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2024 Denver Government & Nonprofit Training Academy



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Ransomware Preparedness

Preventing and Responding to Ransomware Attacks at your Organization



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Speaker Introduction

- Principal within CLA's business risk services and cybersecurity groups
- 25+ years of combined experience in cybersecurity, IT controls, enterprise risk management, internal audit and IT consulting
- State and local government, not-for-profit industry specializations



Jeff Ziplow, MBA, CISA, CGEIT
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Learning Objectives

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

- Identify how ransomware attacks are deployed
- Recognize how to prevent the introduction of malicious software onto systems
- Recall how to prepare yourself and the organization for the recovery from a ransomware attack



Ransomware Facts & Stats

1. There are 1.70 million ransomware attacks every day
2. The average total cost of a ransomware breach is \$5.13 million
3. 95% of cyber security breaches are facilitated by human error
4. Ransomware continue to rise, and attacks are estimated to cost \$6 trillion annually
5. The average downtime an entity experiences after a ransomware attack is 22 days
6. Ransomware as a service (RaaS) is pay-for-use malware





What is Ransomware?

How ransomware attacks are deployed

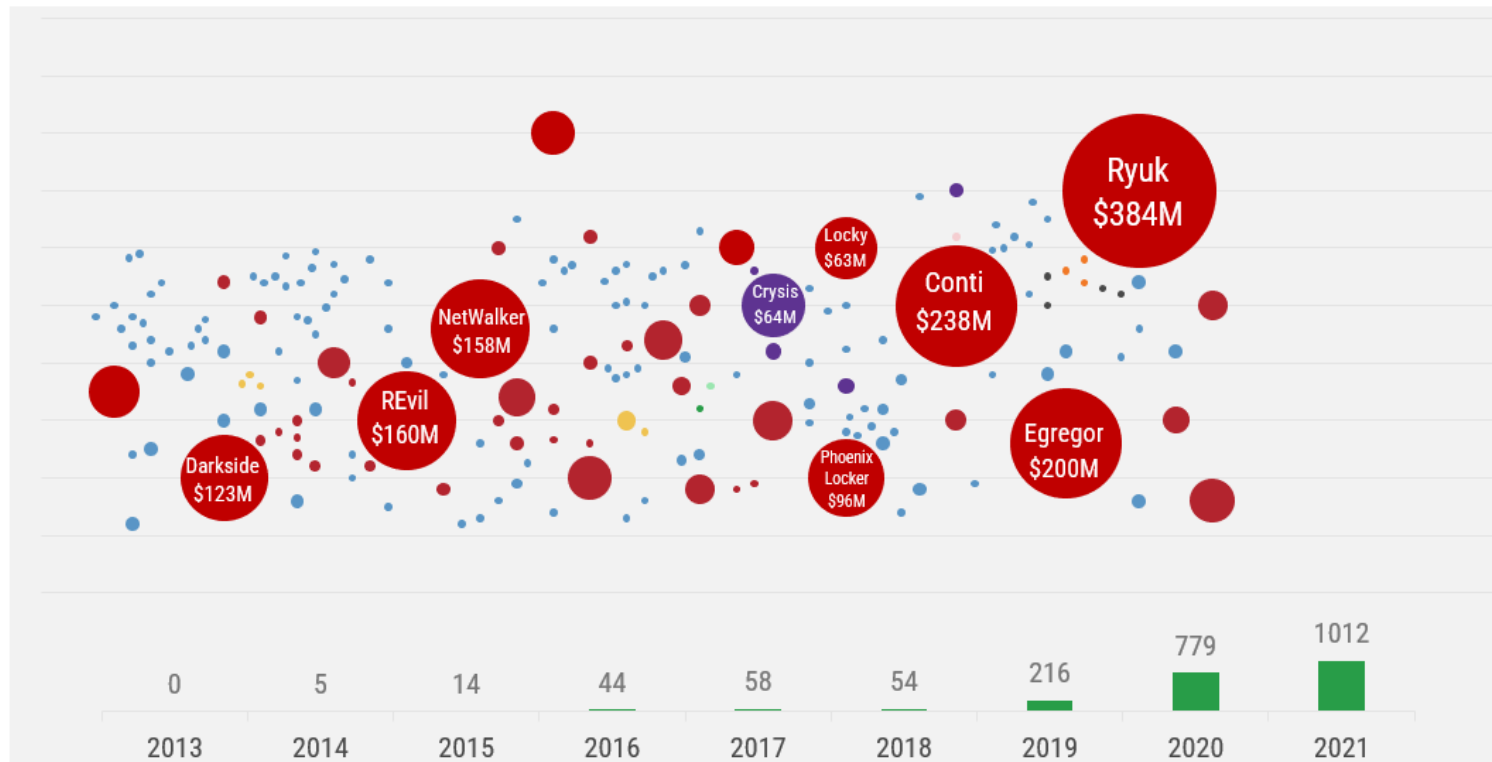


Ransomware

1. One of the most prominent attack vectors
2. Shuts down operations for days-weeks, making a highly visible impact
3. Ransomware has evolved
 - Beyond just encrypting your data
 - Backups don't save the day anymore
 - Negotiations take place with attackers to confirm ransom \$\$\$
 - Double extortion
 - Pay ransom or expose information on dark web



Total ransom money collected (2015 – 2021): USD 2,592,889,121



■ BTC Payments Received by Ransomware Addresses

Source: [Elementus](#), Rise of the Ransomware Cartels (2022)



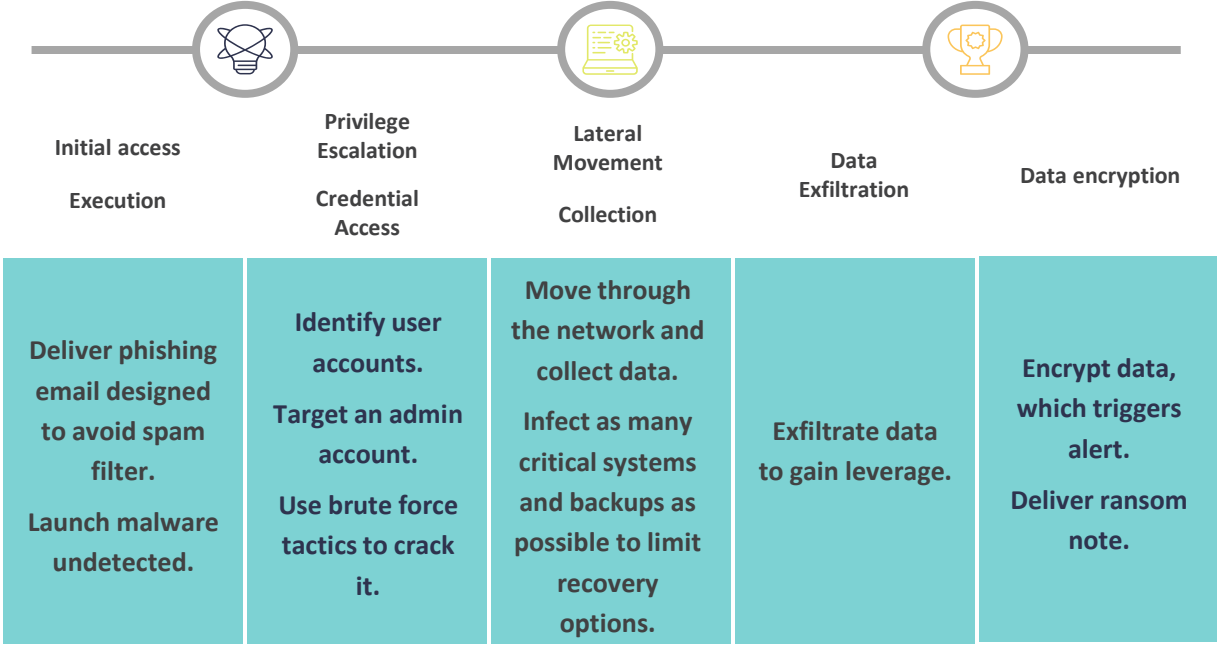
Your challenge:

Ransomware is more complex than other security threats

- Malicious agents design progressive, disruptive attacks to pressure organizations to pay a ransom
- Organizations misunderstand ransomware risk scenarios, which obscures the likelihood and impact of an attack
- Conventional approaches focus on response and recovery, which do nothing to prevent an attack and are often ineffective against sophisticated attacks
- Preventative approaches requires multiple areas of controls improvement: people, process and technologies



Ransomware Playbook



The 3-step ransomware attack playbook

InfoTech Research Group



Misunderstood Scenarios Add to Costs

Ransom is only a small part of the equation. Four process-related activities drive ransomware recovery costs:

Detection and response	Activities that enable detection, containment, eradication and recovery.
Notification	Activities that enable reporting to data subjects, regulators, law enforcement, and third parties.
Lost business	Activities that attempt to minimize the loss of customers, business disruption, and revenue.
Post breach response	Redress activities to victims and regulators, and the implementation of additional controls.



Ransomware as a Service (RaaS)

Botnets & Malware

Stampado Ransomware - FUD - CHEAPEST - ONLY \$39 - ...



