contain the attack



# Behind the statistics

- Hackers can do a lot in AND to your network in 236 days
    - Learn everything about your group
    - Find your crown jewels and take them
    - Disable backups and security systems
    - Create numerous back doors
  - Public portrayal of ransomware creates a **false sense of security**
    - Ransomware is usually coupled with other acts – Ransomware is simply the most visible part of the attack – it is usually “the last act”
    - Current ransomware attacks are coupled with data exfiltration
    - Resuming operations is just the first step
    - Legal and business ramifications of a data breach can persist
- Over 80% of breaches have a root cause in some form of Spear Phishing or other Social Engineering



Average cost  
\$8.4M





Here They Come

We All Look the Same  
To the Hackers

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# Phishing and Pre-Text Phone Calls?

The image shows a screenshot of an email client window displaying a phishing message. The email header indicates it is from 'Account@votfy@verizonwireless.com' and is dated 'Wed 8/14/2013 10:29 AM'. The subject is 'Your Bill Is Now Available'. The body of the email features the Verizon logo and a red banner stating 'IMPORTANT ACCOUNT INFORMATION FROM VERIZON WIRELESS.' Below this, the text reads: 'Your current bill for your account is now available online in My Verizon. Total Balance Due: \$2335.58'. A red circle highlights this text. Further down, there is a link: '> View and Pay Your Bill' followed by the URL 'http://dancingdivaswear.com/robyn/index.html' and the instruction 'Click to follow link'. This link and URL are also circled in red. To the right of the main text, there is a section titled 'My Verizon is also available 24/7 to assist you with:' followed by a list of services: 'Viewing your usage', 'Updating your plan', 'Adding Account Members', 'Adding your bill', 'Purchasing accessories for your devices', and 'And much more...'. A red callout box points to the 'View and Pay Your Bill' link. Another red callout box points to the URL and the 'Click to follow link' instruction. At the bottom of the email, there is a map of the United States and the text 'Verizon. America's Largest 4G LTE Network.' followed by a 'Learn More' button. The footer of the email includes the copyright notice '© 2013 Verizon Wireless' and the address 'Verizon Wireless | One Verizon Way | Mail Code: 180WVB | Basking Ridge, NJ 07920'.

**Your current bill for your account is now available online in My Verizon**

Total Balance Due: \$2335.58

**IMPORTANT ACCOUNT INFORMATION FROM VERIZON WIRELESS.**

Your current bill for your account is now available online in My Verizon.

Total Balance Due: \$2335.58

Keep in mind that payments and/or adjustments made to your account after your bill was generated will not be reflected in the amount shown above.

> [View and Pay Your Bill](http://dancingdivaswear.com/robyn/index.html)  
http://dancingdivaswear.com/robyn/index.html  
Click to follow link

Want to simplify p

> [Enroll in Auto Pay](#)

My Verizon is also available 24/7 to assist you with:

- Viewing your usage
- Updating your plan
- Adding Account Members
- Adding your bill
- Purchasing accessories for your devices
- And much more...

Thank you for choosing Verizon Wireless.

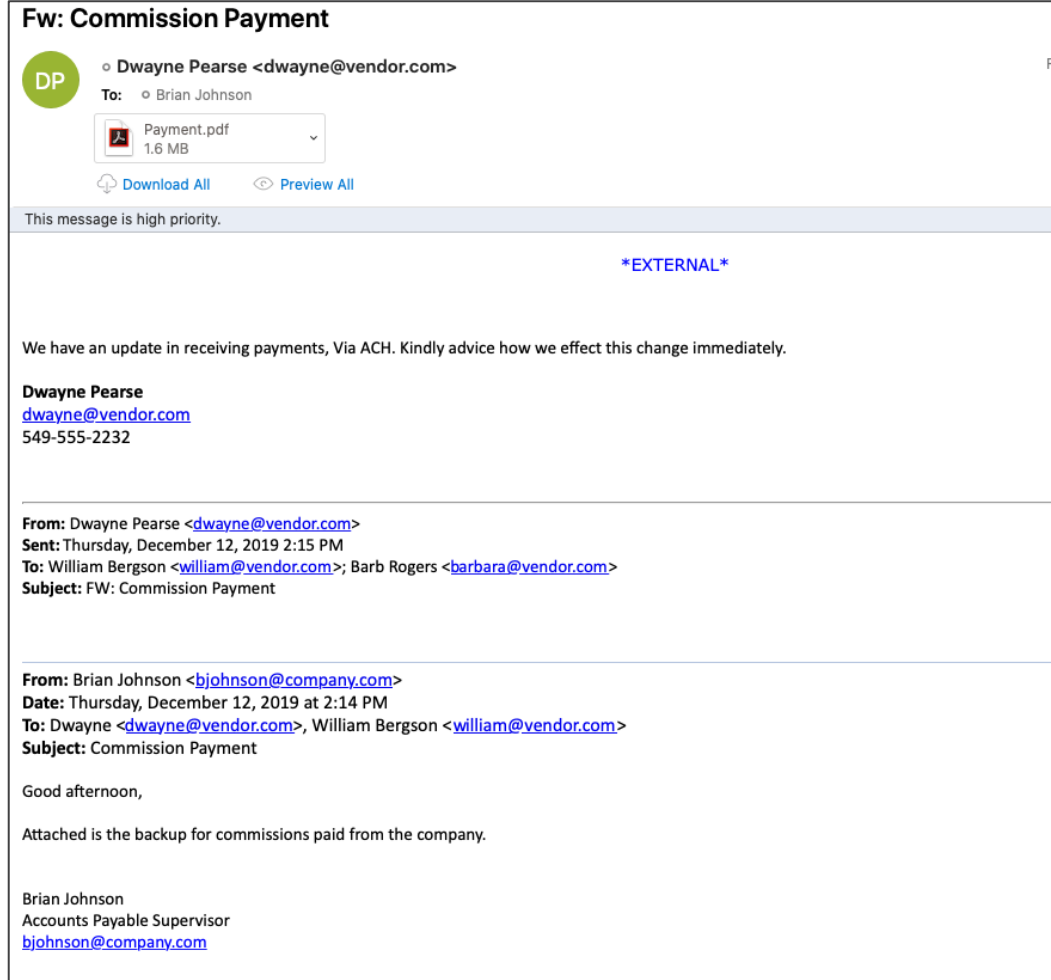
Verizon. America's Largest 4G LTE Network. [Learn More](#)

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# Business Email Compromise

- Fraudsters impersonate employees, service providers, or vendors via email in an attempt to...
  - Steal or transfer \$\$\$
  - Authorize a distribution
  - Impersonate an Executive asking staff to “buy gift cards”
  - Update direct deposit account



# Does Your Organization Already Use a Phishing Service?

- “We already use \_\_\_\_\_”
  - “IT tests our people every \_\_\_\_\_”
  - “Click through rate is \_\_\_\_\_”
  - “Failures are required to take training...”
  - “We report results to the board quarterly...”
- These services are best categorized as training and training effectiveness measurement tools.
- They are NOT penetration testing...
  - **There is a “so what factor” that you may be missing...**





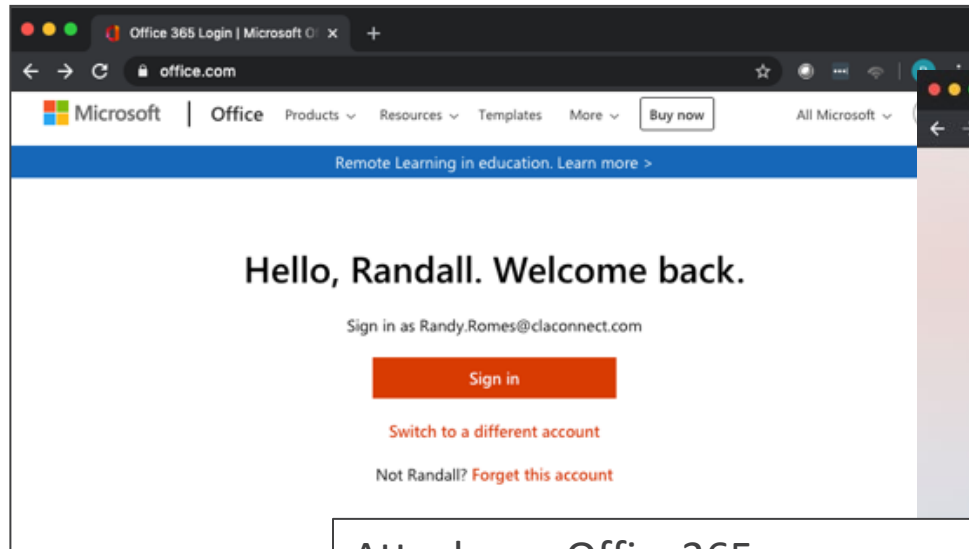
# Passwords Are the Keys to the Kingdom...

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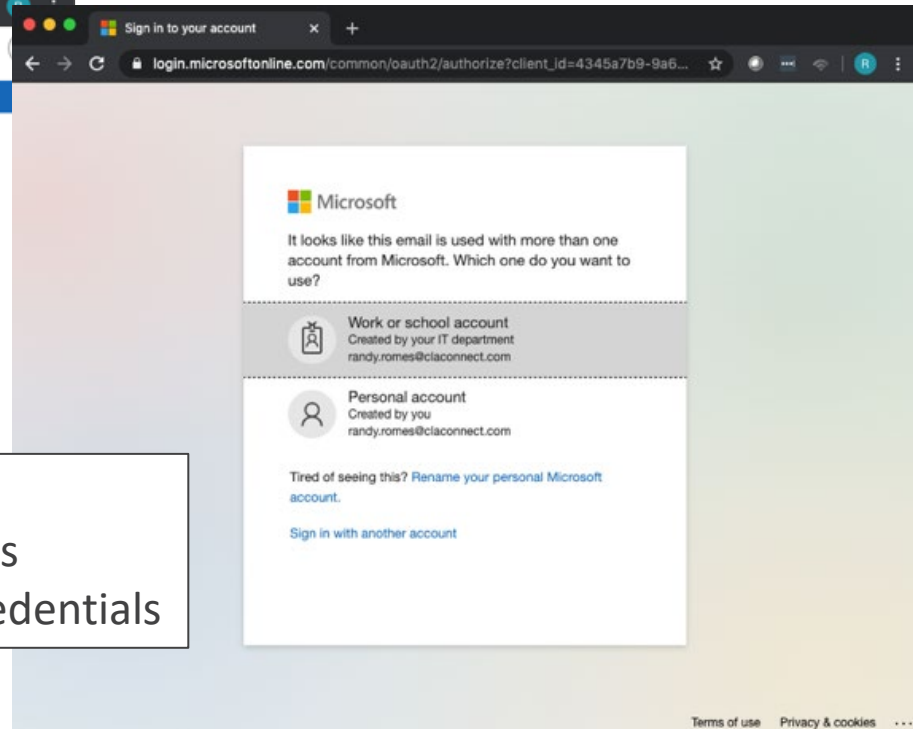


# Credential Harvesting and Password Guessing: The Cloud is Ripe for the Picking



## Attacks on Office365

- Password guessing attacks
- Phishing that harvests credentials



# Passwords

## ➤ Old Rules (NIST)

- Length (8+ characters)
- Complexity (Aa4@)
- Forced expiration (every\_\_\_\_\_)

## ➤ New Guidance (NIST)

- Password tools
  - MFA
  - Password managers

Password Audit	Total
Number of passwords audited	855
Passwords cracked	794
Passwords that were all letters	63
Passwords that were all numbers	5
Passwords that were an English word	20
<b>Passwords that were a word with numbers appended to it</b>	<b>200</b>
Passwords that were the same as the username	6
Passwords that do not meet Windows complexity	584



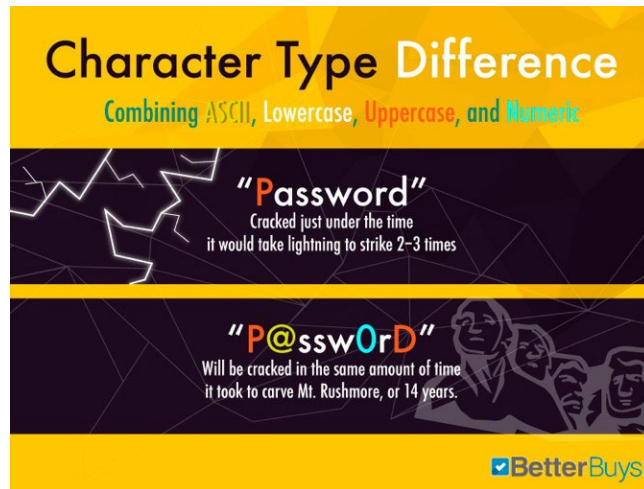
# Password Cracking

- Password Hash

- Passwords are stored in an encrypted format (Hash) - unique value for each password
  - *P@ssw0rD > DF3C25A62D926F27B08C6D6B8A9F02BA*

- Password Cracking

- Attackers must “decrypt” to get the password
  - *Guess > Compute Hash > Compare*



# 14 Years to Crack “P@ssw0rD”???

Host memory required for this attack: 345 MB

Dictionary cache hit:

- \* Filename..: /Users/zjovic/Wordlists/rockyou.txt
- \* Passwords.: 48621253
- \* Bytes.....: 465243592
- \* Keyspace...: 48621253

df3c25a62d926f27b08c6d6b8a9f02ba:P@ssw0rD

**Cracked password**

Session.....: hashcat  
Status.....: Cracked  
Hash.Name.....: NTLM  
Hash.Target.....: df3c25a62d926f27b08c6d6b8a9f02ba  
Time.Started....: Thu Oct 7 13:46:36 2021 (1 sec)  
Time.Estimated...: Thu Oct 7 13:46:37 2021 (0 secs)  
Guess.Base.....: File (/Users/zjovic/Wordlists/rockyou.txt)  
Guess.Queue.....: 1/1 (100.00%)  
Speed.#3.....: 14845.3 kH/s (1.62ms) @ Accel:1024 Loops:1 Thr:64 Vec:1  
Recovered.....: 1/1 (100.00%) Digests  
Progress.....: 3147333/48621253 (6.47%)  
Rejected.....: 1605/3147333 (0.05%)  
Restore.Point....: 2097282/48621253 (4.31%)  
Restore.Sub.#3...: Salt:0 Amplifier:0-1 Iteration:0-1  
Candidates.#3....: SABOR -> tolly2001

Started: Thu Oct 7 13:46:36 2021  
Stopped: Thu Oct 7 13:46:37 2021

**Time required to crack**



# Password Strategies:

- Multi-factor authentication on ALL external systems
- Password management tools
- **Pass Phrases – Loooooong natural language**

*Password21* <----- **Unforgiveable!**

*Summer21* <----- **Terrible**

*N\*78fm/1* <----- **Painful**

Wallet Painting lamp <-- **GOOD**

**Bills will eventually win the Superb0wl! ← BEST**

- Password tools: MFA and Password Managers are needed





# Other common attack vectors

Ransomware and Supply Chain

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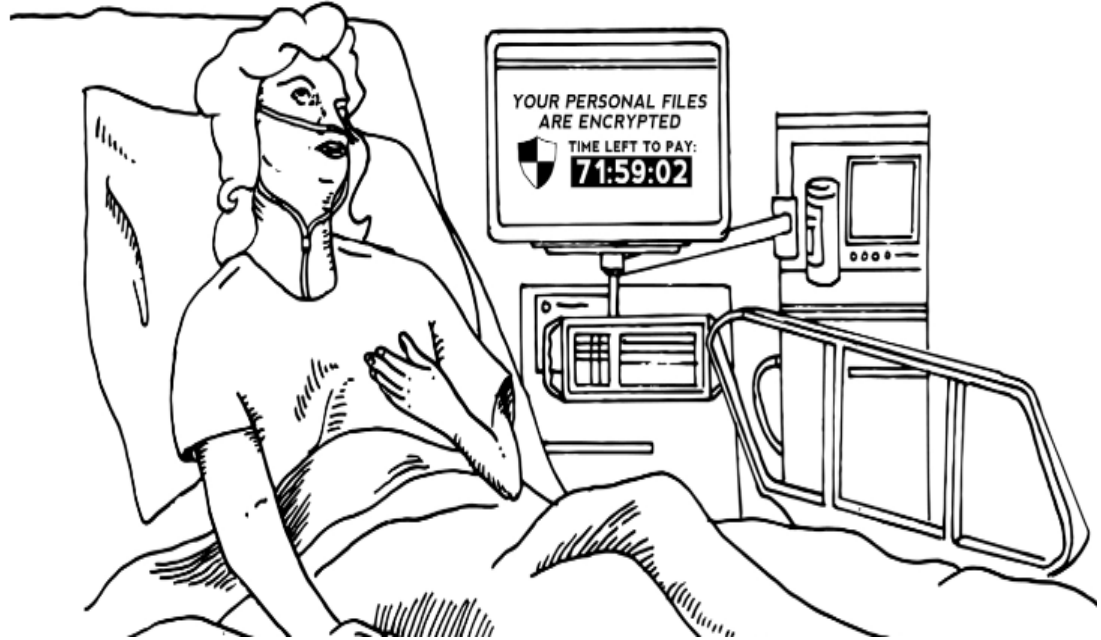
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# Ransomware

Ransomware bursts on the scene more than four years ago...