Stampado Ransomware - FUD - CHEAPEST - ONLY \$39 - FULL LIFETIME LICENSE

----- Stampado Ransomware ----- You always wanted a Ransomware but never wanted to pay hundreds of dollars for it ? - This list is for you! :) -----
Stampado is a cheap and easy to manage ransomware, developed by me and my team. It...

Sold by [The_Rainmaker](#) - 2 sold since Jul 12, 2016

Vendor Level 1

Trust Level 5

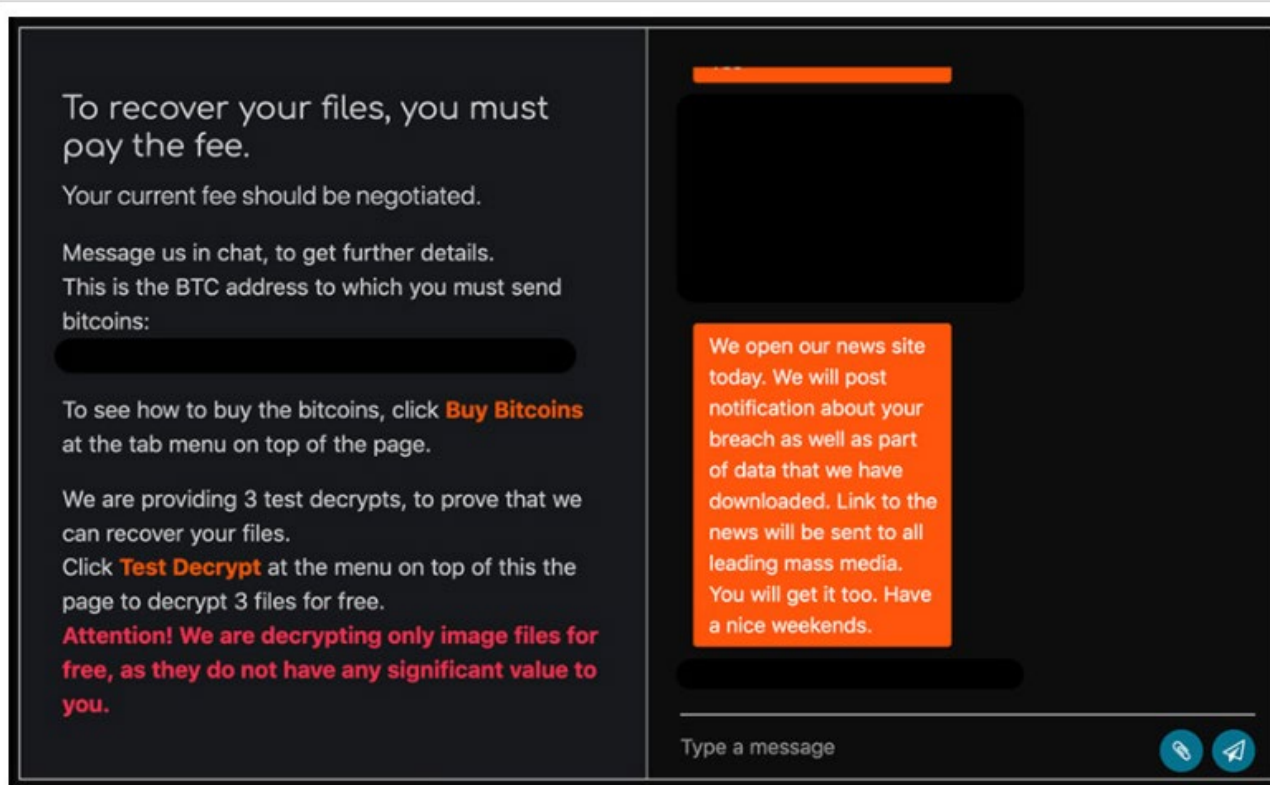
	Features		Features
Product class	Digital goods	Origin country	Worldwide
Quantity left	Unlimited	Ships to	Worldwide
Ends in	Never	Payment	Escrow

Default - 1 days - USD +0.00 / item

Purchase price: USD 39.00



Ransomware



To recover your files, you must pay the fee.

Your current fee should be negotiated.

Message us in chat, to get further details.
This is the BTC address to which you must send bitcoins:

[Redacted BTC address]

To see how to buy the bitcoins, click **Buy Bitcoins** at the tab menu on top of the page.



We are providing 3 test decrypts, to prove that we can recover your files.
Click **Test Decrypt** at the menu on top of this the page to decrypt 3 files for free.

Attention! We are decrypting only image files for free, as they do not have any significant value to you.

[Redacted]

We open our news site today. We will post notification about your breach as well as part of data that we have downloaded. Link to the news will be sent to all leading mass media. You will get it too. Have a nice weekends.

[Redacted]

Type a message  

Maze ransomware attack note (Source: BankInfoSecurity)





Attack Vectors

How to prevent the introduction of malicious software onto systems



Attack Vectors

Software patch management

Phishing

Social engineering

- Email spoofing
- Call spoofing

Malicious hardware

- “Free” USB drive from vendors



Ransomware

Software patch attack – Story

Municipality was working with a managed security provider (MSP)

MSP managed various security services including virus protection updates and security patches on PCs, servers, firewalls

Regularly performed Nessus (security) scans on the network to identify missing patches

Municipality's IT department reviewed MSP status reports and implemented recommended changes

MSP failed to consider\assess the VOIP network; municipality did not know this network was not being scanned



Ransomware

Software patch attack –Vector

Attacker identified municipality's VOIP system with missing patch



Attacker was able to download files and traverse to main network



Attacker compromised user accounts, exported data, infected municipality with ransomware



Negotiated ransom request with attacker



Common Vulnerabilities

Ransomware attacks
capitalize on
weaknesses in:

- Configuration management processes designed to provision assets in a hardened state, and patch / maintained configurations
- Access controls, account management and privileged access
- Network segmentation
- Security awareness and training for users and IT professionals
- Monitoring, detection and response systems and processes
- Perimeter security, inbound and outbound
- Preparedness





Preparedness

How to prepare yourself and the organization for the recovery from a ransomware attack



Protect



Detect



Respond



Recover

Threat preparedness

Review ransomware threat techniques and prioritize detective and mitigation measures for initial and credential access, privilege escalation, and data exfiltration.

Awareness and training

Review security awareness content and enhance it provides cybersecurity and resilience training to employees, contractors and third parties.

Perimeter security

Review network security solutions including analytics, network and email traffic monitoring, and intrusion detection and prevention.



Respond and recover

Identify disruption scenarios and champion the enhancement of incident response, business continuity, and disaster recovery strategies.

Access management

Review the user access management program, policies and procedures to enhance they are ransomware-ready.

Vulnerability management

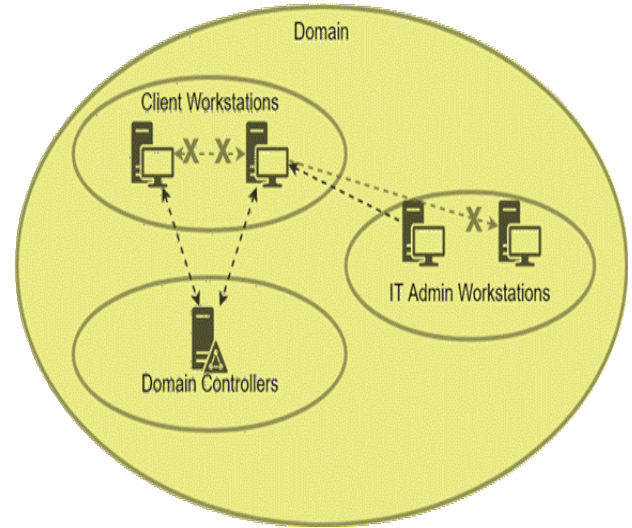
Review vulnerability and patch management programs to enhance that they proactively mitigate ransomware techniques and tactics.

InfoTech Research Group



Preventing Ransomware Attacks

- Implement behavioral based malware/anti-virus software
- Remove local administrative privileges on computers
- Divide IT systems and user access between segments
 - Implement VLANs to segment and provide access controls on the network



Patch Your Employees

Why it's important

- Clicking on bad emails
- Connecting infected personal devices
- Connecting a “free” thumb drive
- “Losing” thumb drive, laptop, etc.
- Browsing suspect sites, personal email, cloud storage

Employee habits and practices

- Can be the first line of defense
- Can escalate incidents quickly
- Influence co-workers by word of mouth
- Exercise security-conscious behavior at home, too
- Periodic security awareness training



Audit Ideas

- Review provisioning and hardening practices
- Review vulnerability and patch management practices
- Review tabletop scenarios to enhance ransomware events are considered
- Review privileged access controls
- Review vendor risk management, focused on ransomware
- Review security awareness and training programs
- Advocate for risk management
- Independent ransomware resiliency assessment





U.S. Department of
Homeland Security
United States
Secret Service

Ransomware Self- Assessment Tool (R-SAT)

October 24, 2023

Version 2.0

Developed in collaboration with the Bankers Electronic Crimes Task Force, State Bank Regulators, and the United States Secret Service

https://www.csbs.org/sites/default/files/other-files/R-SAT%202.0%20%281%29_0.pdf



IDENTIFY/PROTECT

10. Indicate which of the following preventative controls have been implemented. (Check all that apply.)

- Remote Desktop Protocol (RDP) is disabled, or it must be accessed from behind a firewall, through a VPN configured for network-level authentication, and/or the IP addresses of all authorized connections are whitelisted.
- Multi-Factor Authentication (MFA) is used (Check all that apply below):
 - by all users that access any cloud-based service (such as mortgage origination, HR platforms, etc.)
 - for cloud email services (such as Office 365)
 - for VPN remote access into the network
 - with an app that generates a security code (vs a push text/SMS code)
 - for at least administrative access
- Eliminated administrative access to endpoints, workstations, and network resources for all but network support personnel.
- Adopted "least privileged access" concept for granting users access to shared folders and other resources.
- An established process for provisioning and reviewing Active Directory access (especially for service accounts) is actively managed and reported to management.
- Disabled all unnecessary browser or email client plugins.
- Maintenance and enforcement of network-based URL and DNS filtering.
- Use of Intrusion Detection Systems (IDS) and Intrusion Prevention Systems (IPS) that detect and block ransomware activity including exchanging encryption keys.
- Implementation of domain-based message authentication, reporting, and conformance (DMARC) policy and set to at least quarantine status.
- Use of behavior-based malware prevention tool(s). (List below.)

IDENTIFY/PROTECT

11. Is the threat of ransomware specifically included (such as a scenario) as part of the annual test of the incident response plan? YES NO

Does executive management participate in testing at least annually? YES NO

Does the CEO participate in testing at least annually? YES NO

DETECT

12. Indicate which of the following monitoring practices for servers, workstations, networks, endpoints, and backup systems are utilized. (Check all that apply.)

- Data Loss Prevention Program that provides alerts for (and prevents) large amounts of data from being exfiltrated by the ransomware.
- Alerts (and blocking) of executable files attempting to connect to the Internet.
- Active monitoring of network management tools used on workstations, such as WMI (Windows Management Instrumentation), PsExec, and other power shell scripts.
- Detection of suspicious file extensions.
- Detection of large amounts of file renaming.
- None of the above.

RESPOND

13. Does the Incident Response Plan identify a person (internal or third-party) with the expertise to manage/coordinate all aspects of a ransomware response? YES NO

Summary Points

- Don't let your organization get stagnant and rely upon backup, recovery and cyber insurance
- Proactive approaches minimize the threat surface area, reduce time to detect, disrupt ransomware and respond/recover will give you comfort
- Enhance processes and controls that your organization can control are robust, and periodically tested to identify gaps
- Engage in discussions with critical vendors regarding ransomware risk
- Seek advice and guidance if you need assistance





Questions





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Grants – Training and Policies for Your Organization

Allison Slife and Molly Quinn

March 26, 2024



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Learning Objectives

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

- Discuss the importance of grants compliance and ways to improve
- Identify grants compliance requirements and recognize the importance of internal controls over compliance
- Identify grants management leading practices and discuss digital solutions around grants

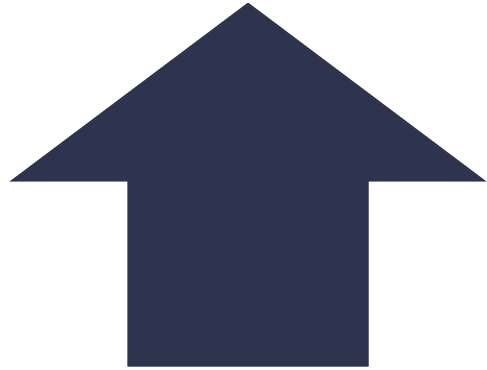




The Importance of Grants Compliance



Pros and Cons of Receiving Federal Grants



Additional funding for programs that support mission of organization



Administrative work,
Record keeping, Reporting,
Audits



Effective Grant Management

Planning

- Identifying compliance requirements
- Establishing roles and responsibilities
- Designing and implementing strong processes

Compliance and Monitoring

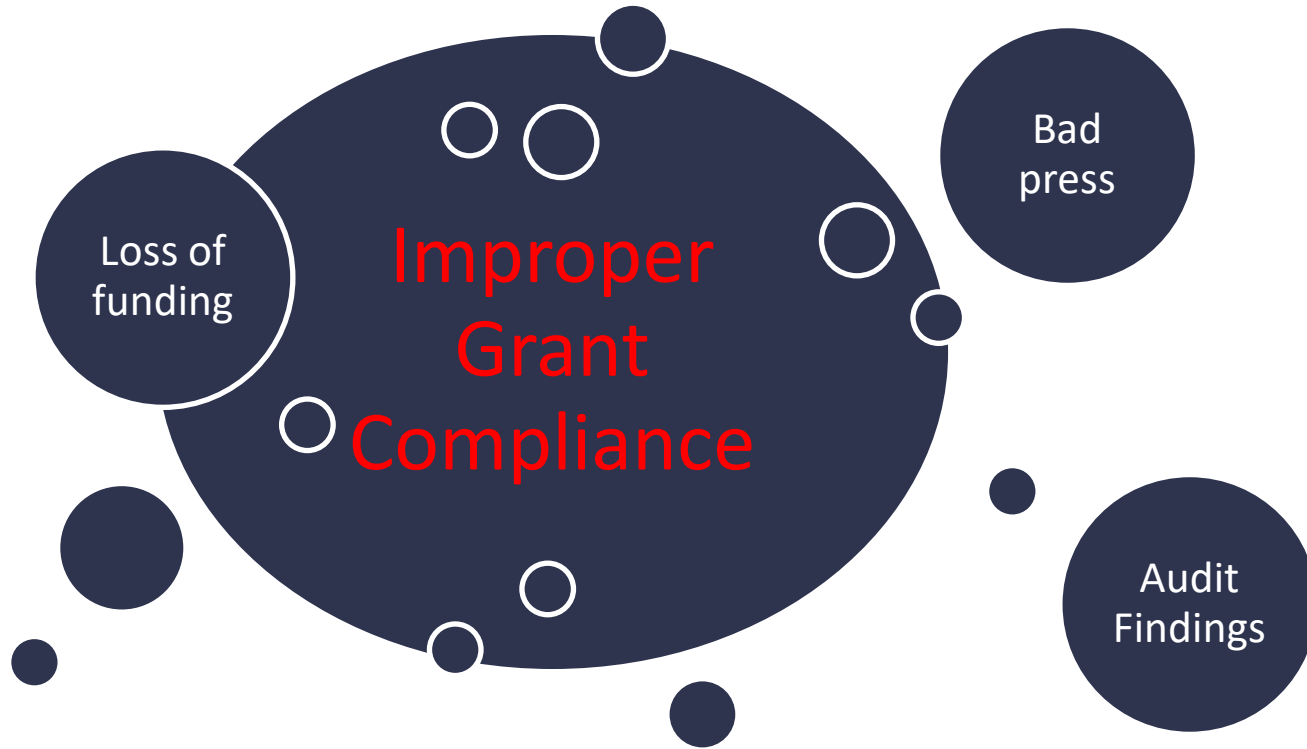
- Ensuring expenses are allowable within grant terms and approved budget
- Verifying activities are meeting program objectives
- Procuring goods and services properly
- Monitoring subrecipient activity

Financial Management and Reporting

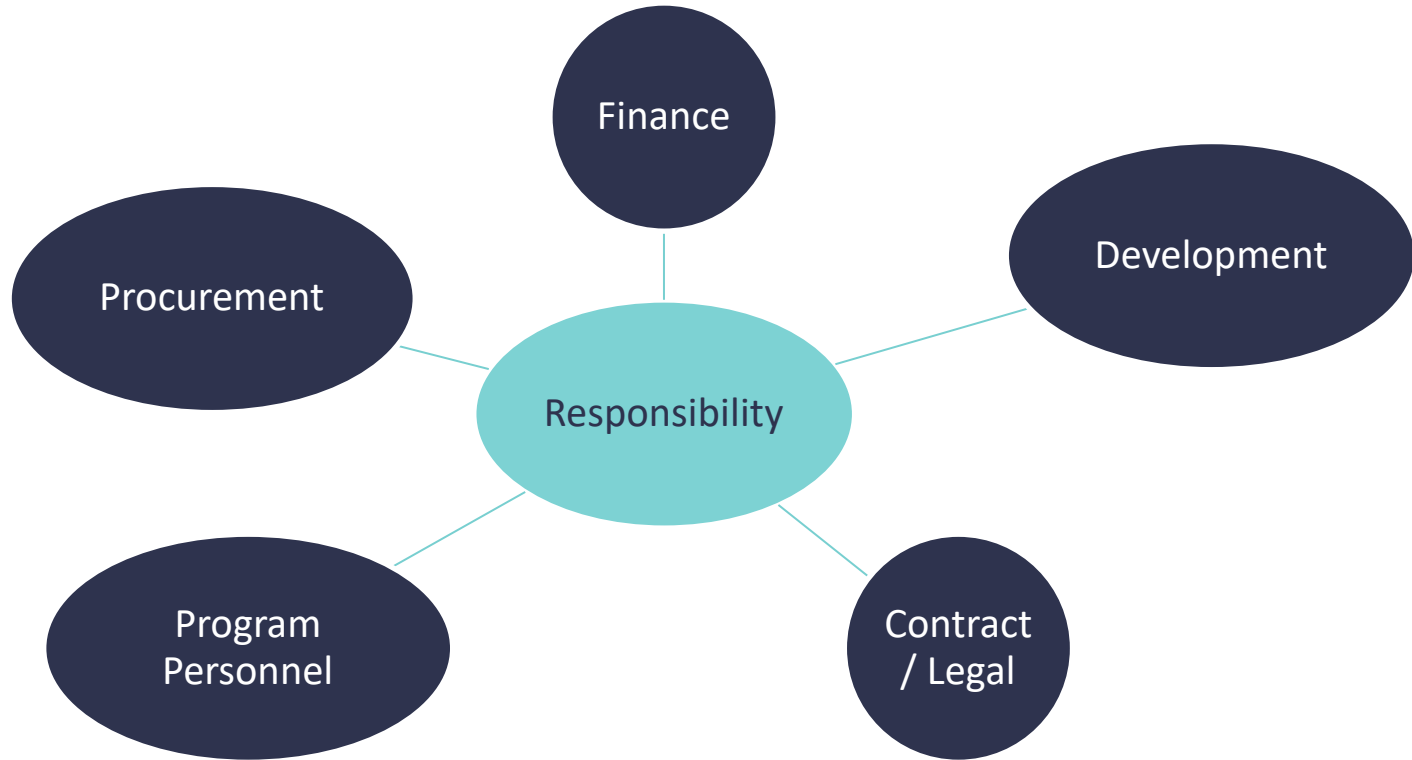
- Maintaining current financial records to meet reporting and audit requirements
- Tracking detailed budget, expenses, and revenues adequate for reporting