## Hospital ransomware: A chilling wake-up call

Hollywood Presbyterian was forced to pay up, just like everyone else.



# Ransomware Attacks Continue to Evolve

- Earliest versions attack consumer availability
- 2<sup>nd</sup> generation attacked business availability & confidentiality
- Newest versions
  - Successful against all operating systems
  - Include Internet banking trojans (Zeus Sphinx Trojan)
  - Search for and encrypt back ups first
  - **FINISH with threat of data disclosure (DR is not enough...)**
- **If you have not tested your susceptibility to Ransomware...???**
- **If you have not tested your recovery capabilities, from bare metal up...???**



**Ransomware**





# Software Vendor/Supply Chain Risk Management

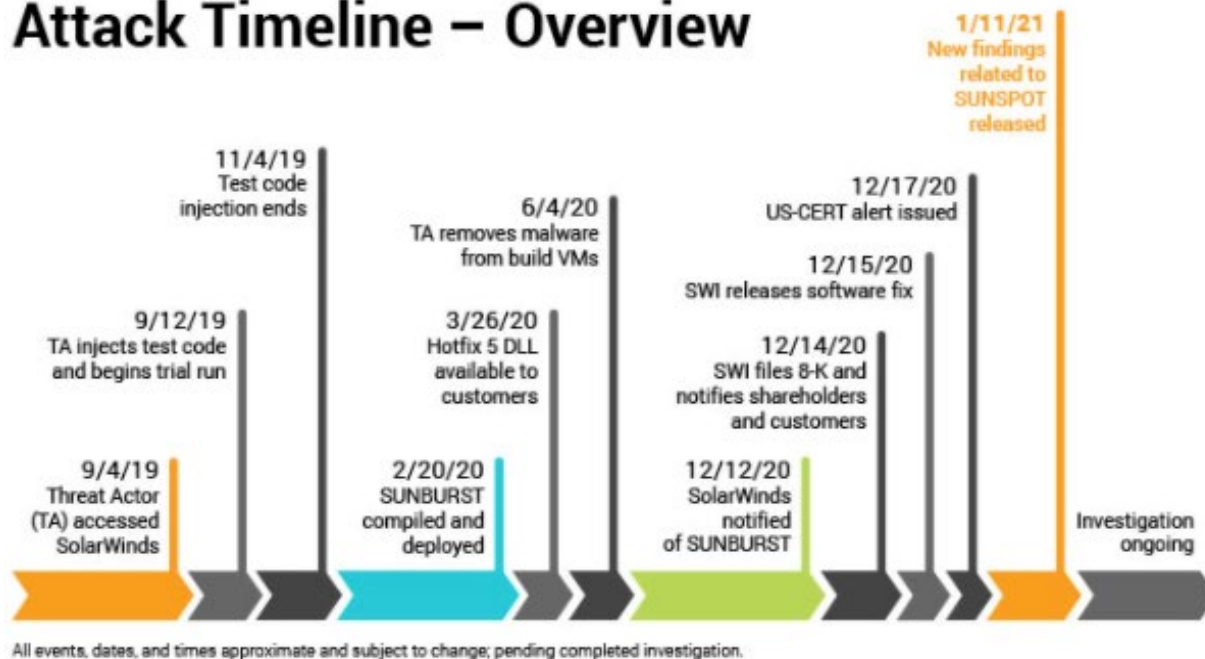
- All software products have bugs/vulnerabilities
- Key questions:
  - What does this software application have access to?
  - What user account/privileges are given to it?
  - What is the software vendor doing to provide us a level of comfort that they have done their due diligence?
  - What do we need to do for our due diligence?



# SolarWinds Orion

Krebs On Security

## Attack Timeline – Overview



<https://krebsonsecurity.com/2021/01/solarwinds-what-hit-us-could-hit-others/>



# Software Vendor/Supply Chain Risk Management

- The latest issues:
  - “Log4J” Java vulnerabilities...
  - Pkexec - CVE-2021-4034 (PwnKit)





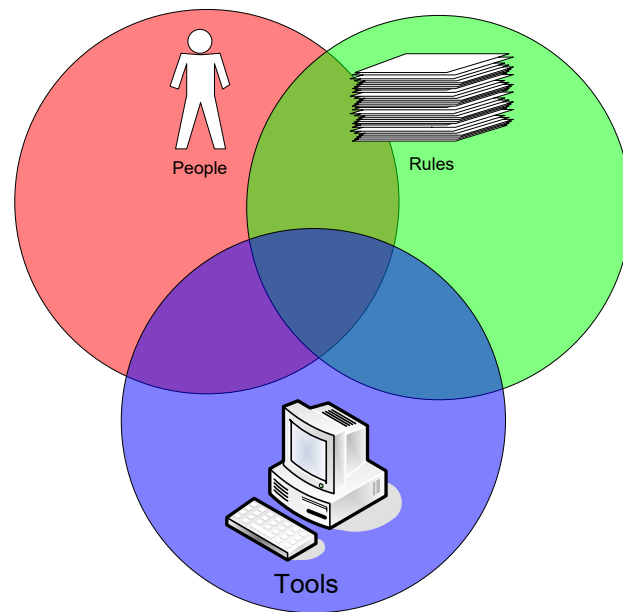
# Is Cybersecurity Built Into Your Operational DNA?

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# Policies and Standards

- Security is not a product
- People, Rules and Tools
  - What do we expect to occur?
  - How do we conduct business?
  - Who is responsible for what?
- Standards based operations from a governance or compliance framework:
  - GLBA, FFIEC, HIPAA, DOL,
  - PCI – DSS, CMMC
  - CIS Critical Controls, NIST



- Disciplined Exception Management



## Basic

- 1 Inventory and Control of Hardware Assets
- 2 Inventory and Control of Software Assets
- 3 Continuous Vulnerability Management
- 4 Controlled Use of Administrative Privileges
- 5 Secure Configuration for Hardware and Software on Mobile Devices, Laptops, Workstations and Servers
- 6 Maintenance, Monitoring and Analysis of Audit Logs

## Foundational

- 7 Email and Web Browser Protections
- 8 Malware Defenses
- 9 Limitation and Control of Network Ports, Protocols, and Services
- 10 Data Recovery Capabilities
- 11 Secure Configuration for Network Devices, such as Firewalls, Routers and Switches
- 12 Boundary Defense
- 13 Data Protection
- 14 Controlled Access Based on the Need to Know
- 15 Wireless Access Control
- 16 Account Monitoring and Control

<https://www.cisecurity.org/controls/>

## Organizational

- 17 Implement a Security Awareness and Training Program
- 18 Application Software Security
- 19 Incident Response and Management
- 20 Penetration Tests and Red Team Exercises

Standards Based  
IT and Cyber  
Operations



← → ↻ c|s|e|c|u|r|e|t|y|.o|r|g/c|s|-b|e|n|c|h|m|a|r|k|s/ 🔍 ☆ ⚙️

# CIS Benchmarks™



With our global community of cybersecurity experts, we've developed CIS Benchmarks: more than 100 configuration guidelines across 25+ vendor product families to safeguard systems against today's evolving cyber threats.

[Join a Community](#)

**Overview of CIS Benchmarks and CIS-CAT Demo**

**Register for the Webinar**  
 Thu, Nov 4, at 1:30pm EDT  
 Tue, Nov 16, at 11:00am EDT

**CIS Benchmarks FAQ**

[Access all Benchmarks →](#)

## CIS Benchmarks

Checklists and How-to guides for just about everything

- Operating Systems
- Server Software
- Network Devices
- Cloud Implementations
- Etc...

Operating Systems   Server Software   **Cloud Providers**   Mobile Devices   Network Devices   Desktop Software   Multi Function Print Devi...

Currently showing ALL Technologies. Use the buttons above to filter the list.

<b>Cloud Providers</b>	<b>Alibaba Cloud</b> <a href="#">Expand to see related content ↓</a>	<a href="#">Download CIS Benchmark →</a>
<b>Operating Systems</b> Linux	<b>Aliyun Linux</b> <a href="#">Expand to see related content ↓</a>	<a href="#">Download CIS Benchmark →</a> <small>Build Kit also available</small>
<b>Operating Systems</b> Linux	<b>Amazon Linux</b> <a href="#">Expand to see related content ↓</a>	<a href="#">Download CIS Benchmark →</a> <small>CIS Hardened Image and Build Kit also available</small>
<b>Cloud Providers</b>	<b>Amazon Web Services</b> <a href="#">Expand to see related content ↓</a>	<a href="#">Download CIS Benchmark →</a>
<b>Server Software</b> Database Server	<b>Apache Cassandra</b> <a href="#">Expand to see related content ↓</a>	<a href="#">Download CIS Benchmark →</a>



# Secure Office 365

NOT fully secure by default

- Needs to be secured:
  - Enable/Turn On security features
  - Harden (email) security
  - Fine tune logging, monitoring and alerting
  - Enforce retention periods
- Security configurations need to be periodically assessed.

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Version: Microsoft 365

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Microsoft 365 admin center help

- > Get started
- > Overview of the Microsoft 365 admin center
- > Manage users, groups, and passwords
- > Manage email and calendars
- > Manage...
- > Manage your data and services
- > Manage subscriptions and billing
- > Secure your organization
  - Top 10 ways to secure your data
  - Multi-factor authentication for Microsoft 365
  - Set up multi-factor authentication
  - Manage and monitor priority accounts
  - Enable Modern Authentication for Office 2013
  - Pre-requisites for data protection
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  - Threats detected by Microsoft Defender Antivirus
  - Review detected threats and take action
  - Set up compliance features
  - Secure score
  - A guide to GDPR compliance
- > Manage devices and app data
- > Work with customers
- Troubleshoot
- Contact support
- Modifiable fields
- Download PDF

## Top 10 ways to secure Microsoft 365 for business plans

10/05/2021 • 14 minutes to read • [User Avatars]

If you are a small or medium-size organization using one of Microsoft's business plans and your type of organization is targeted by cyber criminals and hackers, use the guidance in this article to increase the security of your organization. This guidance helps your organization achieve the goals described in the Harvard Kennedy School Cybersecurity Campaign Handbook<sup>1</sup>.

Microsoft recommends that you complete the tasks listed in the following table that apply to your service plan.

Number	Task	Microsoft 365 Business Standard	Microsoft 365 Business Premium
1	Set up multi-factor authentication	✓	✓
2	Train your users	✓	✓
3	Use dedicated admin accounts	✓	✓
4	Raise the level of protection against malware in mail	✓	✓
5	Protect against ransomware	✓	✓
6	Stop auto-forwarding for email	✓	✓
7	Use Office Message Encryption		✓
8	Protect your email from phishing attacks		✓
9	Protect against malicious attachments and files with Safe Attachments		✓
10	Protect against phishing attacks with Safe Links		✓

Is this page helpful?  
Yes No

In this article

- 1: Set up multi-factor authentication
- 2: Train your users
- 3: Use dedicated admin accounts
- 4: Raise the level of protection against malware in mail
- 5: Protect against ransomware
- 6: Stop auto-forwarding for email
- 7: Use Office Message Encryption
- 8: Protect your email from phishing attacks
- 9: Protect against malicious attachments and files with Safe Attachments
- 10: Protect against phishing attacks with Safe Links

Related content





# Privileged Account Discipline and Hygiene

- Staff should not have local administrator rights to their workstations
- Administrators use two sets of credentials (general use and elevated privileges).
- No email, browsing, or general computer use as administrator.
- Implement a policy to reinforce practice





# The Boy Scouts Motto: *“Be Prepared”*

## How Much Would You Pay to Restore Access to Your Data?

It's a question you might have to answer if  
cybercriminals take your network hostage.

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# Incident Response Preparedness

- Unfortunately, data breach can still occur despite implementing all the best security precautions  
Think WHEN... NOT IF
- Have a Plan – Implement the Plan – Practice the Plan
- Develop an incident response program and plan
  - Include the appropriate procedures
  - Ensure points of contact are included
  - Keep the plan update to date
- Establish relationships with key incident responders
  - Breach Counsel
  - Forensic provider
  - Public relations

Are you prepared to respond to any (or all) of the following:

1. Email Spear Phishing Attacks
2. Password Guessing and Business Email Account Takeovers
3. Payment and Funds Transfer Fraud
4. Ransomware
5. Extortion to avoid breach disclosure

**Practice and  
Test the Plan**

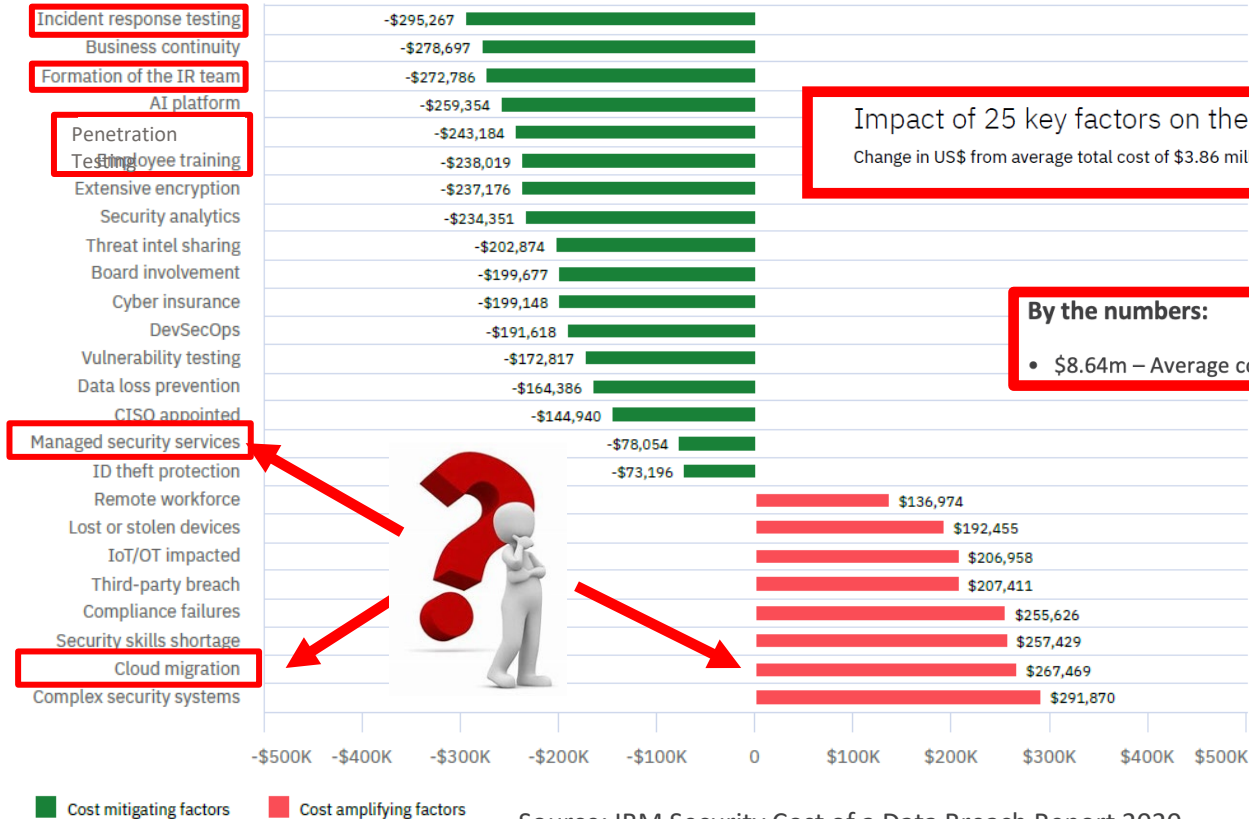


# Practice the Plan

- Tabletop exercises- simulations where participants walk through the incident and response procedures
- Two types of tabletop exercises
  - Technical
  - Management
  - Both types should be conducted annually
- Spear phishing tests and other social engineering tests
- Red Team penetration testing



# Incident Response Preparedness- Cost Savings



Impact of 25 key factors on the average total cost of a data breach  
 Change in US\$ from average total cost of \$3.86 million

## By the numbers:

- \$8.64m – Average cost of a data breach in the United States

Source: IBM Security Cost of a Data Breach Report 2020



# “Chance Favors the Prepared Mind”

- Are you confident you’ve done enough to secure your systems and data?
- Are exceptions well defined, understood, and managed?
- Do you have appropriate governance and visibility into your service providers  
(are they doing enough of the right thing?)
- Are you prepared for...???