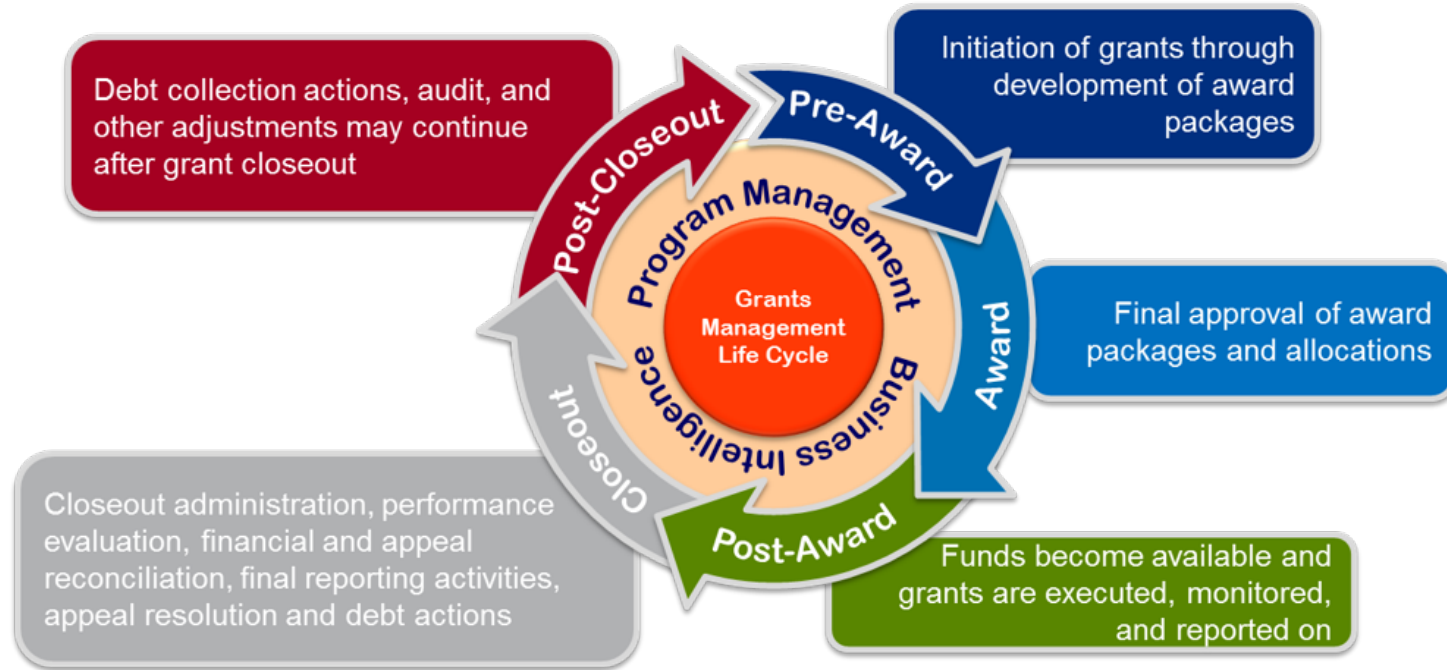
Why is Grant Compliance important?



Who Is Responsible for Grant Compliance?



When is Grant Compliance important?





Sources of Grant Compliance Requirements



Sources of Grant Compliance Requirements



2 CFR Part 200 Uniform Guidance



Statutory and National Policies



Other Agency Federal Regulations



State Statutes / County Code / City Ordinances



Terms and Conditions of Awards

Agency Regulation Example

U.S. Department of State Award Provisions



During the period of performance, the Recipient must comply with:

- The Award Provisions below;
- The Department of State Standard Terms and Conditions for Federal Awards, which are incorporated by reference and made part of this Federal Award. Electronic copies containing the complete text are available at: <https://www.state.gov/m/a/ope/index.htm>
- The applicable sections of 2 CFR §200 and 2 CFR §600; and
- All assurances and certifications made during the application process.

Statutory and National Policy Requirements

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2 | 31 March 2017





Uniform Guidance Administrative Requirements



Uniform Guidance

Applicable to Federal Financial Assistance

Grants

Cooperative
Agreements

Other forms

Subawards

The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards – The Uniform Guidance



Uniform Guidance

Split into
6
subparts

Subpart A – Acronyms and Definitions

Subpart B – General Provisions

Subpart C – Pre Federal Award Requirements

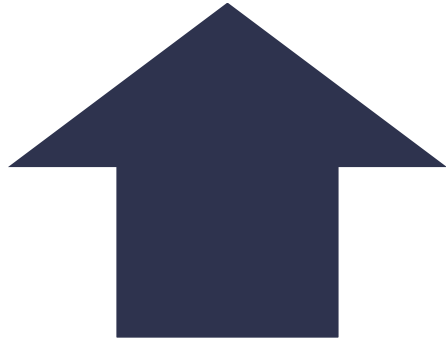
Subpart D – Post Federal Award Requirements

Subpart E – Cost Principals

Subpart F – Audit Requirements



Applicability of Compliance Requirements



Some compliance requirements are more general and same rules apply to all grants

- Cash Management
- Equipment Standards



Some compliance requirements are very grant specific

- Eligibility
- Special Tests and Provisions



Applicability of Compliance Requirements

Uniform Guidance (2 CFR Part 200) has overarching requirements

Grant agreement and documents will include specifics

Matching Requirement must be from verifiable source and valued correctly

Example: Organization must contribute 100 volunteer hours for project





Proposed Uniform Guidance Revisions – OMB’s 5-year Review Cycle

Uniform Guidance Revisions, Redline 2023 version:
[https://www.cfo.gov/assets/files/Uniform%20Grants%20Guidance%20Revisions%20-%20Redline%20\(2023\).pdf](https://www.cfo.gov/assets/files/Uniform%20Grants%20Guidance%20Revisions%20-%20Redline%20(2023).pdf)



OMB's Proposed Revisions and Updates to the Uniform Guidance

Highlights (Comments Were Due 12/3/2023)

Increase thresholds

- Increase de minimis indirect cost rate from 10% to 15%
- Increase value of a capital expenditure (real property or equipment) from \$5K to \$10k
- Increase single audit threshold from \$750k to \$1M
- Increase in the subaward exclusion threshold from \$25K to \$50K modified total direct costs base

Reduce agency and recipient burden

- Remove 10 items from the prior written approval requirements (real property, equipment, direct costs, entertainment costs, exchange rates, memberships, participant support costs, selling and marketing costs, and taxes)
- Provides allowability for charging close-out costs to the award

Use of plain-language principles

- Replace “non-federal entity” with “recipient” or “subrecipient”
- References systems of record like SAM.gov, Grants.gov and USASpending.gov instead of “OMB designated government-wide systems”





Time and Effort Reporting



Time and Effort Reporting

Charges must be **based on records that accurately reflect the work performed** and must:

Be supported by a system of internal controls which provides reasonable assurance that the charges are accurate, allowable and properly allocated

Reasonably reflect the total activity for which the employee is compensated

Comply with the established accounting policies and practices of the non-federal entity

Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award



Time and Effort Reporting

- Verify that the amount charged to the federal grant can trace back to payroll records for proportionate amount of total worked
- i.e., If employee works a 50-hour work week, with 10 hours spent on the grant
 - 20% of payroll charges for that week can be charged
 - Not 10 hr. X hourly rate based on 40 hrs. a week / 2080 a year