# Thank You!

Zoran Jovic  
*Create Opportunities*  
Senior Consultant, GPEN, CCNA

813-384-2778

[zoran.jovic@claconnect.com](mailto:zoran.jovic@claconnect.com)

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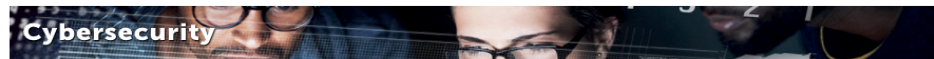
# Other Resources

## ➤ CIS – Akamai Ransomware Risk Mitigation Partnership

blogs.claconnect.com/Cybersecurity/cis-and-akamai-to-offer-no-cost-malicious-domain-blocking-and-reporting-service-for-u-s-hospitals/



CLA Blogs



### CIS and Akamai to Offer No-Cost Malicious Domain Blocking and Reporting Service for U.S. Hospitals

February 19, 2021 / by [Javier Young](#)

Authored By: [John Hoffoss](#)

The Center for Internet Security (CIS), together with Akamai, is offering a service called Malicious Domain Blocking and Reporting (MDBR), which prevents IT systems from connecting to harmful web domains, helping limit infections related to known malware, ransomware, phishing, and other cyber threats. This capability can block most ransomware infections just by preventing the initial outreach to a ransomware delivery domain. This service is like Cisco Umbrella or Quad9, offering differences in threat intelligence, logging of DNS lookups, and reporting portal access.



On Feb. 18, [CIS announced](#) they would offer MDBR services to [U.S. Hospitals](#), expanding this offering beyond the previous recipients of U.S. State, Local, Tribal, and Territorial government organizations through the Multi-state Information Sharing and Analysis Center (MS-ISAC) and Elections Infrastructure Information Sharing and Analysis Center (EI-ISAC).

CIS and Akamai are offering this service at no cost to the following U.S. based healthcare organizations:

- Independent hospitals
- Multi-system hospitals
- Hospital-based integrated health systems, meaning an organization, consisting of one or more hospitals plus at least one or more groups of physicians, that provides a continuum of care and that are connected to each other through joint ownership or joint management
- Post-acute patient care facilities
- Psychiatric, rehabilitation, or other specialty hospitals

For further information, please see the main page for [U.S. Hospitals](#), read the [MDBR Service Overview](#), and read the [MDBR FAQ](#).

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Network Security (6)  
Penetration Testing (3)  
Technology Infrastructure (4)  
Uncategorized (2)





# Other Resources



## White House Memo:

<https://s3.documentcloud.org/documents/20796933/memo-what-we-urge-you-to-do-to-protect-against-the-threat-of-ransomware17.pdf>



THE WHITE HOUSE  
WASHINGTON

TO: Corporate Executives and Business Leaders

FROM: Anne Neuberger, Deputy Assistant to the President and Deputy National Security Advisor for Cyber and Emerging Technology

SUBJECT: What We Urge You To Do To Protect Against The Threat of Ransomware

DATE: June 2, 2021

The number and size of ransomware incidents have increased significantly, and strengthening our nation's resilience from cyberattacks – both private and public sector – is a top priority of the President's.

Under President Biden's leadership, the Federal Government is stepping up to do its part, working with like-minded partners around the world to disrupt and deter ransomware actors. These efforts include disrupting ransomware networks, working with international partners to hold countries that harbor ransomware actors accountable, developing cohesive and consistent policies towards ransom payments and enabling rapid tracing and interdiction of virtual currency proceeds.

The private sector also has a critical responsibility to protect against these threats. All organizations must recognize that no company is safe from being targeted by ransomware, regardless of size or location. But there are immediate steps you can take to protect yourself, as well as your customers and the broader economy. Much as our homes have locks and alarm systems and our office buildings have guards and security to meet the threat of theft, we urge you to take ransomware crime seriously and ensure your corporate cyber defenses match the threat.

The most important takeaway from the recent spate of ransomware attacks on U.S., Irish, German and other organizations around the world is that companies that view ransomware as a threat to their core business operations rather than a simple risk of data theft will react and recover more effectively. To understand your risk, business executives should immediately convene their leadership teams to discuss the ransomware threat and review corporate security posture and business continuity plans to ensure you have the ability to continue or quickly restore operations.

Below you will find the U.S. Government's recommended best practices – we've selected a small number of highly impactful steps to help you focus and make rapid progress on driving down risk.

### What We Urge You To Do Now

**Implement the five best practices from the President's Executive Order:** President Biden's *Improving the Nation's Cybersecurity* Executive Order is being implemented with speed and urgency across the Federal Government. We're leading by example because these five best practices are high impact: multifactor authentication (because passwords alone are routinely compromised), endpoint detection & response (to hunt for malicious activity on a network and block it), encryption (so if data is stolen, it is unusable) and a skilled, empowered security team (to patch rapidly, and share and incorporate threat information in your defenses). These practices will significantly reduce the risk of a successful cyber-attack.

**Backup your data, system images, and configurations, regularly test them, and keep the backups offline:** Ensure that backups are regularly tested and that they are not connected to the business network, as many ransomware variants try to find and encrypt or delete accessible backups. Maintaining current backups offline is critical because if your network data is encrypted with ransomware, your organization can restore systems.

**Update and patch systems promptly:** This includes maintaining the security of operating systems, applications, and firmware, in a timely manner. Consider using a centralized patch management system; use a risk-based assessment strategy to drive your patch management program.

**Test your incident response plan:** There's nothing that shows the gaps in plans more than testing them. Run through some core questions and use those to build an incident response plan: Are you able to sustain business operations without access to certain systems? For how long? Would you turn off your manufacturing operations if business systems such as billing were offline?

**Check Your Security Team's Work:** Use a 3<sup>rd</sup> party pen tester to test the security of your systems and your ability to defend against a sophisticated attack. Many ransomware criminals are aggressive and sophisticated and will find the equivalent of unlocked doors.

**Segment your networks:** There's been a recent shift in ransomware attacks – from stealing data to disrupting operations. It's critically important that your corporate business functions and manufacturing/production operations are separated and that you carefully filter and limit internet access to operational networks, identify links between these networks and develop workarounds or manual controls to ensure ICS networks can be isolated and continue operating if

your corporate network is compromised. Regularly test contingency plans such as manual controls so that safety critical functions can be maintained during a cyber incident.

Ransomware attacks have disrupted organizations around the world, from hospitals across Ireland, Germany and France, to pipelines in the United States and banks in the U.K. The threats are serious and they are increasing. We urge you to take these critical steps to protect your organizations and the American public. The U.S. Government is working with countries around the world to hold ransomware actors and the countries who harbor them accountable, but we cannot fight the threat posed by ransomware alone. The private sector has a distinct and key responsibility. The federal government stands ready to help you implement these best practices.

### Additional Resources

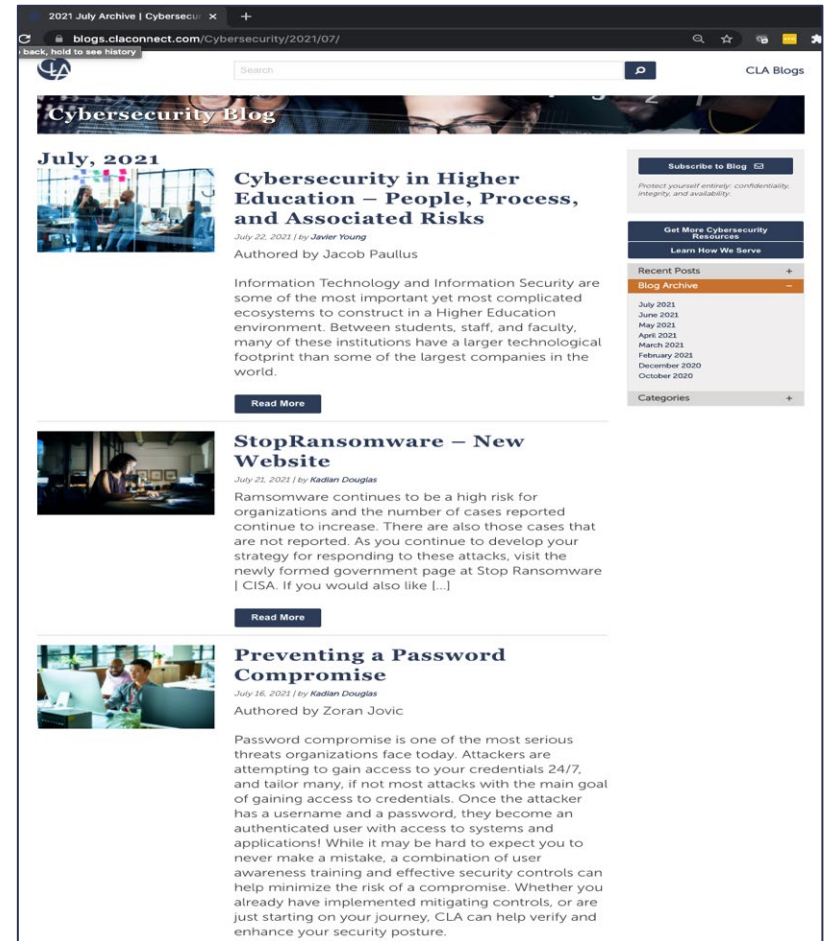
[FACT SHEET: President Signs Executive Order Charting New Course to Improve the Nation's Cybersecurity and Protect Federal Government Networks](#)

[CISA - RANSOMWARE GUIDANCE AND RESOURCES](#)



# Other Resources

- CLA Cybersecurity Blog
- <https://blogs.claconnect.com/Cybersecurity/2021/07/>





# Lunch Break

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# Assessing Your Finance and Administration Office

Address Increased Demands and Design for Tomorrow

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# Agenda

- Introductions
- Finance labor market trends
- Assessing your Finance and Administration Office and planning for the future
- Lessons learned
- Q&A



# Introductions

- Cassandra Bliss, Outsourced CFO
- Lance Schmidt, Managing Principal of Central Florida Offices





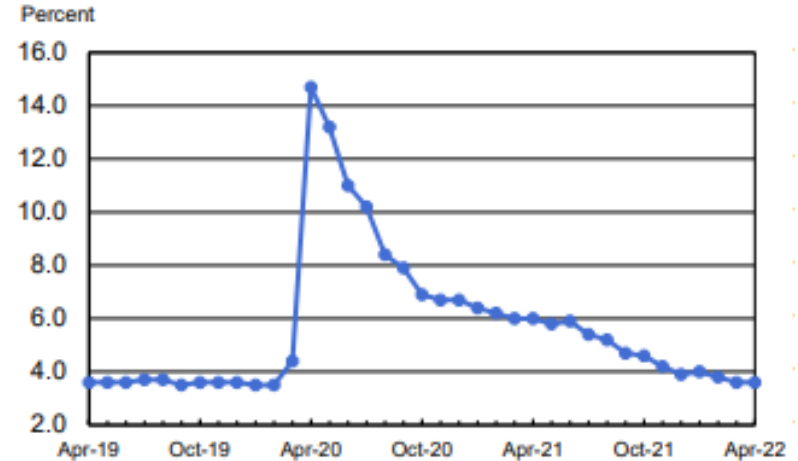
## Trends in the finance labor market & how to navigate finding new talent

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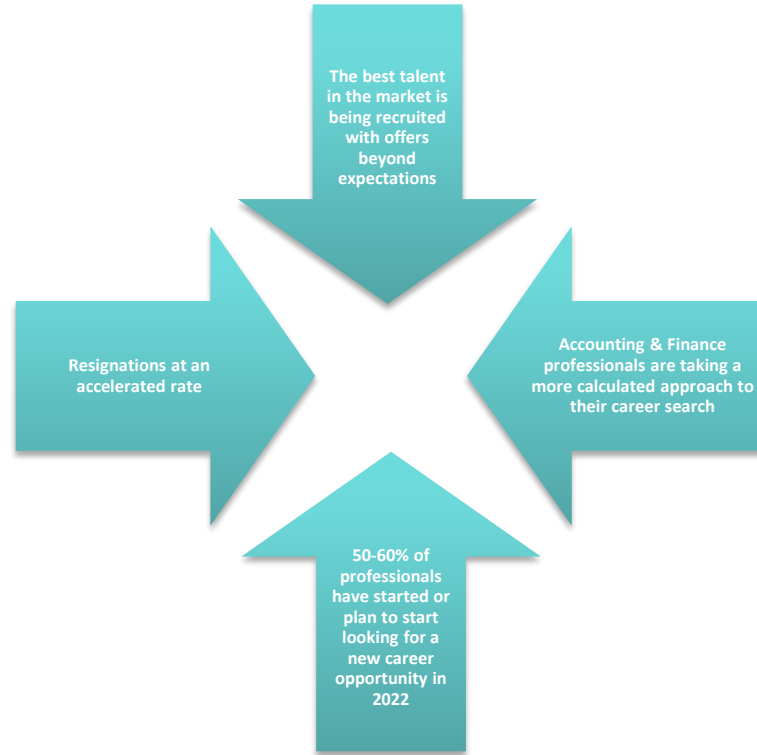
# Workforce statistics

- National unemployment rate is 3.6%
- Finance & Accounting professionals rate of transition is 1.5-2% < the national average





# Accounting & Finance | “The Great Resignation”



# Navigating current market trends & futures

WORKFORCE

remote | hybrid | in-office

Virtual Hiring

DE&I



# Planning for success



Direct  
recruiting



Current hiring  
practices



Systems and  
flexibility



Competitive  
advantage





## Assessing your Finance and Administration Office

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# Business Operations: Common Challenges Today



# Do you have these questions?

- Do we have the right staff?
- Do we have the right accounting and financial software?
- Are we operating efficiently and effectively?
- How do we go paperless?
- Why are our financial reports not being completed timely every month?
- Why does our staff not rely upon the financial information they receive?
- Why are our managers tracking information outside of the Finance and Administration Office?
- Why is there high staff turnover in the Finance and Administration Office?
- Why is it so hard to modify or create reports?
- How can we be more transparent and nimble as an organization?
- Is Excel the right tool to track information and prepare reports?



# What remedies have you tried?

- Process mapping
- Department restructure
- Outsource specific pieces
- Change/add systems
- Training
- Others?



# What we have learned...

- Often the “issues” raised are symptoms of deeper dysfunction. The dysfunction often stems from a combination of **structure**, **process**, and **systems**.
- Addressing one component alone may remedy the challenge(s) for the short-term but is usually not an effective, long-term solution.





# Example of Issues Versus Deeper Dysfunction

## Initial Issue Raised

We can't seem to get accurate and timely financials; the data is unreliable and old so staff do not use it.