Time and Effort Certification Example

ORGANIZATION NAME		
Effort of Certification Report		
Name:	_____ Joe Smith _____	
Emplid:	_____ 22858 _____	
Title:	_____ Program Director _____	
Time Period:	_____ May 2022 _____	
Activity: _____	Project Code: _____	Effort (%) of Hours
Right of Way Initiative	50	75%
Administrative Work	100	25%
	TOTAL (Must Equal 100%)	
<i>I certify that this a true and correct report of the actual hours I worked during this period.</i>		
Print Employee Name:	_____	
Employee Signature:	_____	Date: _____
<i>I certify that I have suitable means to verify all effort or time of this individual. I certify further that, to the best of my knowledge, the effort or time indicated on this report reasonably reflects the actual effort of this individual.</i>		
Print Supervisor Name:	_____	
Supervisor Signature:	_____	Date: _____





Subrecipient Monitoring



Subrecipient Monitoring and Management (200.330-332)



Subaward is for the purpose of carrying out a portion of a federal award and creates a federal assistance relationship



Subrecipient: determines eligibility, has performance measured in relation to objectives of program, has responsibility for programmatic decision making; and uses the Federal funds to carry out a program for a public purpose



Subrecipient Monitoring and Management (200.330-332)



Contract is for the purpose of obtaining goods and services for the non-federal entity's own use and creates a procurement relationship



Contractor: Provides the goods and services normally, provides similar goods or services to many different purchasers; provides goods or services for the benefit of the pass-through entity



Subrecipient / Contractor Determination

- All characteristics need not be present
- Judgment should be used in the determination process
- Substance of the agreement is more important than the form



Subrecipient Monitoring (200.330-332)

Subaward must contain specific information as outlined in UG



Federal Award
identification
(see next slide)



Requirements so
that federal award
is used in
accordance with
terms and
conditions of
original federal
award



Description
of
performance
or financial
reports due



Indirect cost rate –
either an approved
rate, negotiated rate,
or de minimis rate



Appropriate
terms and
conditions
concerning
closeout of the
subaward

Required Information for Subaward

- Subrecipient name and unique entity identifier
- Federal Award Identification Number (FAIN)
- Federal Award Date of award to the recipient by the Federal agency
- Subaward Period of Performance Start and End Date
- Amount of Federal Funds Obligated by this action by the pass-through entity
- Total Amount of Federal Funds Obligated by the pass-through entity including the current obligation



Required Information for Subaward (Continued)

- Total Amount of the Federal Award committed by the pass-through entity
- Federal award project description
- Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity
- Assistance Listing Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the assistance listing number at time of disbursement
- Identification of whether the award is R&D
- Indirect cost rate for the Federal award



Subrecipient Monitoring

Pass-through entities must evaluate each subrecipient's risk of noncompliance by performing a risk assessment

- Prior experience
- Results of previous audits
- New personnel or new or substantially changed systems
- Extent and results of Federal awarding agency monitoring



Subrecipient Monitoring

Risk Assessment should be documented

Subrecipient Risk Assessment Matrix Example:
<http://claconnect.com/Nonprofit/Uniform-Grant-Guidance-Workbook-Subrecipient-Risk-Assessment.aspx>

Results of risk assessment determine what type of monitoring should be performed on subrecipient



Subrecipient Monitoring

Pass-through entities
must monitor
activities of the
subrecipient:

Reviewing financial and
programmatic reports

Verify that audit is being
performed (if necessary)
and following up on audit
findings and deficiencies

Issuing management
decision on audit findings



Subrecipient Monitoring

Additional monitoring tools that may be used depending on risk assessment of sub-recipient:

Providing training and technical assistance

On-site reviews of program operations

Arranging for agreed upon procedures



Subrecipient Monitoring

- Use checklist or matrix to verify that all monitoring activities are being completed timely
- Search for Single Audit reports in Federal Audit Clearinghouse - <https://www.fac.gov/> (new website effective Oct. 2023!)
- Can search for older single audits (pre 10/1/23 reports) at: <https://facdissem.census.gov/>





Procurement



Procurement (200.317-326)

Organizations Must:

- Engage in full and open competition
- Keep procurement records that detail the history of all procurements, not just those over small purchase threshold
- Have written Procurement Policies in accordance with UG requirements



I – Procurement §200.318(H)

Organizations
must award
contracts only
to responsible
contractors:

Contractors must possess the ability to perform successfully under the terms and conditions of a proposed procurement

Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources



Individual Conflict of Interest (200.318(C)(1))

Need to have documented policy stating that:

No

- employee,
- officer,
- member of governing board, or
- agent, advisor, consultant, attorney, accountant, or shareholder

may participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest.



Procurement (200.318)

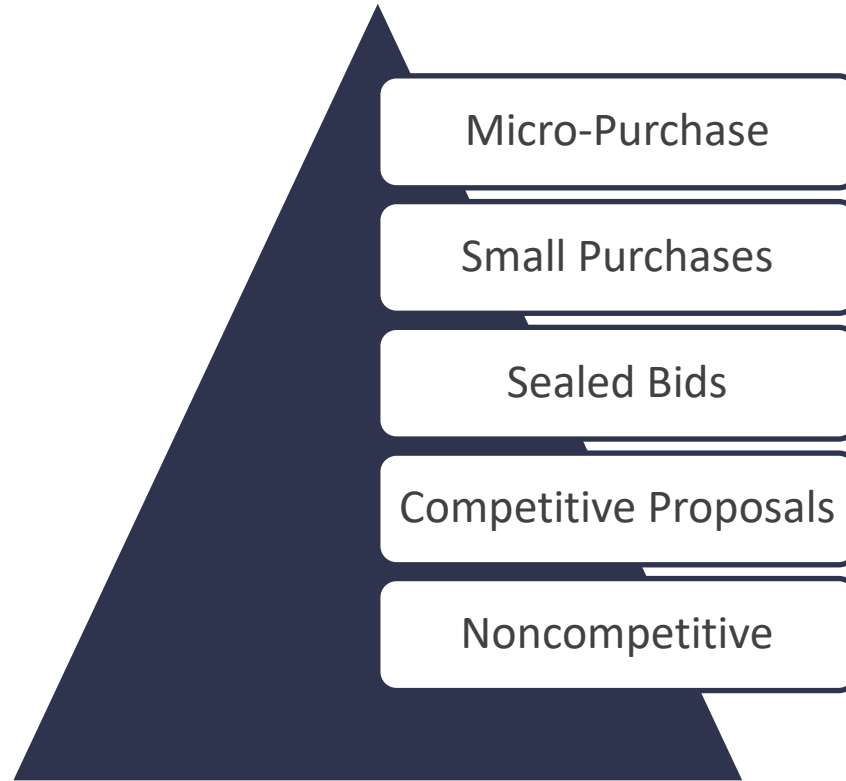
Organizational conflicts of interest means that because of relationships with:

- a parent company,
- affiliate, or
- subsidiary organization,

the non-Federal entity is unable or appears to be unable to be impartial in conducting a procurement action involving a related organization.



Allowable Procurement Methodologies (200.317-326)



Cost or Price Analysis (200,324)

Non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold (\$250,000) including contract modifications

Price analysis strategy identifies the best price, which requires performing a marketplace competition comparison.

Cost analysis, a more complex process, is a thorough assessment of the direct and indirect costs leading to the final price of the product or service

*Need to get a breakdown of cost from vendor



Suspension and Debarment

Checks for contracts over \$25,000 should be made on the EPLS site –
(www.sam.gov)



Or add in the clause in the procurement contract



Keep documentation



Best practice recommendation is to do this on every procurement with federal funds!





Internal Controls over Compliance



Internal Control Framework

It is crucial that organizations have the proper framework for internal control to verify that:

Grant resources are being utilized effectively and efficiently

Assets purchased or developed with grant funds are being safeguarded properly

Financial reporting required by these grants is accurate and timely

Grant resources are being utilized in compliance with appropriate laws and regulations



Internal Controls

Organizations will need to exercise judgment in determining the most appropriate and cost-effective internal control in a given circumstance



COSO Framework Image



Internal Control Questions

- Control Environment
 - What is management's attitude about internal control?
- Risk Assessment
 - How did you determine that (control activity) was necessary to verify compliance?
- Control Activities
 - How are you certain your organization is in compliance with (insert specific compliance requirement)?
- Monitoring
 - What is the process used to enhance the (control activity) is performed correctly and consistently?
 - Auditors cannot be part of the auditee's internal controls!
- Information and Communication
 - How and when do you notify people the (control activity) is required?