## Symptom

Regular reconciliations are not being completed timely or at all.

## Symptom

Transactional data is not being entered timely or accurately into the system.

## Symptom

Current staffing levels are inadequate to perform necessary functions.

## Root Cause

Technology and software systems are inefficient or underutilized.



# CLA's approach to a Finance and Administration Office Assessment

## Structure

- Critically review roles and responsibilities, job descriptions and skill set needed, staff capacity and workload, reporting structure, team culture, and other structural components.

## Process

- Walk through all core finance processes to identify bottlenecks, opportunities for automation, spots with likely errors, controls concerns, and redundancy. This includes everything from entering an invoice to budgeting and reporting.

## Systems

- Seek to understand the key components of the core finance systems, how the systems are structured, where the general ledger is and is not integrated with other systems, and where the organization isn't using systems, but could to help automate or streamline.



# CLA's approach to a Finance and Administration Office Assessment

## Discover

- Documentation Review
- Interviews and Walkthroughs
- Identify Systems Requirements

*We take the time to get to know you and understand the root causes of the pain points that you are feeling.*

## Assess

- Evaluation
- Observations
- Recommendations

*We review issues, improvement opportunities, and critical success factors to align best practices and draft a conceptual target state.*

## Optimize

- Prioritize
- Implementation Roadmap
- System Selection and Optimization

*We help prioritize opportunities to achieve the future state, create an actionable plan to get there, and determine the 'quick wins.'*

**Structure • Process • Systems**



# Important things to consider

- The overall goal: better support for the organization
- Engage all finance and related staff in the process
- Frame the discussions as a way for everyone to help shape the future of the finance function; not as an “audit” or restructuring
- Gain insight from users of the financial outputs too
- Once you identify opportunities for improvement, go the next step and develop an actionable, **yet realistic plan** to implement the changes





# Lessons Learned

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# Background and Situation

- Municipality ~\$20M total revenues
- Lack of transparency and trust in financial reporting
- No clear ownership responsibilities for month-end close and reporting
- No clear lines of supervisory responsibility
- Underutilization of system software (Munis)

# Known Challenges

- Initial conversation about pain points highlighted:
  - Finance Director out on FMLA
  - Lack of confidence in remaining roles / responsibilities
  - Delayed financial reporting
  - Lack of transparency in financial reporting



# What we learned

- Unclear division of responsibilities and unclear ownership for financial reporting
- No strategic financial leadership
- Finance Director not taking ownership of financial reporting
- Reconciliations being done in Excel, not in the system – 18 months behind in bank reconciliations
- Financial reporting done in Excel, not in the system
- No collaborative budget process or budget ownership
- Infrequent and incomplete City Council and management reporting
- New third party utility billing system





# Recommendations

- Develop a comprehensive monthly reporting package
- Two staffing model options
  - Recommending a strategic Finance Director hire
  - Hire a senior accountant to oversee utility billing
- Monthly balance sheet reconciliations
- Alignment of budgeting process with strategic plan / initiatives



# Questions?

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# American Rescue Plan Act (ARPA)

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# Learning Objectives

- At the end of this session, you will:
  - Identify the latest updates to the pandemic related funding impacting state and local governments
  - Identify compliance requirements related to pandemic related funding
  - Identify compliance issues and common pitfalls
  - Identify improvements in your internal audit plans to help identify risks



# Main Sources of Funding

- In 2021 a significant piece of legislation was enacted that provided local governments with significant amounts of funding to assist with pandemic response and recovery:
  - American Rescue Plan Act (ARPA)



# Main Sources of Funding

- Governments must now consider the Act's impact on:
  - Internal control
  - Processes and procedures
  - Personnel duties and responsibilities
  - Workforce needs
  - Compliance
- It is significant!





# American Rescue Plan Act (ARPA)

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# American Rescue Plan Act (ARPA) Introduction

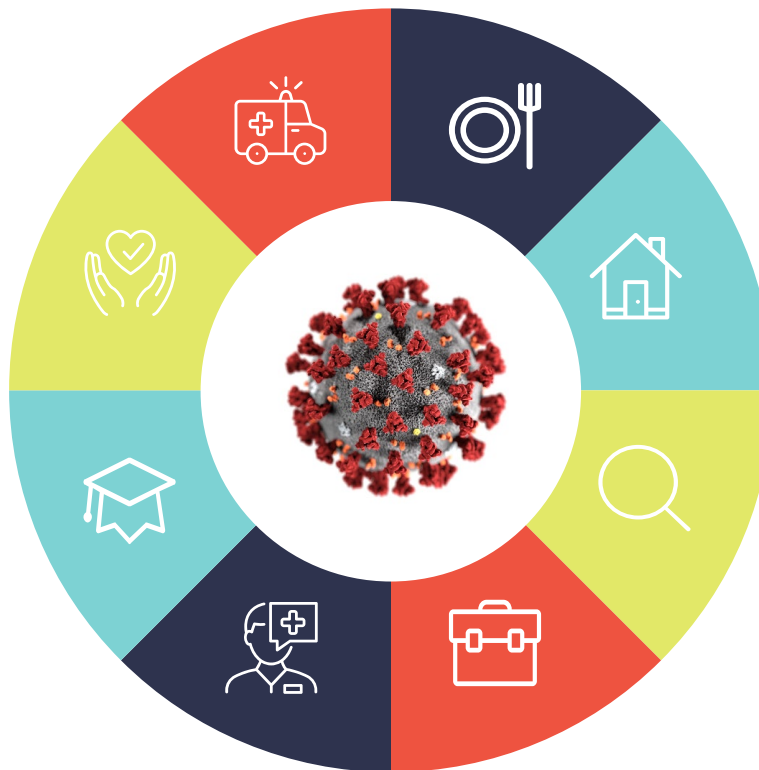
- On March 11, 2021, ARPA was signed into law and provided \$360 billion of funding to states, territories, tribal and local governments to respond to the COVID-19 public health emergency and its economic impacts.
- Interim Final Rule outlines revenue loss calculation and allowable costs under the various categories
- Final Rule issued on January 6, 2022
  - Clarified prior guidance and enumerated additional allowable expenditures
  - [SLFRF-Final-Rule.pdf \(treasury.gov\)](#)



# ARPA Governmental Funding

## Coronavirus State and Local Fiscal Recovery Funds (\$362 billion total): Subtitle M, Sec. 9901 Coronavirus State and Local Fiscal Recovery Funds

- Sec. 602 Coronavirus State Fiscal Recovery Fund (\$219.8B)
  - \$195.3 billion for the 50 States and Washington DC
  - \$20 billion for Tribal governments
- Sec. 603 Coronavirus Local Fiscal Recovery Fund
  - \$130.2 billion for local govts. (metropolitan cities: \$45.57B, non-entitlement units of local government: \$19.53B, and counties: \$65.1B)
- Sec. 604 Coronavirus Capital Projects Fund
  - \$10B to States, territories and Tribal governments
- Sec. 605 Local Assistance and Tribal Consistency Fund (\$2B)



- Housing Provisions (\$41.55 billion): Subtitle B
- Sec. 3201 Emergency Rental Assistance (\$21.55B)
  - \$18.6B allocated to States, territories, counties and cities for emergency rental and utility assistance
- Sec. 3202 Emergency Housing Vouchers (\$5B)
- Sec. 3205 Homelessness Assistance and Supportive Services Program (\$5B)
- Sec. 3206 Homeowner Assistance Fund (\$10B)
  - For States, territories and Tribes for ongoing needs of homeowners
- Ratepayer Protection (\$5 billion): Subtitle K
- Sec. 2911 Funding for LIHEAP (\$4.5B)
- Sec. 2912 Funding for Water Assistance Program (\$500 m)



# ARPA Governmental Funding (continued)

## Education (\$165 billion): Subtitle A

- Sec. 2001 Elementary and Secondary School Emergency Relief Fund (ESSER) (\$122.7B)
  - Grants to State educational agencies.
  - States are required to subgrant at least 90% of ESSER funds to school districts to support the implementation of public health protocols to safely reopen schools for in-person learning, address students' learning loss, and meet students' long-term academic, social and emotional needs.
- Sec. 2003 Higher Education Emergency Relief Fund (\$39.6 billion)
  - To colleges and university and their students

## Broadband for Remote Learning (\$7.17 billion): Subtitle D

- Sec. 7402 Funding for E-Rate Support for Emergency Educational Connections and Devices

## Public Transportation (\$30 billion): Subtitle D

- Sec. 3401 Federal Transit Administration Grants (\$30B)

## Homeland Security and Govt. Affairs (\$50 billion): Title IV

- Sec. 4005 Federal Emergency Management Agency (FEMA) (\$50B)

## Environment and Public Works (\$11 billion): Title VI

- Sec. 6001 Economic Adjustment Assistance (\$3B)
- Sec. 7102 Relief for Airports (\$8B)



# The Fiscal Recovery Funds

- \$360 billion in total
  - \$4.5 billion to U.S. Territories
  - \$20 billion to Tribal Governments
  - \$195.3 billion to States and DC
  - \$65.1 billion to Counties
  - \$45.57 billion to Metropolitan Cities
  - \$19.53 billion to Non-entitlement Unit of Local Government
- Administered by U.S. Department of Treasury
- CFDA Number: 21.027

Direct Payment for Specific Use - Financial assistance provided directly to individuals, private firms, and other private institutions to encourage or subsidize a particular activity by conditioning the receipt of the on a particular performance by the recipient. This does not include solicited contracts for the procurement of goods and services for the Federal government.



# The Fiscal Recovery Fund Allocation to Florida Counties and Municipalities

- County allocations:  
[https://home.treasury.gov/system/files/136/fiscalrecoveryfunds\\_countyfunding\\_2021.05.10-1a-508A.pdf](https://home.treasury.gov/system/files/136/fiscalrecoveryfunds_countyfunding_2021.05.10-1a-508A.pdf)
- Metropolitan city allocations:  
<https://home.treasury.gov/system/files/136/fiscalrecoveryfunds-metrocitiesfunding1-508A.pdf>
- Non-Entitlement units (populations under 50,000) allocations:  
<https://www.floridaleagueofcities.com/docs/default-source/arp-/arpa-clfrf-neu-allocation-list.pdf>



# Uses of the SLFRF Funds

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# Strategy – Use of SLFRF Funds



- Use of funds
- Public communication
- Treasury reporting
- Consider amount of funding





# Public Sector Revenue Loss

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# Revenue Loss – Use of funds

- MAJOR Revenue Loss change: The Final Rule allows recipients to elect a standard allowance of \$10 million revenue loss instead of using the calculation.
  - Allowance covers entire period of performance
  - Allowance is not dependent on the “size” of the entitlement.
- The Interim Final Rule gave recipients broad latitude to use funds for the provision of government services to the extent of reduction in revenue.
- These expenditures do *not* have to qualify under one of the other ARPA categories, but do have the same time frame for when the costs must be obligated or expended
- More resource: <https://www.claconnect.com/events/2022/demystifying-revenue-loss-and-arpa-funds>



# Spending on Government Services

- ✓ Construction of schools and hospitals
- ✓ Road building and maintenance, and other infrastructure
- ✓ Health services
- ✓ General government administration, staff, and administrative facilities
- ✓ Environmental remediation
- ✓ Provision of police, fire, and other public safety services (including purchase of fire trucks and police vehicles)

Government services generally include any service traditionally provided by a government, unless Treasury has stated otherwise.



# Restriction on Uses

## (A) statutory restrictions under the ARPA

- 1) offsetting a reduction in net tax revenue
- 2) deposits into pension funds

## (B) other restrictions on use

- 1) debt service and replenishing reserves
- 2) settlements and judgments
- 3) general restrictions.



# Restriction on Uses - Other

## Debt service and replenishing financial reserves

- This is not considered a government service to constituents

## Settlements or judgments

- If a settlement or judgment requires a government to provided governmental services that be allowable, then those services are allowable under Revenue Loss rules

## Other

- Terms and Conditions
- Violations of Conflict of Interest (TC and OMB)
- Other Federal, State and Local rules and regulations





# Responding to Negative Economic Impacts

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# Negative Economic Impacts Final Rule Overview

## Assistance to Households (pages 72-141 of FR):

- Impacted Households definition (pages 29-46)
  - Low or moderate income households or communities (at or below 300% the Federal Poverty Guidelines, FPG, or 65% of area median income, AMI, for the county and size of household based on most recently published data)
  - Households experiencing unemployment or increased food or housing insecurity
  - Households that qualify for CHIP, the CCDF program, or Medicaid
  - For Affordable Housing initiatives: qualify under the National Housing Trust Fund and HOME program
  - For services to address lost instructional time for K-12: any student that lost in person instruction for a significant period of time
- Disproportionately Impacted Households definition (pages 29-46)
  - Low income households or communities (at or below 185% of FPG or 50% of AMI)
  - Households residing in Qualified Census Tracts (QCT) (<https://www.huduser.gov/portal/datasets/qct.html>)
  - Households that qualify for TANF, SNAP, NSLP/SBP programs, Medicare Part D Low-Income Subsidies, SSI, Head Start and/or Early HS, WIC, Section 8, LIHEAP, and Pell Grants
  - Households in U.S. territories or receiving services from Tribal governments



# Household Assistance Example Projects

## Impacted Households/Communities


- Food assistance and food banks
- Emergency housing assistance
- Health insurance coverage expansion
- Re-employment and job training
- Financial services for unbanked/underbanked
- Burials, home repair and weatherization
- Programs/equipment for internet access and digital literacy
- Cash assistance
- Paid sick/medical/family leave programs
- Childcare and early learning services
- Assistance for K-12 learning loss
- Affordable housing and permanent supporting housing

## Disproportionately Impacted Households/Communities

- Pay for community health workers to help with health and social service access
- Primary care clinics, hospitals, investments in medical equipment/facilities to address health disparities
- Housing vouchers and assistance
- Investments in neighborhoods to promote improved health outcomes
- Improvements to vacant and abandoned property
- Educational disparities assistance
- Schools and other educational equipment/facilities



## Assistance to Small Businesses (pages 142-153 of FR):



Definition: no more than 500 employees and are a small business concern as defined in section 3 of the Small Business Act (independently owned and operated and not dominant in field of operation)





# Types of Small Businesses

## Impacted Small Businesses

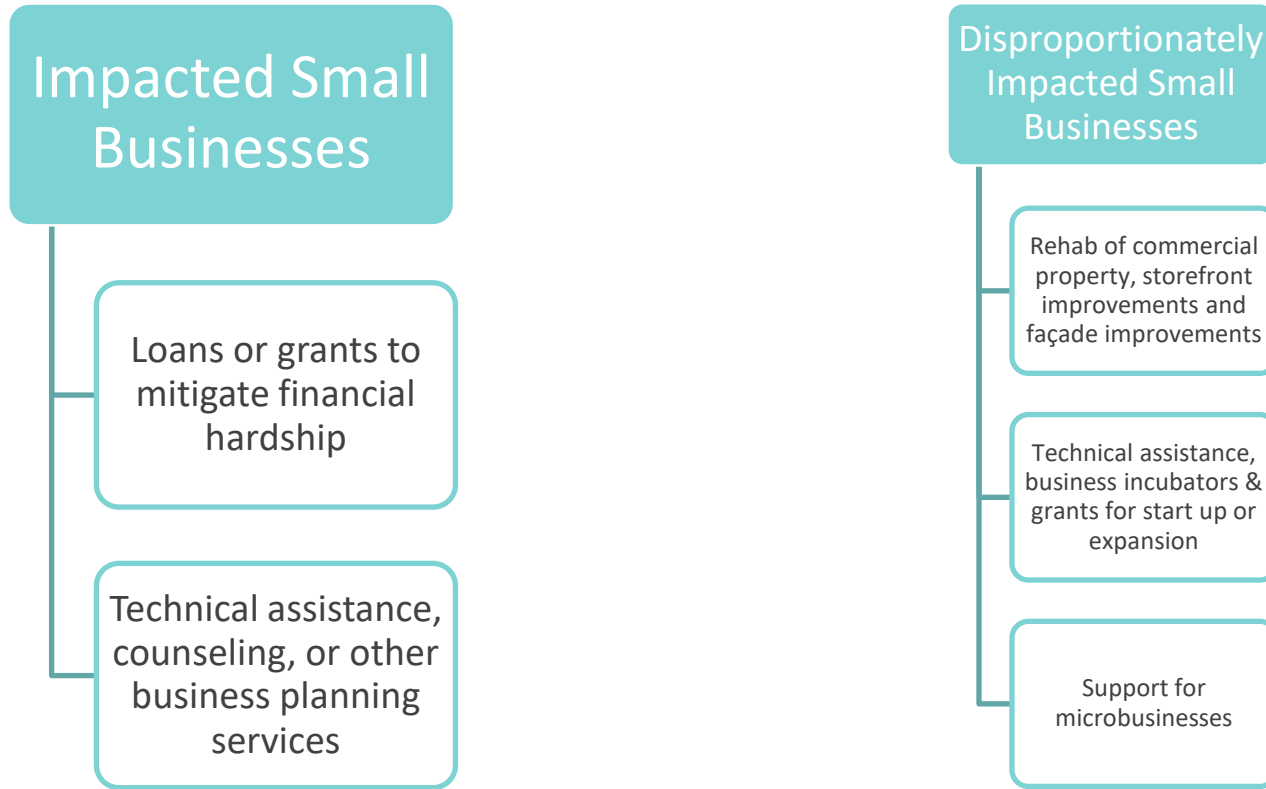
- Decreased revenue or gross receipts
- Financial insecurity
- Increased costs
- Capacity to weather financial hardship
- Challenges in covering operating costs

## Disproportionately Impacted Small Businesses

- Operating in QCTs
- Operated by Tribal governments or on Tribal lands
- Operated in U.S. territories



# Small Business Assistance Example Projects



# Assistance to Nonprofits (pages 153-161 of FR):

## Impacted Nonprofits

- Decreased revenue
- Financial insecurity
- Increased costs
- Capacity to weather financial hardship
- Challenges covering operating costs

## Disproportionately Impacted Nonprofits

- Nonprofits in QCTs
- Nonprofits operated by Tribal governments or on Tribal lands
- Nonprofits operated in U.S. territories



# Example Aid to Nonprofits

Loans or grants to  
mitigate financial  
hardship

Technical or in-  
kind assistance to  
mitigate negative  
economic impacts  
of pandemic



# Aid to Impacted Industries (pages 161-172 of FR):

## 1. Designate an impacted industry

- Travel, tourism or hospitality sector
- OR: at least 8% employment loss from pre-pandemic levels or industry experienced comparable or worse economic impacts as the national travel/tourism/hospitality sectors

## 2. Provide eligible aid to impacted industry

- Aid to mitigate financial hardship
- Technical assistance, counseling or business planning services
- COVID-19 mitigation and infection prevention measures



# Public Sector Rehiring and Employment Uses (pages 172-190 of FR)

## Public Safety, Public Health and Human Services Staff

- Identify eligible employees
- Determine time spent on COVID-19 response and use funds for payroll and covered benefits for eligible COVID-19 time

## Government employment and rehiring public sector staff

- Pre-pandemic employment
- Supporting and retaining government workers (including worker retention incentives)
- Cover admin costs for administering hiring, support and retention programs

## Effective service delivery

- Program evaluation, data and outreach and administrative needs





# Public Health



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# Public Health Final Rule Overview

- COVID-19 mitigation and prevention
- Medical Expenses
- Behavioral health care, such as mental health treatment, substance use treatment, and other behavioral health services
- Preventing and responding to violence





# COVID-19 mitigation and prevention - Enumerated eligible uses include:

- Vaccination programs, including vaccine incentives and vaccine sites
- Testing programs, equipment and sites
- Monitoring, contact tracing & public health surveillance (e.g., monitoring for variants)
- Public communication efforts
- Public health data systems
- COVID-19 prevention and treatment equipment, such as ventilators and ambulances
- Medical and PPE/protective supplies
- Support for isolation or quarantine
- Ventilation system installation and improvement
- Technical assistance on mitigation of COVID-19 threats to public health and safety
- Transportation to reach vaccination or testing sites, or other prevention and mitigation services for vulnerable populations
- Support for prevention, mitigation, or other services in congregate living facilities, public facilities, and schools
  - Including improvements to public building
- Support for prevention and mitigation strategies in small businesses, nonprofits, and impacted industries
- Medical facilities generally dedicated to COVID-19 treatment and mitigation (e.g., ICUs, emergency rooms)
- Temporary medical facilities and other measures to increase COVID-19 treatment capacity
- Emergency operations centers & emergency response equipment (e.g., emergency response radio systems)
- Public telemedicine capabilities for COVID-19 related treatment



## Medical Expenses - Enumerated eligible uses include:

- Unreimbursed expenses for medical care for COVID-19 testing or treatment, such as uncompensated care costs for medical providers or out-of-pocket costs for individuals
- Paid family and medical leave for public employees to enable compliance with COVID-19 public health precautions
- Emergency medical response expenses
- Treatment of long-term symptoms or effects of COVID-19



# Behavioral health care

Treasury recognized that the pandemic broadly impacted Americans' behavioral health and allowed that recipients can provide these services to the general public to respond. Enumerated eligible uses include:

- Prevention, outpatient treatment, inpatient treatment, crisis care, diversion programs, outreach to individuals not yet engaged in treatment, harm reduction & long-term recovery support
- Enhanced behavioral health services in schools
- Services for pregnant women or infants born with neonatal abstinence syndrome
- Support for equitable access to reduce disparities in access to high-quality treatment
- Peer support groups, costs for residence in supportive housing or recovery housing, and the 988 National Suicide Prevention Lifeline or other hotline services
- Expansion of access to evidence-based services for opioid use disorder prevention, treatment, harm reduction, and recovery
- Behavioral health facilities & equipment



# Preventing and responding to violence

Due to the increased violence in some communities, Treasury has allowed recipients to respond to these communities through:

Referrals to trauma recovery services for victims of crime

Community violence intervention programs, including:

- Evidence-based practices like focused deterrence, with wraparound services such as behavioral therapy, trauma recovery, job training, education, housing and relocation services, and financial assistance

In communities experiencing increased gun violence due to the pandemic:

- Law enforcement officers focused on advancing community policing
- Enforcement efforts to reduce gun violence, including prosecution
- Technology & equipment to support law enforcement response





# Premium Pay for Essential Workers

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# Premium Pay Overview

- ARPA funds may be used to provide premium pay to eligible workers (see subsequent slides) performing essential work during the pandemic. Premium pay may be awarded to eligible workers up to \$13 per hour. Premium pay must be in addition to wages or compensation the eligible worker otherwise receives.
  - Premium pay may not exceed \$25,000 for any single worker during the program.
- Premium pay may be awarded in installments or lump sums and may be awarded to hourly, part-time, or salaried or non-hourly workers.
- Premium pay may be paid retrospectively.
- ARPA funds cannot be used to reimburse itself for premium pay or hazard pay already received by the workers
- Premium pay may not be paid to volunteers.





# Water, Sewer and Broadband Infrastructure

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# Water and Sewer Infrastructure

## Clean Water State Revolving Fund Projects

- Construction of publicly owned treatment works
- Projects pursuant to implementation of a nonpoint source pollution management program established under the Clean Water Act (CWA)
- Decentralized wastewater treatment systems that treat municipal wastewater or domestic sewage
- Management and treatment of stormwater or subsurface drainage water
- Water conservation, efficiency, or reuse measures
- Development and implementation of a conservation and management plan under the CWA
- Watershed projects meeting the criteria set forth in the CWA
- Energy consumption reduction for publicly owned treatment works
- Reuse or recycling of wastewater, stormwater, or subsurface drainage water
- Security of publicly owned treatment works





# Water and Sewer Infrastructure

## Drinking Water State Revolving Fund Projects

- Facilities to improve drinking water quality
- Transmission and distribution, including improvements of water pressure or prevention of contamination in infrastructure and lead service line replacements
- New sources to replace contaminated drinking water or increase drought resilience, including aquifer storage and recovery system for water storage
- Green infrastructure, including green roofs, rainwater harvesting collection, permeable pavement
- Storage of drinking water, such as to prevent contaminants or equalize water demands
- Purchase of water systems and interconnection of systems
- New community water systems



# Water and Sewer Infrastructure

## Other “Necessary” projects

- Culvert repair, resizing, and removal, replacement of storm sewers, and additional types of stormwater infrastructure
- Infrastructure to improve access to safe drinking water for individual served by residential wells, including testing initiatives, and treatment/remediation strategies that address contamination
- Dam and reservoir rehabilitation if primary purpose of dam or reservoir is for drinking water supply and project is necessary for provision of drinking water
- Broad set of lead remediation projects eligible under EPA grant programs authorized by the Water Infrastructure Improvements for the Nation (WIIN) Act, such as lead testing, installation of corrosion control treatment, lead service line replacement, as well as water quality testing, compliance monitoring, and remediation activities, including replacement of internal plumbing and faucets and fixtures in schools and childcare facilities



# Water and Sewer Infrastructure

- Definition of “Necessary”
  - responsive to an identified need to achieve or maintain an adequate minimum level of service, which may include a reasonable projection of increased need, whether due to population growth or otherwise,
  - a cost-effective means for meeting that need, taking into account available alternatives, and
  - for investments in infrastructure that supply drinking water in order to meet projected population growth, projected to be sustainable over its estimated useful life



# Broadband Infrastructure

- Requirements
  - Eligible area
    - Encouraged to prioritize locations without access to 100/20 Mbps
    - Lack of access to reliable high-speed broadband connection
    - Lack of affordable broadband
    - Lack of reliable service
  - Meet high-speed technical standards
    - 100 Mbps download and upload speeds unless not practicable
    - 100/20 Mbps minimum scalable to 100 MBps download and uploads speeds
  - Low-income subsidy program
    - Requires the service provider to either
      - Participate in the FCC's Affordable Connectivity Programs (ACP)
      - Provide access to a low income program commensurate to ACP



# Broadband Infrastructure

- Cybersecurity
  - Eligible use for cybersecurity for existing and new broadband infrastructure
  - Includes modernization of hardware and software





# Capital Expenditures

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# Overview

- Excluding water, sewer and broadband infrastructure, capital expenditures can be incurred under the following eligible use categories
  - Public health and negative economic impact
  - Revenue loss (government services)



# Public Health and Negative Economic Impact

## Capital Expenditure Requirements

- Except for Tribal Governments, must comply with **capital expenditure requirements**, in addition to other standards for uses of funds
- Must be related and reasonably proportional to the pandemic impact identified and reasonably designed to benefit impacted population or class
- Final Rule identifies enumerated types of capital expenditures that respond to pandemic
- Recipients may also identify other responsive capital expenditures

If a project has total capital expenditures of	and the use is enumerated by Treasury as eligible, then	and the use is beyond those enumerated by Treasury as eligible, then
Less than \$1 million	No Written Justification required	No Written Justification required
Greater than or equal to \$1 million, but less than \$10 million	Written Justification required but recipients are not required to submit as part of regular reporting to Treasury	Written Justification required and recipients must submit as part of regular reporting to Treasury
\$10 million or more	Written Justification required and recipients must submit as part of regular reporting to Treasury	





# Written Justification



Description of harm or need to be addressed and why this was exacerbated or caused by the pandemic

May provide quantitative information



Explanation of why a capital expenditure is appropriate

Should include explanation why existing facilities, equipment, policy changes or additional funding to programs or services would be inadequate



Comparison of proposed capital project against **at least** 2 alternative capital expenditures and demonstrate why the proposed capital expenditure is superior



# Ineligible Use Presumptions

Construction of new correctional facilities as a response to increase in crime

Construction of new congregate facilities to decrease spread of COVID-19 in the facility

Construction of convention centers, stadiums, or other large capital projects intended for general economic development or to aid impacted industries



# Revenue Loss (Government Services)

- Treasury's overview of the final rule included additional government services (which are not exhaustive):
  - Construction of schools and hospitals
  - Road building and maintenance, and other infrastructure
  - General government administration, staff, and administrative facilities
  - Provision of public safety services includes purchase of fire trucks and police vehicles





# Impact on Internal Controls

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# Perform Risk Assessments

- Consider new risks and impacts
- Include individuals at all levels from various departments
- Consider manual and automated process
- Reassess project priorities



# Effect on Internal Controls

- Need to reassess how controls are performed
  - Manual vs Automated
- Continued review of procedures and effectiveness of controls
- Implementation of new controls
  
- DOCUMENT! DOCUMENT! DOCUMENT!



# What to Document

- Any changes to current controls
- New policies or internal controls
- Remote Work Plan
- New risk assessments
- New or temporary job descriptions
- Any electronic controls (i.e. E-mail approvals)
- Compliance
  - Performance of key activities
  - Interpretation and Applicability of Guidance or Final Rule



# Auditing the CSLFR Funds – No Surprises!

- Compliance Supplement – AL #21.027

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	N	N	N	Y	Y	N	Y	Y	N





# Questions and Answers

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# Closing & Resources

- CLA Resources:
  - [Governments: Review This Checklist Before Spending COVID-19 Relief Funds : 2021 : Articles : Resources : CLA \(CliftonLarsonAllen\) \(claconnect.com\)](#)
  - [Demystifying Revenue Loss and ARPA Funds : 2022 : Events : CLA \(CliftonLarsonAllen\) \(claconnect.com\)](#)
  - [Managing Your ARPA Funds : 2021 : Events : CLA \(CliftonLarsonAllen\) \(claconnect.com\)](#)
  - [ARPA Basics for Governments and Potential Impact on Communities : 2021 : Events : CLA \(CliftonLarsonAllen\) \(claconnect.com\)](#)
  - [Overcoming Workforce Challenges : 2022 : Events : CLA \(CliftonLarsonAllen\) \(claconnect.com\)](#)
  - [ARPA Portal Solution Demonstration : 2022 : Events: CLA \(CliftonLarsonAllen\) \(claconnect.com\)](#)
- ARPA Treasury:
  - [Coronavirus State and Local Fiscal Recovery Funds | U.S. Department of the Treasury](#)
  - [WEBINAR: State & Local Fiscal Recovery Funds: An Introduction to the Final Rule - YouTube](#)
- Revenue Loss Calculation classification:
  - [U.S. Bureau of the Census - Government Finance and Employment](#)
- ARPA FAQs:
  - [American Rescue Plan Act: Coronavirus State & Local Fiscal Recovery Fund FAQs \(naco.org\)](#)



# Thank you for your participation!

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# 10 Minute Break

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# Fraud and Internal Audit

2022 Florida Government Training Academy

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# Learning Objectives

At the end of this session, you will be able to:

- List and describe the common fraud schemes
- List important facts of fraud
- Identify actual instances of fraud that have recently occurred within state and local governments
- Identify common red flags and indicators of fraud
- Discuss current practices and incident response strategies through a strategic internal audit plan





# Introduction to the ACFE

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# Association of Certified Fraud Examiners (ACFE)

- World's largest anti-fraud organization
- Provides Certified Fraud Examiner (CFE) credential
  - Requires meeting professional, educational, and ethical standards and passing a rigorous exam on the four major disciplines that comprise the fraud examination body of knowledge: Fraud Prevention and Deterrence, Financial Transactions and Fraud Schemes, Investigation, and Law
- Headquartered in Austin, TX
- 90,000+ members
- 196 Chapters worldwide



From ACFE website: [www.acfe.com](http://www.acfe.com)



# ACFE *Report to the Nations* 2020

- Report to the Nations 2020 Global Study on Occupational Fraud and Abuse
- Bi-Annual Report
- Analysis of 2,504 cases of occupational fraud across 125 countries
- Results based on 2019 *Global Fraud Survey* opened to CFEs about their single largest fraud case investigation completed between January 2018 and September 2019
- First ACFE Report to the Nations was issued in 1996