Internal Control Examples

- Allowable Use of Funds and Period of Performance
 - Site coordinators purchase goods and services for grant purposes
 - Program Manager approves all purchases prior to being paid and recorded

- Cash Management:
 - Accounting professional prepares the invoice for reimbursement request
 - Director of Finance reviews and approves



Internal Control Examples

- Eligibility
 - Site coordinator completes participant intake form
 - Program Director reviews and signs form

- Property and Equipment
 - Program Director takes annual inventory of property and equipment purchased with federal funds
 - Accounting Professional reconciles with accounting records



Internal Control Examples

- Procurement
 - Finance department solicits bids for service
 - Board reviews and approves bids over \$150,000

- Reporting
 - Financial Reports:
 - Accounting Professional prepare monthly report based on G/L detail, Program Director and Director of Finance review and approve
 - Performance Reports:
 - Program Director prepares quarterly report, Executive Director reviews and approves





Grants Management Best Practices



Grants Management Challenges



Complex requirements, regulations, and reporting standards for each grant program



Challenging process and workflow management, particularly when multiple departments are involved



Time consuming manual updates and data entry with challenging resource constraints

Grant Compliance Program

- 1 Read through grant agreement for terms and conditions
- 2 Identify compliance requirements
- 3 Verify proper internal controls over compliance
- 4 Document policies and procedures
- 5 Utilize tools and checklists
- 6 Obtain proper training



Documenting Policies

Key to an effective grants management program is ensuring that proper policies and procedures are in place and documented

The reasons for this are twofold:

Internally, they can provide clarity and instruction to those involved in grant management

Externally, they can show either current or potential funding agencies that your organization has a program in place to ensure full compliance



Required Policies

Allowable
Use of Funds
Policy

Payment and
Billing Policy

Procurements
Standards
Policy



Best Practice Policies

Financial
Management
Systems Policy

Internal Controls
over Compliance
Policy

Cost Sharing and
Matching Policy

Program Income
Policy

Budget and Program
Revisions Policy

Property and
Equipment
Standards Policy

Monitoring and
Reporting

Subrecipient
Procedures Policy

Record Retention
Policy

Grant Proposal Policy

Grant Award
Acceptance Policy

Grant Closeout Policy



Policy Review and Revisions

Designate key individual or team to monitor your policies over federal programs

Regularly review policies for compliance and educate employees on changes to policies
(Encourage open dialogue regarding questions and decision making)

Make sure policies are easily accessible for all employees involved and they know that they are responsible for reviewing these



Checklists

Develop checklists for all aspects of the grant process, such as:

Grant application process

Preparation for the single audit

Subrecipient risk assessment and monitoring

Submission of financial and program reports

Grant close-out



New Award Checklist

- Read your entire award package – Grant and Program Managers
- Award Notice - (It is important to review the details)
 - Grantor
 - Award Number
 - Amount Of This Award
 - Budget
 - Award Dates
 - Program Type
 - Program Manager




New Award Checklist (Continued)

- Agreement

- Budget Restrictions
- Project Requirements
- Federal Appropriations
- Cost Share Requirements - Set up and track
- Equipment
 - Must be properly recorded as an asset
- Costs Allowable/Not allowed - review with Program Manager
- Reporting Requirements (Labor hours, receipts, cost share, etc.)
 - Must submit any necessary back-up documentation to Fiscal Manager
- Reporting Deadlines (Interim/ Final Financial and Technical)
- Regulatory Compliance Issues
- Technical Tanks and Deliverables
 - Must be within the project period



Uniform Guidance Checklist Example:

		
Grant Reform and Uniform Guidance Planning and Implementation Checklist		
<small>For those topics that have expanded information indicated, click on the hyperlink to the "Additional Guidance" tab.</small>		
<small>For those cell that have red triangles in the top right corner, hover over the cell to view the additional guidance in the comment.</small>		
	Action Item	Date Completed / Expected Completion Date
29	Subpart D — Post federal Award Requirements Note: This includes all requirements, not just those changes from old guidance	
30		
31		
32	Standards for Financial and Program Management (Sections 200.300 - 309)	
33	1) Performance measurement — Reports will now have a comparison of actual accomplishments to the objectives of the federal award, and if needed, include reasons why goals were not met. Also, nonfederal entities now must provide cost information to demonstrate cost-effective practices.	
34	a) Has your organization discussed with the federal awarding agency which performance goals, indicators and milestones will apply for your grants?	
35	b) Has performance reporting frequency and content been determined to ensure proper reporting?	
36		
37	2) Financial management — Does your organization's financial management system, including records documenting compliance:	
38	a) allow for the preparation of reports required by general and program-specific terms/conditions?	
39	b) allow for the tracing of funds to a level of expenditures to show that they have been used according to the terms/conditions/regulations?	
40	Link for the characteristics your financial system must have in order to meet the above requirements.	
41		
42	3) Internal controls	
43	a) Has your organization established and maintained the most appropriate and cost-effective internal controls over federal awards to ensure compliance with regulations and the terms/conditions of awards?	
44	b) Has your organization considered the <i>Internal Control Framework issued by the Committee on Sponsoring Organizations (COSO)</i> and the <i>Standards for Internal Control in the Federal Government (Green Book)</i> issued by the Comptroller General as best practice	
45	c) Do you have internal controls and procedures in place to take prompt action when noncompliance issues are identified, including noncompliance related to audit findings?	
46	d) Has your organization made reasonable measures to safeguard protected, personally identifiable information (PII) and other sensitive information?	
47	e) Has your organization had discussions, provided trainings, and had organization-wide considerations to verify that effective internal controls have been established and maintained over federal awards to provide reasonable assurance that awards are being managed in compliance with laws and regulations?	
48		

<https://www.claconnect.com/resources/articles/clas-uniform-grant-guidance-checklist-streamlines-implementation>



Documentation of Compliance: Example

- CLA's “**Program Understanding and Internal Control Workbook**” for each grant agreement
- <https://www.claconnect.com/resources/tools/2017/grant-program-workbook-understanding-your-grant-compliance-and-internal>