<https://www.acfe.com/report-to-the-nations/2020/>





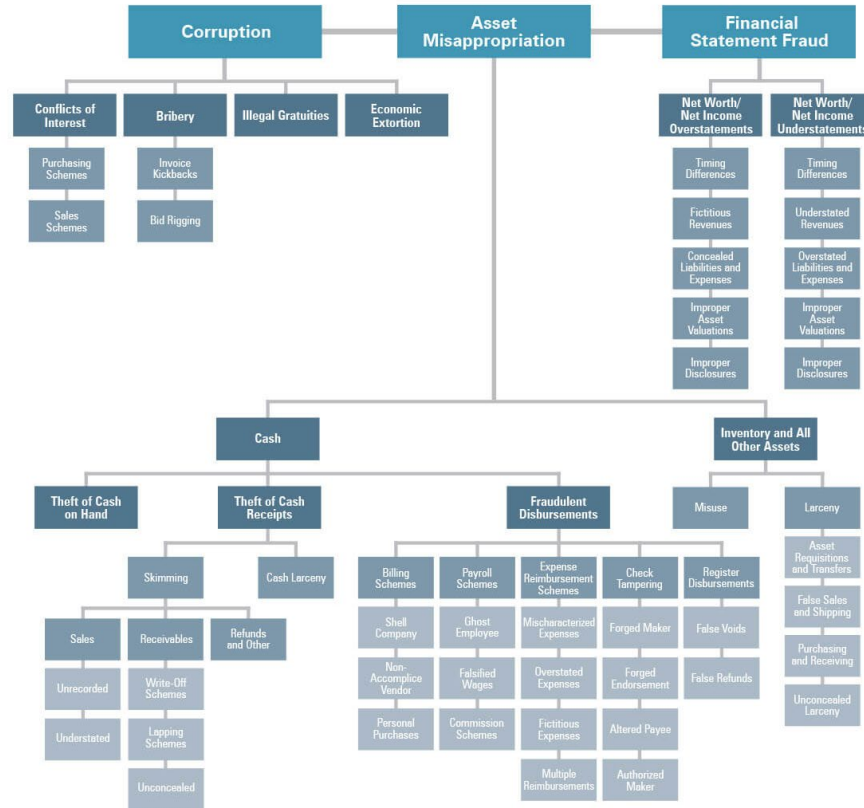
# The Fraud Tree

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# THE FRAUD TREE

OCCUPATIONAL FRAUD AND ABUSE CLASSIFICATION SYSTEM



2020 Report to the Nations.  
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Examiners, Inc.



# Types of Fraud Schemes

## Corruption

- Involves an employee's use of his/her influence in a business transaction in a way that violates their duty to their employer for the purpose of obtaining a benefit for themselves or someone else
- Often involves collusion between an employee and an outside party
- Can be difficult to detect



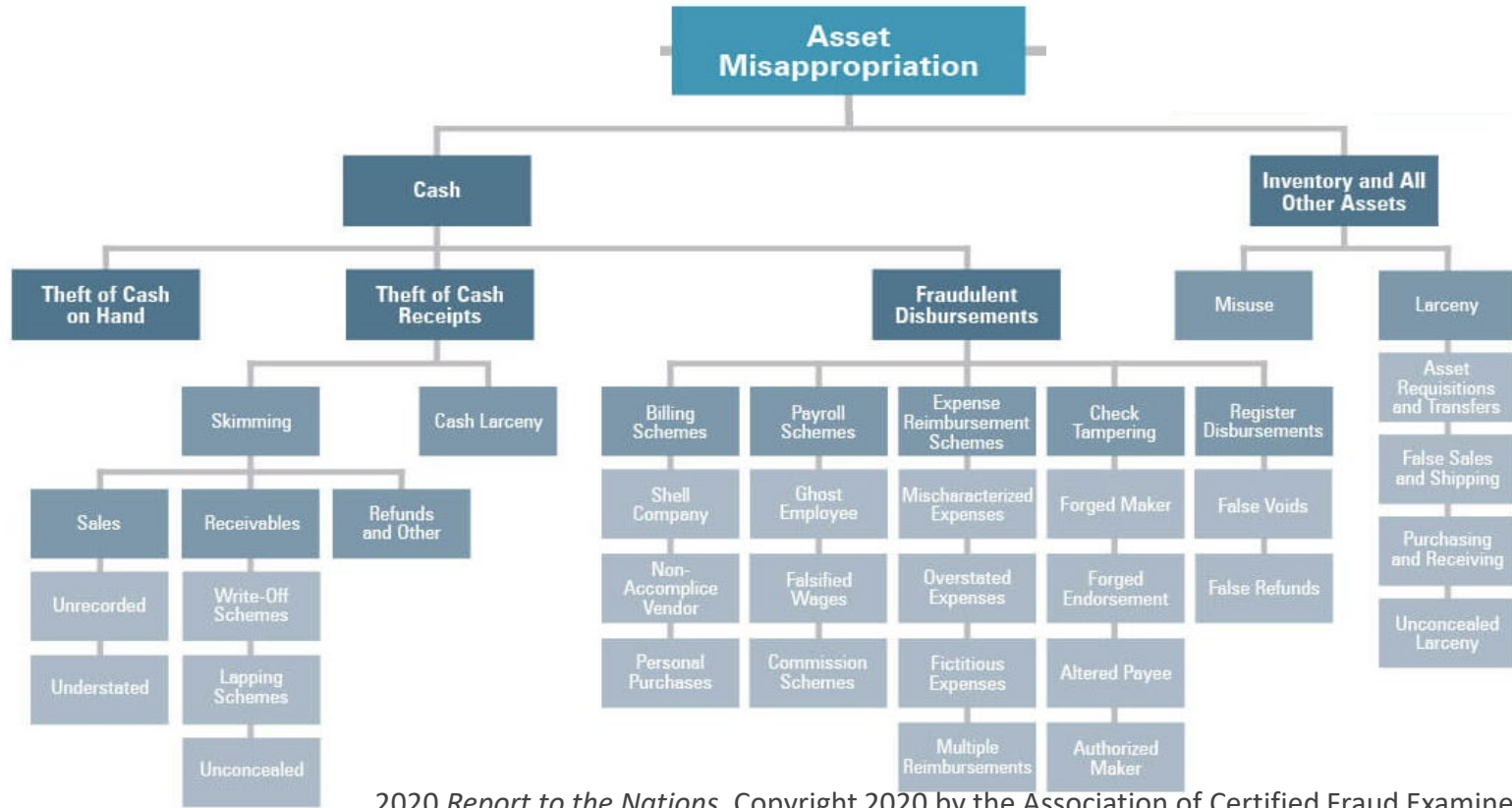
# Types of Fraud Schemes

## Financial Statement Fraud

- Manipulation, falsification, or alteration of accounting records or supporting documentation from which the financial statements are prepared
- Misrepresentation in, or intentional omission from, the financial statements of events, transactions, or other significant information
- Intentional misapplication of accounting principles



# Types of Fraud Schemes



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# Occupational Fraud by Organization Type

FIG. 20 What are the most common occupational fraud schemes in various industries?

	INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
2020	Government and public administration	189	18%	5%	9%	4%	48%	17%	4%	17%	17%	0%	7%
2018	Government and public administration	184	15%	11%	11%	9%	50%	11%	5%	22%	7%	2%	11%

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# Occupational Fraud by Category - Frequency

FIG. 2 How is occupational fraud committed?

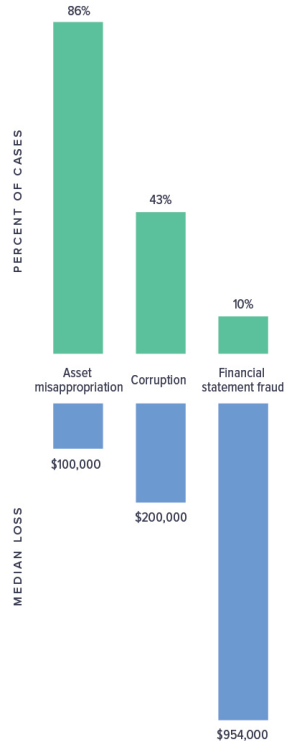
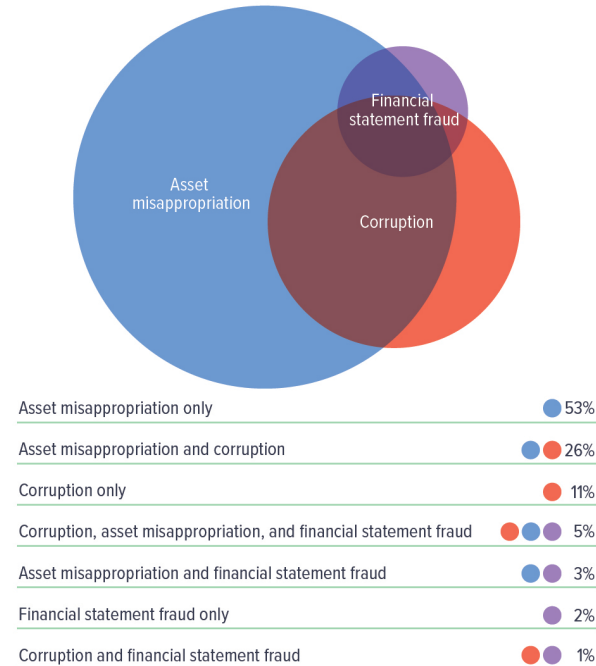


FIG. 4 How often do fraudsters commit more than one type of occupational fraud?



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# Occupational Fraud by Organization Type

FIG. 14 What types of organizations are victimized by occupational fraud?

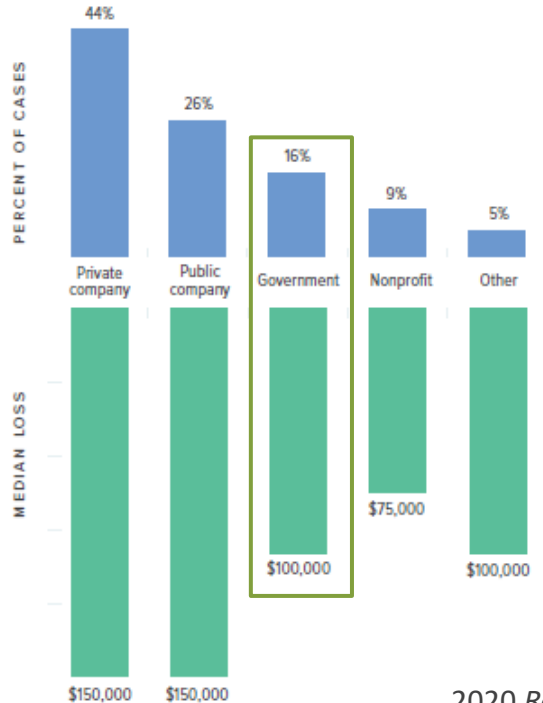
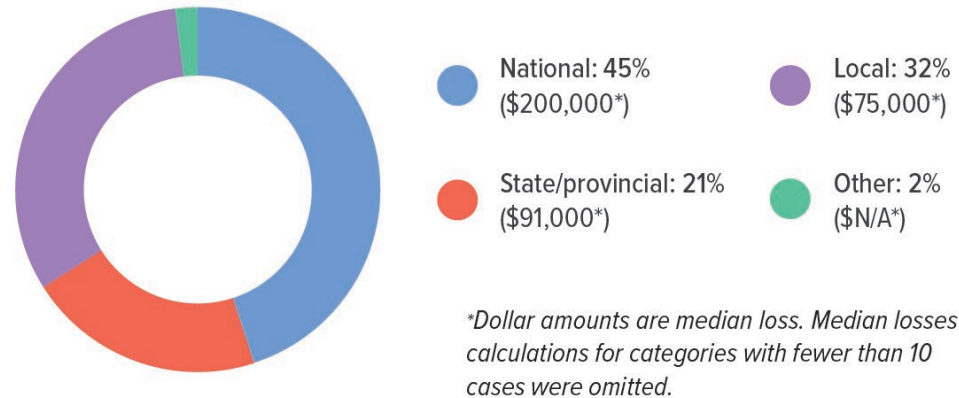
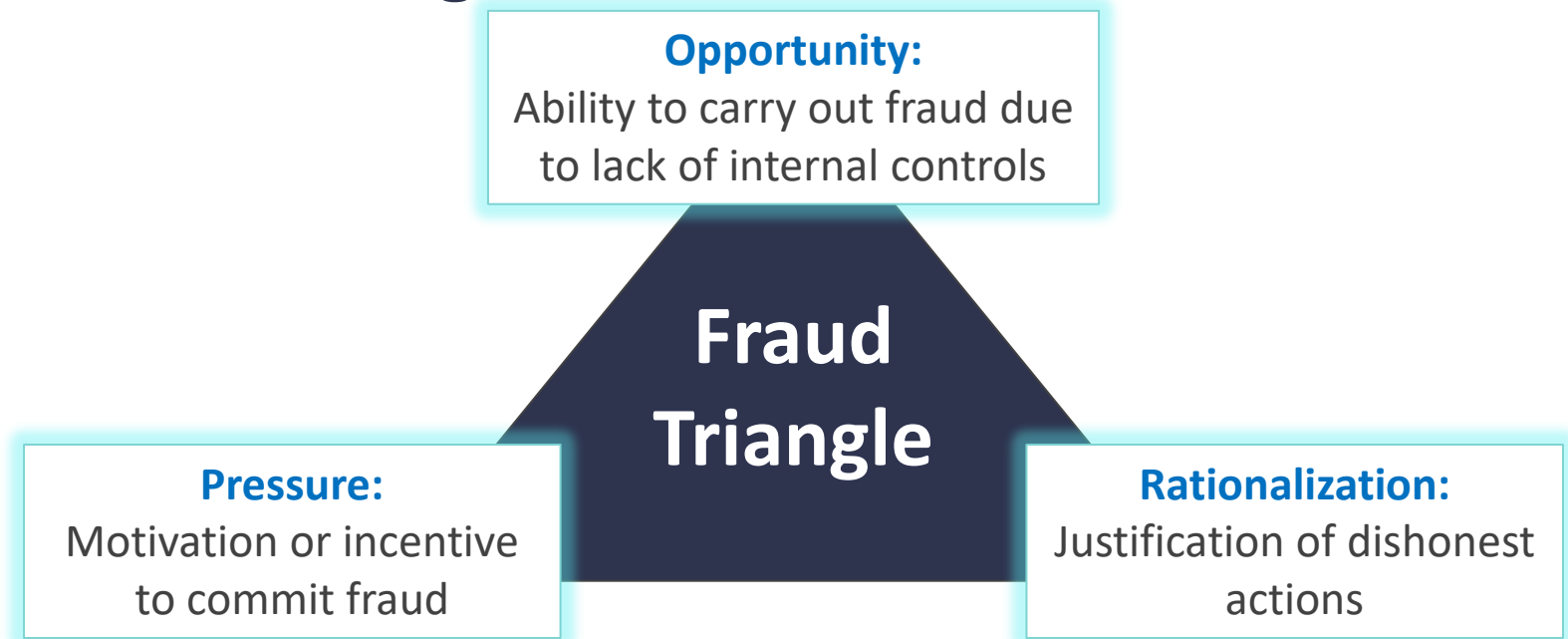


FIG. 15 What levels of government are victimized by occupational fraud?



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# The Fraud Triangle



Understanding the Fraud Triangle is critical to:

- Minimize the risk of abuse
- Minimize the risk of fraud
- Develop strong internal controls



# Fraud Mitigation Cost Savings

FIG. 11 How does detection method relate to fraud duration and loss?