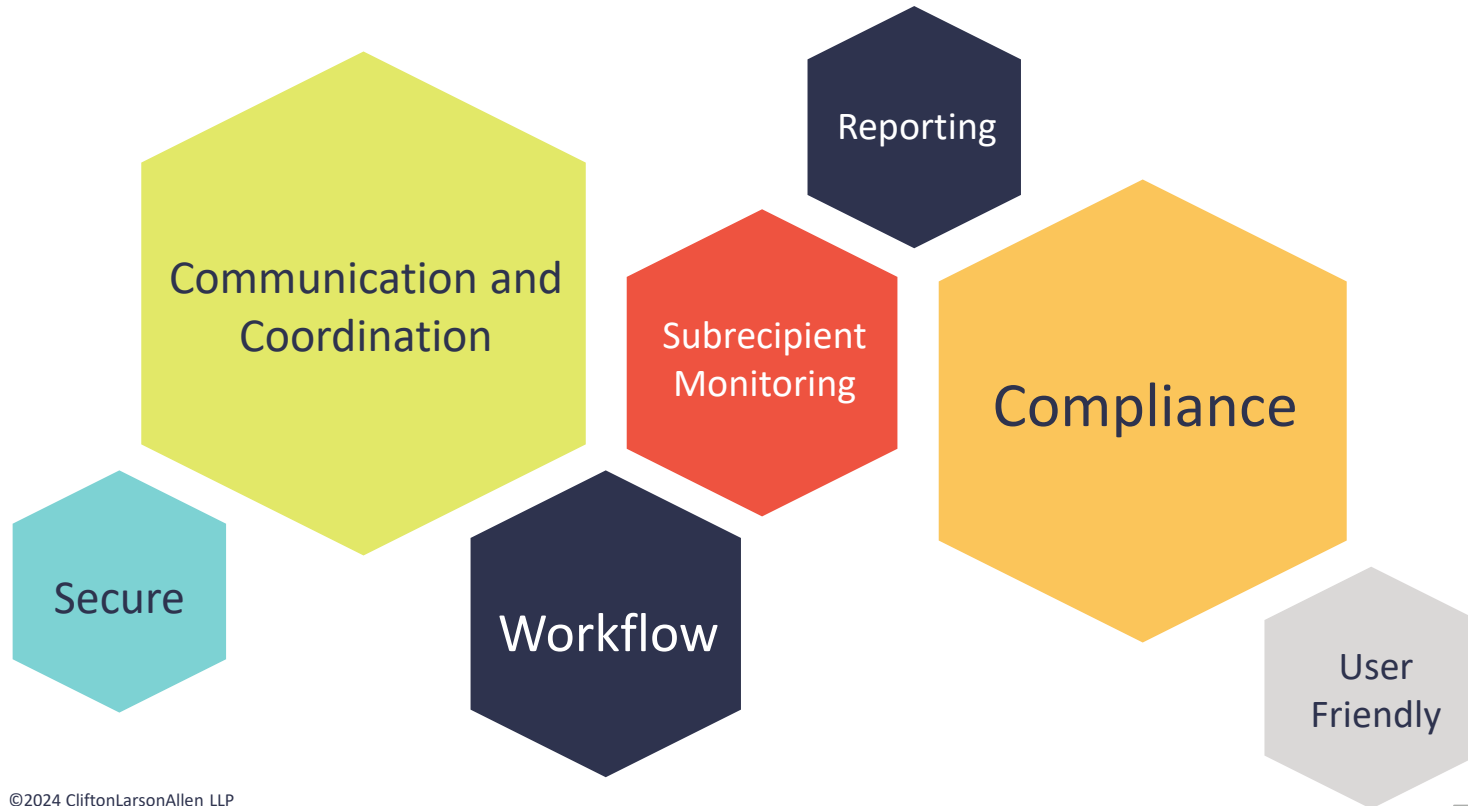


Program Understanding and Internal Control Workbook

A	B	C	D	E	F	G	H
Grant Summary							
This tab should be completed for each grant within the program. If additional tabs are needed, copy into the worksheet.							
Grant information coversheet							
Program title				Passed through			
Contract number(s)				CFDA number			
Granting period				Revenue account			
Program managers							
Grant agreement understanding							
Instructions for additional grants							
		Date of agreement		Applicable regulation		Amount	
Initial grant agreement:						\$ -	
Amendment #1:						\$ -	
Amendment #2:						\$ -	
Amendment #3:						\$ -	
Total amount of grant:						\$ -	
Grant budget							
		Budget		Actual		Variance	
Salaries and benefits		"ABH Allowable CostsAct, Avail" tab		\$ -		\$ -	
General disbursements		"I. Procurement & Debarment" tab		\$ -		\$ -	
Equipment purchases		"E. Equip & Prop Mgmt" tab		\$ -		\$ -	
Loan distributions		"J. Program Income" tab		\$ -		\$ -	
Payments to program participants		"F. Eligibility" tab		\$ -		\$ -	
Subrecipient payments		"M. Subrecipient Monitoring" tab		\$ -		\$ -	
Indirect costs		"A. Allowable Costs & Activities" tab		\$ -		\$ -	
Total grant budget		\$ -		\$ -		\$ -	
Check figure (should be zero)							
Other questions							
		Response		If your response is "yes," then please click on the following:			
1. Are grant funds received on an advance basis?				"C. Cash Management" tab			
2. Are grant funds received on a reimbursement basis?				"C. Cash Management" tab			
3. Is a match (cost sharing) required?				"G01. Matching" tab			
4. Are there specific earmarking requirements for this program? (i.e., no more than 10 percent of funds may be used to cover admin costs)				"G03. Earmarking" tab			
5. Is program income collected for the federal program (i.e., tenant rent, fees, donations)?				"J. Program Income" tab			
6. Are there specific financial/performance reporting requirements for the grant?				"L. Reporting" tab			
7. Are there additional special provisions applicable to the grant program?				"N. Special Provisions" tab			
8. Has the compliance supplement for this program been reviewed for additional requirements?							
Client Instructions		PUM		Grant Summary		COSO Framework	
ABH. Allowable CostsAct, Perf		C. Cash Management		E. Eligibility		F. Equip & Real Prop Mgr	



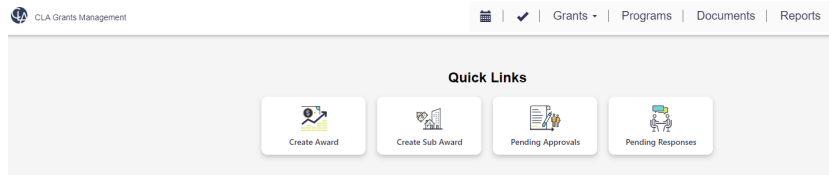
Consideration of Digitalization and Automation Around Grants Example: CLA Grants Management Strategy



Grants Management Strategy Overview

More details and complimentary grants management guide

<https://www.claconnect.com/en/industries/state-and-local-government/grants-management-software>

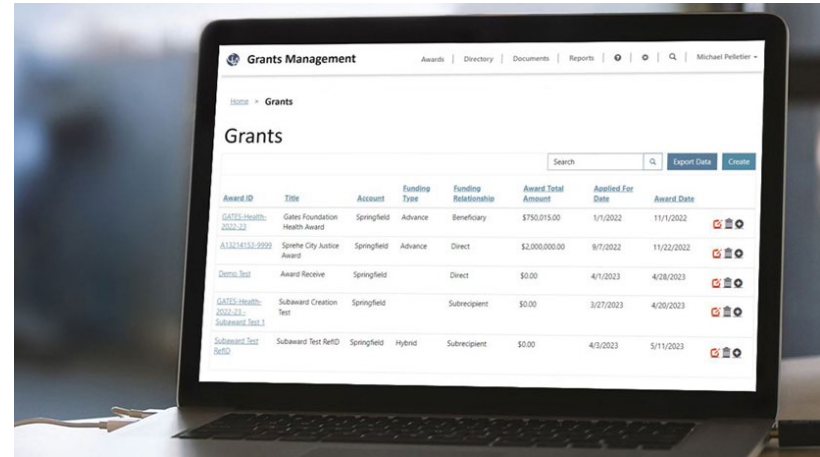


Grant Module

- Document pertinent grant attributes
- Map general ledger to grant reporting categories
- Create custom task lists and reporting deadlines
- Track multiple contracts

Additional Features

- Financial tracking – internal/external
- Report schedule monitoring
- Workflows



CLA Grant Compliance Resource Center

American Rescue Plan Act – Evaluating the Impact on States and Governments

Manage Your Federal Grant Costs During COVID-19

SEFA Prep:
3 Tips to Avoid Errors and Verify Accurate Federal Reporting

FEMA Disaster Relief Grants: Know the Program Requirements

Four Key Considerations for Complying With Uniform Guidance Procurement Rules

Compliance and Documentation:
Cornerstones of Effective Grants Management

Achieve Compliance with Proper Grant Management

CLA's Uniform Guidance Workbook Helps with Subrecipient Risk Assessment

CLA's Uniform Guidance Checklist Streamlines Implementation

Automating Accounting and More:
How Technology is Revolutionizing Government

OMB's Compliance Supplement Can Make Your Single Audit Easier

The Hidden Costs of Grant Noncompliance for Governments

<https://www.claconnect.com/resources/tools/resources-to-ease-the-burden-of-grant-compliance>



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We'll get you there.

CPAs | CONSULTANTS | WEALTH ADVISORS

Twenty Minute Break



We'll get you there.

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Monetizing Clean Energy Tax Credits from the Inflation Reduction Act and Other Compliance updates

Denver Government and Nonprofit Training Academy

March 26, 2024



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Learning Objectives

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

- Describe the various tax credit opportunities created by the IRA
- Recall how credit refunds and transfers operate under the IRA
- Describe the latest legal and regulatory updates under the IRA
- Identify how to plan for clean energy investments within your agency or entity
- Recognize grant opportunities for local governments included in the IRA and Infrastructure Law





The Inflation Reduction Act



IRA Snapshot

Creates and modifies a number of renewable energy credits as well as financing programs

Creates new monetization options for tax-exempt and taxable entities

Section 6417 provides an elective pay option (i.e., cash refund) for:

- Tax-exempt organizations
- State and local governments
- Tribal governments
- Rural electric cooperatives

Section 6418 provides a transferability option for for-profit organizations

- Taxpayers can buy and sell credits for cash

IRS portal launched in Dec. 2023 → registration is live

Treasury and IRS have released some guidance, but more to come



Refundable/Transferable Credits

§30C Alternative fuel vehicle refueling property credit

§45 Electricity produced from certain renewable resources, etc.

§45Q Credit for carbon oxide sequestration

§45U Zero-emission nuclear power production credit

§45V Credit for production of clean hydrogen

§45W Credit for qualified commercial clean vehicles (elective pay only)

§45X Advanced manufacturing production credit

§45Y Clean electricity production credit

§45Z Clean fuel production credit

§48 Energy credit

§48C Advanced energy project credit

§48E Clean electricity investment credit



Opportunities for SLGs & Nonprofits



New building construction and renovations



Fleet electrification and charging infrastructure



HVAC improvements



Solar panel installations



Pricing leverage for Section 179D allocations



Capital project forecasting





Specific Credit Opportunities



Section 48 Energy Investment Tax Credit

Tax credit for a percentage of the cost of placing specified energy property into service

Base credit rate is 6%

30% if less than 1 megawatt

Applies to:

- Solar
- Wind
- Biogas
- Geothermal
- Energy storage property
- Combined heat and power systems
- Microgrid controllers
- Electrochromic glass



Section 45 Production Credit

Per kWh credit for production of electricity from renewable sources

Rates vary depending upon energy source

Prevailing wage and other bonus credits available

Applies to:

- Solar
- Wind
- Municipal solid waste
- Geothermal
- Biomass
- Hydroelectric



Section 30C Alternative Fuel Refueling Credit

Credit Amount

- 6% of the cost of any single item of qualified property not meeting prevailing wage, up to \$100,000
- 30% of the cost of qualified property if prevailing wage is met, up to \$100,000

Basis and Recapture

- Basis in property must be reduced by amount of the credit
- Basis does not include any property expensed under Section 179
- Recapture required if property ceases to be qualified property



Section 30C Cont'd

Qualified property

- Property used for the storage or dispensing of alternative fuel into the fuel tank of a motor vehicle propelled by that fuel
- Includes fuel tanks, pumps, and other property used to transfer fuel

Alternative Fuels

- Electricity
- At least 85% of its volume consists of one or more of the following:
 - Compressed natural gas
 - Liquified natural gas
 - Liquified petroleum gas
 - Natural gas
 - Hydrogen
 - Ethanol



Census Tract Requirements

- Effective 1/1/23, qualified property must be installed in locations that meet the following census tract requirements:
 - The census tract is not an urban area
 - A population census tract where the poverty rate is at least 20%;
or
 - Metropolitan and non-metropolitan area census tract where the median family income is does not exceed 80% of the state median family income level