Source:  
ACFE 2020 Report to the Nations



# Profile of a Fraudster – Occupational Fraud

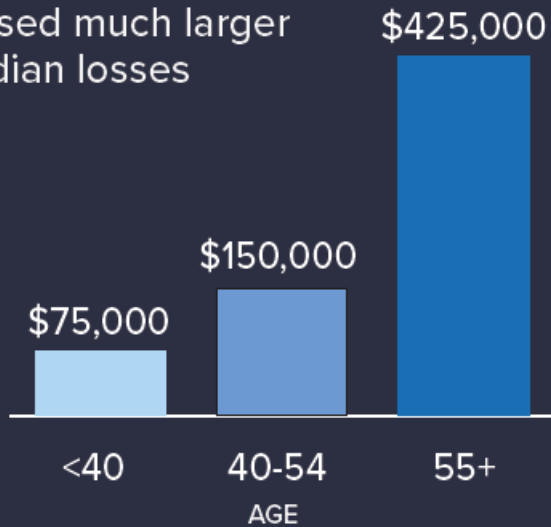
- 72% of fraud cases are committed by males at a median loss of \$150,000
- 28% of fraud cases are committed by females at a median loss of \$85,000
- Fraudsters with their employers for 6 years or more caused twice the loss of less-tenured employees
- 64% of fraudsters had a university degree or higher and the median loss was \$95,000 higher



# Profile of a Fraudster – Occupational Fraud

## AGE

**Older fraudsters**  
caused much larger  
median losses



## LEVEL OF AUTHORITY

Most occupational frauds are committed by employee-level or manager-level personnel. But frauds by owners/executives are much more harmful.



Source:  
ACFE 2020  
Report to the  
Nations



# Recent Frauds within State and Local Governments

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# Case Study #1

Internal Disbursement Fraud

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# Overview

- **Organization**

- County department with \$1.5 million annual budget
- Serves over 190,000 customers

- **Perpetrator**

- Long-term, trusted employee
- Female, late-40s, divorced, adult children
- Alleged drug addiction; family medical issues
- Handled all accounting for 3 agency funds and operating fund

- **Detection**

- A temporary receptionist questioned why the subject was picking up so many checks for hand-delivery that normally would have been mailed



# Scope of Engagement

## Primary objective:

- Prepare a written report for County's insurance claim

## Secondary objective:

- Confirm theft identified by County internal audit department
- Assess whether additional losses or other schemes were perpetrated

# Fraud Scheme

## Misappropriation Scheme #1 – Refunds (Primary)

Customers paid deposits that were held in an agency fund

As services were performed, deposits were transferred to the department's operating account; unused deposits were refunded to customers

Created and approved claim requests for fictitious refunds to customers (attached falsified supporting documentation)

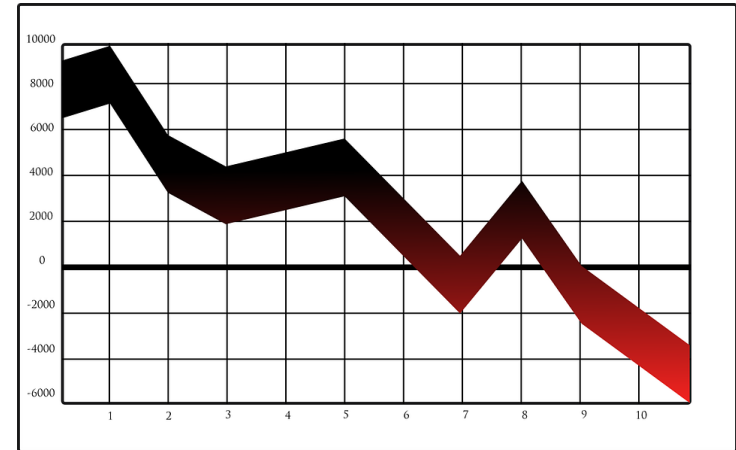
Used a "one-time" vendor number that allowed manual entry of payee name and address

Checks were mailed to co-conspirator address OR employee picked up checks from accounting

# Fraud Scheme

## Misappropriation Scheme #1 – Refunds (Primary)

- Misapplied deposits to ensure sufficient money available in the agency funds
- Department leaders noticed that the department operations were struggling, but did not fully understand cause
- She was responsible for reconciling all department funds, including project database to accounting records



# Fraud Scheme

## Misappropriation Scheme #1 – Refunds (Primary)

- Earlier years:
  - Used co-conspirator names and addresses as payees (not employees)
  - Checks were mailed directly to co-conspirators
- More recent years:
  - Used name of community organization of which she was the treasurer and had access to the bank account
  - Marked payments for pick-up, which required the approval of her supervisor
  - Gained access to supervisor's log-in credentials and used log-in to approve checks
  - Indicated her own name for pick-up
  - Picked up checks from accounting
  - Deposited checks into bank account



# Fraud Scheme

## Misappropriation Scheme #2 – Fictitious Vendor

- Used a co-conspirator name and prepared quotes for fictitious professional services
- Got permission from risk management to override requirement for proof of insurance
- Requested that purchasing approve a PO for the work
- Created fictitious invoices from co-conspirator
- Submitted invoices for payment
- Issued departmental approval on invoices (no 2<sup>nd</sup> approval required from department)



# Investigative Techniques

- **Document Examination**

- Cancelled checks
- Check requests and supporting documentation
- Perpetrator's and co-conspirators' bank statements (provided by DA)\*
- Access databases used to track County projects

- **Interviews**

- Understand internal investigation conducted by County
- Understand processes to assist with data analytics
- Determine whether other schemes were used

*\*Went back only 7 years.*



# Investigative Techniques



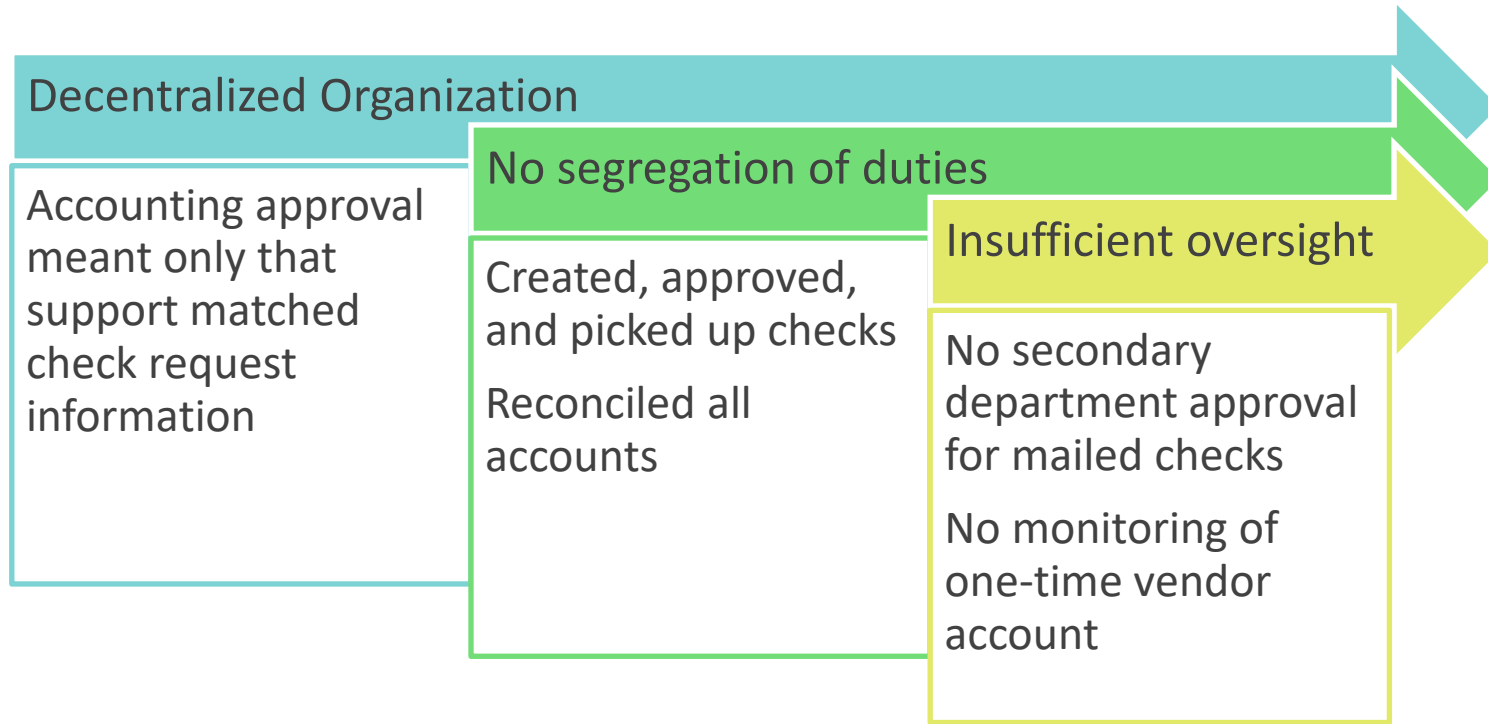
- **Data Analytics**

- All activity in one-time vendor account
- All department disbursements
  - Identified payments under \$10,000 as they did not require a PO and she could be sole approver
  - Reviewed for appropriateness
- Compared refund activity to project database





# How Subject Got Away With It



# Results of Investigation

- **Loss to organization:** \$2.05 million
  - Refunds: \$1.8 million (240 checks)
  - Fictitious vendor: \$290,000 (42 checks/ACH)
- **Time Period:** 5/2/2008 to 7/25/2017\*
- No other county employees involved
- 16 different payee names/addresses were used

\*Believe misappropriation may have gone back further; however, no supporting documentation available for review



# Results of Investigation

- **Administrative:** Employee was terminated
- **Civil:** No civil action taken; insurance claim filed to recover loss
- **Criminal:** Indicted by DA; pleaded guilty; sentenced to 9 years, 8 months prison term; ordered to pay \$2.5 million in restitution
- 8 co-conspirators were indicted; 5 of whom pleaded guilty and received prison sentences ranging from 6 months to 13 years



# Preventative/Detective Controls



Secondary department approval required for all transactions

Different individual should have reconciled accounts

Separate deposit and disbursement functions

Monitor one-time vendor activity

Employees requesting payments should not be able to pick up checks, even with secondary approval



# Billing/Disbursement Schemes

## Red Flags & Risk Areas:

- One-time (temporary vendor) number
- Employees can request that checks be routed back to themselves
- Employees can pick-up checks from accounting
- Payments to individuals, new vendors, or unknown vendors
- Round dollar payments, payments just below approval thresholds
- Excessive use of one account type by a single employee
- Vendor used by only one employee
- Lack of detail on the supporting invoice
- Consecutively numbered invoices / duplicate invoice numbers
- Lack of a physical address on the invoice
- Two systems do not interface



# Billing/Disbursement Schemes



- Segregate purchasing duties from payment duties
- Segregate cash receipts/deposit function from disbursement function
- Segregate reconciliation from individuals performing daily transactions
- Employees requesting payments should not be able to pick up checks or route back to themselves
- Reconcile different systems used
- Management review and oversight





# Case Study #2

External Disbursement Fraud

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# Diversion of Vendor Disbursements

## The Scheme:

1. 3<sup>rd</sup> party pretends to be vendor and submits a request for a vendor change of address or bank information
2. The government agency believes they are communicating with the actual vendor and makes the change in the system
3. The next payment processed to that vendor goes to the fraudulent address or bank account rather than the actual vendor
4. The government agency usually becomes aware when the vendor calls inquiring about the status of their payment



# Diversion of Vendor Disbursements

## How do you protect your organization?

1. Require verification of the change via a mechanism other than how the request was received
2. Require a minimum period of time (i.e., 10 business days) before processing payments after a change is made
3. Ensure only appropriate staff can add and modify vendors
4. Ensure the vendor master list is reviewed and maintained; change unused vendors to inactive status
5. On a monthly basis, run a vendor change report to monitor and review for inappropriate or questionable changes



# Attributes of an Effective Anti-Fraud Program

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# Attributes of an Anti-Fraud Program

1. Person or office dedicated to anti-fraud, ethics, and compliance
2. Lead by example (“tone at the top”)
  - a. Highest level executives promote an environment of high ethics and integrity
  - b. Board holds top level executive accountable
3. Encourage transparency and accountability
  - a. Review, oversight, monitoring
4. Well developed anti-fraud and ethics policy
  - a. Documented in writing and communicated to employees
  - b. Read and acknowledged by all employees
  - c. Communicate during hiring; carefully screen job applicants
5. Well developed and updated written policies and procedures



# Attributes of an Anti-Fraud Program

6. Regular technical training of employees on policies, procedures, applicable laws, ethics, fraud awareness, etc.
7. Strong compliance/internal audit programs
  - a. Internal, outsourced, or combination
  - b. Prioritized and communicated
  - c. Access to Board of Trustees
8. Establish a fraud and ethics hotline
  - a. Provide for anonymity
  - b. Maintain confidentiality
  - c. Incorporate whistleblower protections; protect employees that come forward
9. Reinforce good behavior; don't reinforce bad behavior
  - a. Follow through with reports of misconduct and promote effective internal controls
  - b. Encourages people to come forward





# Internal Control and Internal Auditing

Monitoring Internal Controls

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# We Need to Study Internal Controls!

Internal controls might be the most under studied management function within an organization and its importance is critical to both **protecting** the organization and **achieving** its objectives.



# Why Do We Need a Internal Control Framework?

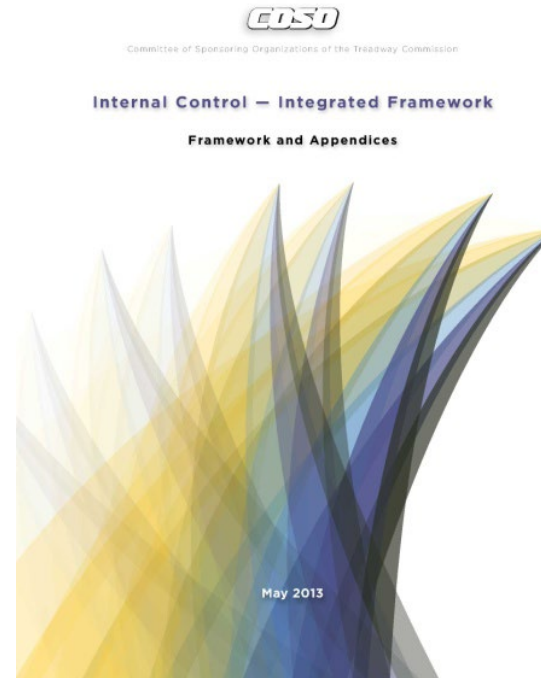
A framework is a basic conceptual structure to achieve an objective.

- Provides standards for management
- Provides criteria for auditors



# Updated COSO Framework

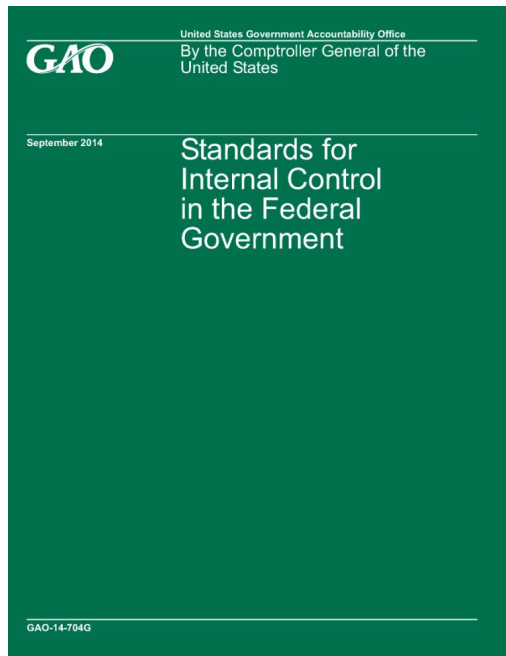
Released  
May 14, 2013





# Standards for Internal Control in the Federal Government

The Green Book is on GAO's  
website at:  
[www.gao.gov/greenbook](http://www.gao.gov/greenbook)



# What's in Green Book for the Federal Government?

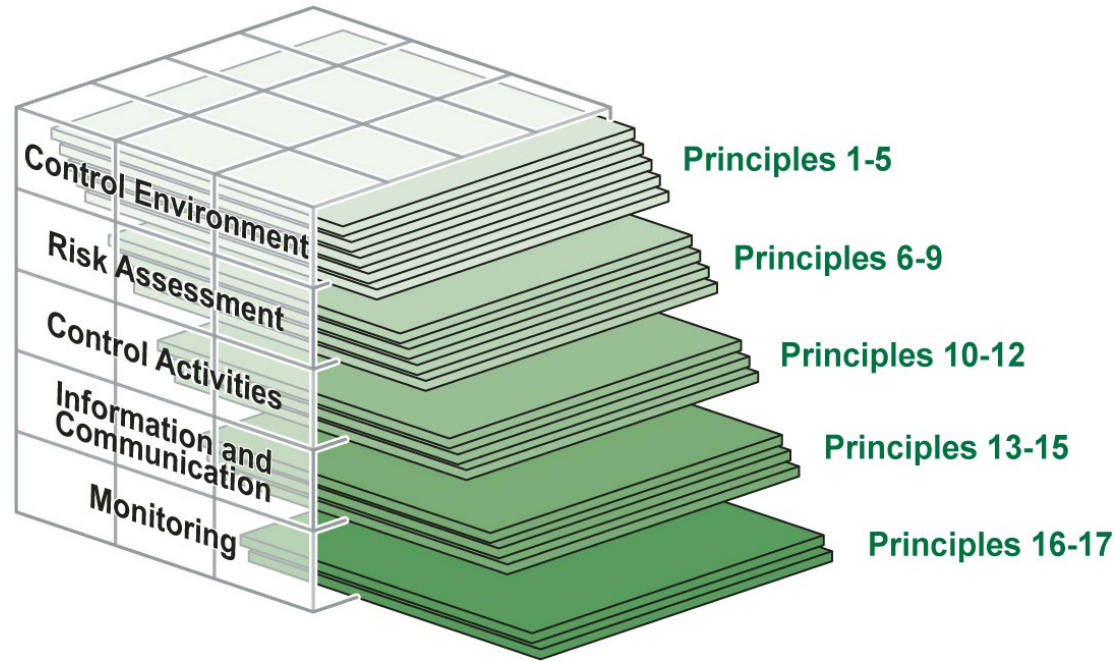
- Reflects federal internal control standards required per Federal Managers' Financial Integrity Act (FMFIA)
- Serves as a base for OMB Circular A-123
- Written for government
  - Leverages the COSO Framework
  - Uses government terms



# What's in Green Book for State and Local Governments?

- Acceptable framework for internal control on the state and local government level under proposed OMB Uniform Guidance for Federal Awards
- Written for government
  - Leverages the COSO Framework
  - Uses government terms
- OMB and GAO believe Green Book is good for all governments.

# Components and Principles



# 5 Components and 17 Principles

<b>Control Environment</b>	<ol style="list-style-type: none"><li>1. Demonstrate Commitment to Integrity and Ethical Values</li><li>2. Exercise Oversight Responsibility</li><li>3. Establish Structure, Responsibility, and Authority</li><li>4. Demonstrate Commitment to Competence</li><li>5. Enforce Accountability</li></ol>
<b>Risk Assessment</b>	<ol style="list-style-type: none"><li>6. Define Objectives and Risk Tolerances</li><li>7. Identify, Analyze, and Respond to Risk</li><li>8. Assess Fraud Risk</li><li>9. Analyze and Respond to Change</li></ol>
<b>Control Activities</b>	<ol style="list-style-type: none"><li>10. Design Control Activities</li><li>11. Design Activities for the Information System</li><li>12. Implement Control Activities</li></ol>
<b>Information &amp; Communication</b>	<ol style="list-style-type: none"><li>13. Use Quality Information</li><li>14. Communicate Internally</li><li>15. Communicate Externally</li></ol>
<b>Monitoring</b>	<ol style="list-style-type: none"><li>16. Perform Monitoring Activities</li><li>17. Remediate Deficiencies</li></ol>



# Control Environment

The foundation for an internal control system. It provides the **discipline and structure** to help an entity achieve its objectives.



## Control Environment

1. Demonstrate Commitment to Integrity and Ethical Values
2. Exercise Oversight Responsibility
3. Establish Structure, Responsibility, and Authority
4. Demonstrate Commitment to Competence
5. Enforce Accountability



# Risk Assessment

Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.



## Risk Assessment

- 6. Define Objectives and Risk Tolerances
- 7. Identify, Analyze, and Respond to Risk
- 8. Assess Fraud Risk
- 9. Analyze and Respond to Change



# Control Activities

The **actions** management establishes through **policies and procedures** to achieve objectives and respond to risks in the internal control system.



## Control Activities

- 10. Design Control Activities
- 11. Design Activities for the Information System
- 12. Implement Control Activities





# Information & Communication

The quality information management and personnel **communicate** and use to support the internal control system.



## Information & Communication

- 13. Use Quality Information
- 14. Communicate Internally
- 15. Communicate Externally



# Monitoring

Activities management establishes and operates to **assess the quality** of performance over time and properly resolve the findings of audits and other reviews.



## Monitoring

- 16. Perform Monitoring Activities
- 17. Remediate Deficiencies



# Simplified COSO Questions

- What does management do to ensure they meet the objective?
  - (control activity)
- How does management communicate to others what they do?
  - (information and communication)
- Why does management do what it does?
  - (risk assessment)
- How does management ensure control activities are performed?
  - (monitoring)
- What does all that say about management?
  - (control environment)



# Monitoring Overview

Since internal control is a dynamic process that has to be adapted continually to the risks and changes an entity faces, monitoring of the internal control system is essential in helping internal control remain **aligned** with changing objectives, environment, laws, resources, and risks.

Internal control monitoring assesses the **quality** of performance over time and promptly resolves the findings of audits and other reviews. Corrective actions are a necessary complement to control activities in order to achieve objectives.





## Principle 16 Monitoring Activities

Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

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# Establishment of Baseline

- Current state vs. management's design at a certain point in time

$$\text{Design} - \text{Current State} = \text{Control Gap}$$

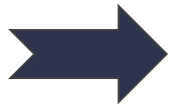
- Management either changes the controls design or improves the controls operating effectiveness
- Goal is to minimize the “Control Gap”



# Internal Control System Monitoring

Management monitors controls through ongoing monitoring and separate evaluations.

- Ongoing monitoring
  - Normal course of operations
  - Performed continually
  - Responsive to change
  - Examples:
    - Regular management and supervisory activities such as comparisons, reconciliations, and other routine actions.
    - Manual and automated.

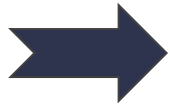


A control designed to ensure other controls have been operating effectively on an ongoing basis.



# Internal Control System Monitoring (cont.)

- Separate evaluations
  - Specific timing, objective, function or process
  - Scope and frequency is based on separate evaluations depending on:
    - Assessed risk
    - Effectiveness of the ongoing monitoring
    - Rate of change in the entity
    - Overall environment
  - Audits and evaluations – management can use the audits and evaluations of the others (greater objectivity).
    - Internal audit, external auditors, regulators, etc.



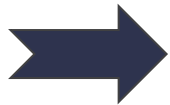
Internal control monitoring is a management function, however, others can provide information that is objective to the monitoring process.





# Evaluation of Results

- Documentation of ongoing monitoring and separate evaluations
  - Take credit for what you do!
  - Required under the framework
- What should be and what is?
  - Document the Control Gap and any recommendations to remediate deficiencies.



Documentation drives performance.





## Principle 17 Remediate Deficiencies

Management should remediate identified internal control deficiencies on a timely basis.

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# Reporting of Issues

- **Timely** report internal control issues through established reporting lines
  - Internally to **person responsible** for control and **supervisor/management**
  - Externally if required.



# Evaluation of Issues

- **Timely** evaluate and document internal control issues and the appropriate corrective actions.
  - Control deficiency?
    - Design issue
    - Implementation issue
    - Effectiveness issue



# Corrective Actions

- **Timely** completion and documentation of corrective actions
- Audit resolution process ends after action has been taken that:
  - Corrects identified deficiencies
  - Produces improvements, or
  - Demonstrates the findings and recommendations do not warrant management action





# Internal Auditing

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# Association of Local Government Auditors



ALGA empowers our local government auditing community through excellence in advocacy, education, communication, and collaboration to protect and enhance the public good while embracing diversity, equity, and inclusiveness.

## Maryland Members

Anne Arundel County  
Baltimore County  
Board of Education of Howard County  
Charles County  
Frederick County  
Harford County

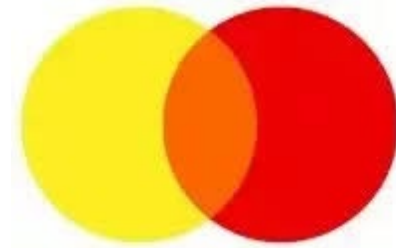
Howard County  
Maryland-National Capital Parks & Planning  
Maryland Judiciary\*  
Montgomery County, Office of Inspector General  
Prince George's County Public Schools  
Washington Suburban Sanitary Commission

\* = 2018 Conference Attendee



# Standards of Practice

- Yellow Book, *Government Auditing Standards*
  - Government Auditing Standards (GAO)
- Red Book, *International Standards for the Professional Practice of Internal Auditing*
  - Institute of Internal Auditors (IIA)
  - CIA credential issuer
- Orange Book
  - Both Yellow and Red Book





# Branch of Government

## \*Legislative (Governance)

- Increased objectivity and independence
- Reports directly to oversight board
- Auditor protected against retribution
- Conducts audit to professional standards

\* ALGA recommend practice

## Executive (Management)

- Lacks objectivity and independence
- Influenced by management by organizational chart
- Periodic evaluations to be used by management
- Not following accepted standards



# Auditor Independence (Objectivity)

- Auditors who are not independent might think they can't or shouldn't look into some programs or departments.
- Auditors who are not independent might not report significant problems to avoid retaliation.
- If either of these happens, serious problems might never be brought to your attention.
- If the problem eventually becomes public, you and your organization may be blamed for not knowing about it.





# Internal Audit Opportunities

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# Project Types

- Risk assessment (entity-wide, departmental)
- Survey
  - Questions and follow-up
  - “Micro”-reporting
- Performance audit
  - Performance based using KPI
  - Evaluation
  - Compliance related
- Agreed-upon procedures



# Risk Management

RISK	DESCRIPTION	10%	10%	10%	15%	15%	15%	10%	10%	5%	100%
		Level of documented control procedures	Size or volume	New products, services or processing systems	Personnel turnover and mix	Complexity	Susceptibility to fraud	Information and reporting	Inherent Level of Risk to the Organization	Frequency mentioned during interviews.	Total Score
Data Breach	The risk that the organization's data is vulnerable from internal or external threats and should any of the data be comprised the Wolf Trap brand would be damaged.	2	5	4	3	5	4	5	5	3	4.05
National Park Service Relationship	Risk that the relationship with the national park service does not reflect that of a partner but rather creates additional complexities in order to accomplish business. In addition, the risk relates to the 2018 renewal of contract with NPS and the impact that specific contract terms has on the efficiency, flexibility, and capabilities of the organization.	3	5	4	3	4	1	2	5	5	3.35
Age of Venue- Filene Center	Risk that investment in the physical structure, sound equipment and other venue related technology is unable to be accomplished resulting in an outdated facility that may not support the mission of the organization.	3	5	4	3	4	3	1	4	3	3.35
Succession Planning	The risk that Wolf Trap's operations would be disrupted, particularly within smaller departments, due to current employees not available or having the capabilities to fill key positions should those positions be vacated for reasons other than termination.	5	2	1	5	3	2	3	5	5	3.35
Audience Competition	The risk that external competition makes it difficult to achieve the organization's mission, maintain consistent philanthropic support year to year, or adequately manage programming based on other venues desirability and pricing.	3	5	3	1	4	2	4	5	5	3.30



# Categories

- Finance
- Housing, Social Service, Community Development
- Human Resources
- Information Technology
- Park, Recreation, Library
- Procurement, Contract Compliance
- Transportation and Fleet
- Public Safety
- Public Works, Capital Facilities
- Public Utilities
- Environmental

**Internal audit should  
be more than just  
financial.**



# Finance Categories

- Cash handling
- Airport parking revenues
- Tax billing
- Credit card
- Assessor's office
- Wire transfers
- Departmental audits
- Payroll
- General disbursements
- Jail operations



# Example Abstract (ALGA website)

## **Vendor Enrollment & Management**

**Release Date:** 6/30/2017

**Audit Shop Name:** Jackson County

**Audit Category:** Finance

### **Purpose**

Our objectives focused on assessing the level of strength of the County's vendor management control system. Our work focused on analyzing the design and implementation of controls as they relate to the risks discussed in this report.

### **Findings**

Many standard controls have been implemented. Given the size of the County and the size of some departments, not all duties are segregated from other related duties. We conducted certain tests and did not identify any fraudulent activity. Nonetheless, we do report on control limitations for the purpose of ensuring management is aware of potential risks that are a natural outcome of these limitations.

### **Contact Information**

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[http://jacksoncountyor.org/DesktopModules/Bring2mind/DMX/Download.aspx?EntryId=43366&Command=Core\\_Download&language=en-US&PortalId=0&TabId=1740](http://jacksoncountyor.org/DesktopModules/Bring2mind/DMX/Download.aspx?EntryId=43366&Command=Core_Download&language=en-US&PortalId=0&TabId=1740)





# Example Abstract (ALGA website)

## **Audit of Employee Travel Expenditures: The City Should Pursue Improvements to Ensure Employee Travel Is Necessary, Reasonable, and Consistent With Policy**

**Release Date:** December 12, 2013

**Audit Shop Name:** City of San José, Office of the City Auditor

**Audit Category:** Miscellaneous

### **Summary**

During this audit, we: 1) reviewed a judgmental sample of employee travel expenditures for appropriateness and compliance with City policies and procedures; and 2) assessed the control environment for travel authorizations and expenses.

### **Description**

At the City of San José, employees travel for a number of business needs. Prior to 2009, travel requests and approvals went through the City's Finance Department, but now, individual departments review, approve, and track travel on their own and the Finance Department has a more limited role. We reviewed approximately 300 trips, and found: • Some trips appeared more costly than necessary or reasonable. • Some travel activity and expense reimbursements appeared inconsistent with City rules, including the Employee Travel Policy and ethics rules. • Supporting documentation, including receipts and identification of expenses, was often missing. • The designated experts on the Travel Policy - departmental travel coordinators - did not always review and track travel activity/expenses, coordinate group or recurring trips to promote economical travel, or challenge questionable activities and expenses. These individuals' location within their departments' organizational structures and their exclusion from trip planning and approvals undermined their ability to perform these roles. • Some travel expenses, particularly those transacted through City procurement cards, escaped the attention of departmental travel coordinators and occurred without appropriate review or approval. Similarly, some forms of payment, such as gas cards and mileage reimbursements, were not factored into trip costs. • Weak controls over travel tracking and reporting, travel reimbursements, and cash advances resulted in poor record-keeping, late reconciliations, and payment errors. • Weaknesses in the City's Travel Policy and travel expense reconciliation form hampered disclosure of travel activity, and loopholes encouraged excess costs. Travelers needed clearer and updated guidance. To address these issues, the audit outlines 13 recommendations to the City Administration and the Finance Department. The Administration agreed with all the recommendations, and is following up on the instances of potential non-compliance identified during the audit.

### **Contact Information**

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[sanjoseca.gov/DocumentCenter/View/24846](http://sanjoseca.gov/DocumentCenter/View/24846)





# Internal Audit “Pitfalls”

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# Scoping an Audit

- **Too much** included in the scope
  - Not enough time or resources
- Objectives **unclear** or **too broad**
- **Missing expertise** in the staffing plan
- Unable to provide **organizational value**
- Procedures do not address the **identified risks**
- **Constraints** placed on auditor by management



# Timing of Deliverables

- **Too slow** to add value
  - Usually too much in the scope
  - Auditee delays the process
- Audit period **too old**
  - Changes have already been made without the audit results





# Contracting for Internal Audit

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# Why Contract?

- Flexibility in staffing resources
  - Able to get medical, environmental, information technology expertise
- Increased objectivity and independence
  - Sometime internal audit can be seen as less objective and not independent by constituents and others
- Variable in cost
  - Contracts are not a fixed cost



# Best Practices in Contracting Internal Audit

- Request for Qualifications (RFQ)
  - Select more than one vendor (concurrent work, specialties, cost control)
- Issue scopes of work/task orders
- Work with the vendor to control the scope and related cost before committing to the project
  - Objective-based
  - Cost-based
- Be part of the process to ensure the project meeting the stated objectives.



# Questions?







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# Thank you!



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