Section 45W Clean Vehicle Credit



Applies to clean commercial vehicles and mobile machinery acquired or leased after 2022 and before 2033



Credit equals the lesser of:

- 15% of the vehicle's basis (30% if fully electric) or
- Incremental cost of the vehicle



Max credit is:

- \$7,500 for vehicles less than 14,000 GVWR, and
- \$40,000 for all others





Bonus Credits



Prevailing Wage and Apprenticeship

Increases the base credit by 5X generally

A prevailing wage is a wage the federal government requires to be paid by contractors to workers under the Davis-Bacon Act

Hourly wage plus overtime and benefits as set by the Department of Labor based on the locality where the construction, alteration, or repair is being performed

Apprentices must work a certain percentage of the total labor hours depending on when construction of begins



Domestic Content Bonus

- Projects are eligible for an additional bonus credit of 2% (10% if 5X multiplier applied) if the following conditions are met:
 - 100% of any steel or iron that is a component of the facility is manufactured in the United States
 - Not less than 40% of the manufactured components of the facility are manufactured in the United States

100% of steel and iron
produced from the US

At least 40% of
manufactured
components produced in
US



Energy Communities

- Projects are eligible for an additional bonus credit of 2% (10% if 5X multiplier applied) if the facility is located in any of the following:
 - A brownfield site
 - An area that:
 - Has (or, at any time during the period beginning after December 31, 2009, had) 0.17% or greater direct employment or 25% or greater local tax revenues related to the extraction, processing, transport, or storage of coal, oil, or natural gas, or
 - Has an unemployment rate above the national average for the previous year, or
 - Has a census tract or a census tract that is adjoining a census tract in which a coal mine has closed after 1999 or a coal-fired electric generating unit was retired after 2009



Low-Income Communities



Project is built in a low-income community as defined by the New Markets Tax Credit or on Indian Land can receive an increased tax credit of 10%



Project associated with a low-income residential building project, or a low-income economic benefit project, can receive an increased tax credit of 20%

Credit Rate Tables

Category	Amount* for Projects less than 1MW _{AC} (Cumulative)	Amount* for Projects greater than 1MW _{AC} (Cumulative)
Base Tax Credit	ITC: 30% PTC: 2.75¢/kWh	ITC: 6% PTC: 0.5¢/kWh
Wage & Apprenticeship Requirements (Requires a percentage of total labor hours performed by qualified apprentices)	ITC: N/A PTC: N/A	ITC: +24% PTC: +2.25¢/kWh

www.epa.gov/green-power-markets/summary-inflation-reduction-act-provisions-related-renewable-energy



Credit Rate Tables Cont'd

Category	Amount* for Projects less than 1MW _{AC} (Cumulative)	Amount* for Projects greater than 1MW _{AC} (Cumulative)
Domestic Content Minimums (% attributable to U.S. Manufactured Products)	ITC: +10% PTC: +0.3¢/kWh	ITC: +10% PTC: +0.3¢/kWh
Siting in Energy Community ex. Brownfield site, area related to mining operations)	ITC: +10% PTC: +0.3¢/kWh	ITC: +10% PTC: +0.3¢/kWh
Siting in Low-Income Community or on Indian Land (<5 MW _{AC})	ITC: +10% PTC: N/A	ITC: +10% PTC: N/A
Qualified Low-Income Residential Building Project or Economic Benefit Project	ITC: +20% PTC: N/A	ITC: +20% PTC: N/A

www.epa.gov/green-power-markets/summary-inflation-reduction-act-provisions-related-renewable-energy





Credit Monetization



Claiming Direct Payments

Pre-filing registration

- Must be completed prior to filing the tax return where a direct pay election is made
- IRS is advising a minimum of 120 days to process registrations
- Must provide certain information about organization, the credits you intend to claim, and details regarding the property giving rise to the credit
- A registration number will be issued that will be required when making the election on tax return
- IRS will issue a separate registration number for each applicable credit property

Making the election on a tax return

- Must be made on a timely filed return (including extensions) → cannot be made on an amended return
- Must be filed on Form 990-T by due date along with:
 - Form 3800 (General Business Credit)
 - Applicable credit form and registration info from above
 - State and local governments that do not file a tax return will need to file a Form 990-T for this limited purpose
 - Final regs allow SLGs to elect a calendar year for Form 990-T purposes.





Section 179D Deduction Allocations



Section 179D Energy Efficient Building Deduction

How it works

- Per square foot deduction for the construction or renovation of energy efficient buildings
- Sliding scale up to \$5.00 per sq. ft. if prevailing wage/apprenticeship requirements are met
- Based on ASHRAE energy efficiency standards
- Buildings must be modeled and certified by third-party engineer

Opportunity for SLGs and Nonprofits

- Deduction can be allocated to designers of building systems (often this will be the architect)
- Allocation process is simple (standard letter template)
- Could mean indirect benefit to through pricing negotiations
- Plan for it during bid and proposal phase of projects





Other Compliance Updates



Ongoing Initiatives / Updates

Worker Classification

Information Return E-file Mandate

- Applies to most 2023 filings
 - Instructions not clear
- Treasury Decision 9972
- 26 CFR § 301.6011-2 - Required use of electronic form.

Technical Guide (TG 48) Unrelated Business Income Tax – Updated 12/15/23 (Publication 5894)

Remote Workforce



Payments for Services

Employee / Independent Contractor Determination - IRS

Who is being paid?

What service is being provided and is it related to your core mission?

Who is providing the service?

- Student, faculty / staff, unrelated third party

Are there others in similar employment roles providing a similar service?

Who is determining fee or wage?

Is the payee economically dependent on your institution and what is the duration of the contract?

Does the “contractor” have clients other than your institution, and do they hold themselves out as a business?



Payments for Services

Employee / Independent Contractor Determination - DOL

On January 10, 2024, the DOL published a final rule on the analysis classifying employees or independent contractors.

This is an update to the previous rule from 2021 and goes into effect March 11, 2024.

As stated by the DOL, the rule “modifies Wage and Hour Division regulations to replace its analysis for determining employee or independent contractor classification under the Fair Labor Standards Act (FLSA or Act) with an analysis that is more consistent with judicial precedent and the Act's text and purpose.”



Payments for Services

Employee / Independent Contractor Determination

Department of Labor	Previous IC Rule (2021)	New IC Rule (2024)
Test used	Five-factor economic reality test	Six-factor economic reality test
Analysis of classification	<p><u>Core factors</u> Relative weight of factors is measured</p> <p>Nature and degree of control over the work and the worker’s opportunity for profit or loss.</p> <p>If the two core factors pointed toward the same classification, there was a “substantial likelihood” it was the worker’s accurate classification.</p>	<p><u>Totality-of-the-circumstances</u> Factors do not have a predetermined weight and no one factor is dispositive.</p> <p>Considering the factors as a whole, the worker is not likely to be an independent contractor <u>if the worker is economically dependent on an employer for work.</u></p>
Business impact	<p>Business friendly Ability to classify as independent contractors based on less factors that implied classification.</p>	<p>Employee friendly When test is applied, consideration of all factors helps to protect employees from misclassification.</p>



Remote Workforce

Pre and Post Pandemic workforce expectations

Hybrid versus remote

Budget implications

Develop or update related policies and procedures

- How is eligibility determined?
- Schedule
- Home office reimbursement
- Travel / per diem

How do you know where your employees are working?

How do you track where they are working?



Other Compliance Areas

Sales Tax

Alternative
investments
(Partnerships and
S-Corp interests)

Unrelated Business
Income

“Foreign”
Exposure and
Nexus (out of state
and of U.S.)

Payroll taxes

Fringe Benefits

Information
Returns

Nonresident Alien





IRS Audit Activity

Recent IRS Audit Activity



Exemption Issues

In determining whether you comply as an organization described in Section 501(c)(3), it is necessary to review your internal controls. Therefore, please provide responses to the following questionnaire and mail them by the stated due date in an electronic format.

1. Describe your internal control structure. **Does your organization:**
2. Use an annual budget or financial plan?
3. Analyze budget variances and report to the Board?
4. Provide monthly income statements to the Board?
5. Provide monthly balance sheets to the Board?
6. Require Board approval of non-budgeted expenses?
7. Require Board approval of checking account signatory's?
8. Use accounting procedure and policy manuals?
9. Require internal audits or performance reviews?
10. Use computer access passwords or security checks?
11. Require multiple signatures and dollar limits for checks?
12. Require independent (external) financial audits?
13. Provide cash payments for expenses or disbursements?
14. Reconcile all bank accounts on a monthly basis?
15. Deposit all receipts in a financial institution?
16. Provide lock and key security for unused checks and drafts?
17. Perform periodic checks for compliance with Federal, State, and local laws, regulations and legal requirements?
18. Restrict access to accounting files and records?
19. Follow record retention and file purge procedures?



Exemption Issues

For all
Your
activities
and
programs:

- a. Please list all your activities and programs.
- b. A detailed description of each of your activities conducted in 2019.
- c. An explanation of how each activity furthered your exempt purpose.
- d. What percentage of your time and resources were spent on each activity.



Financial Statement Deep Dive

The following additional information is needed to complete the examination of your organization's Form 990, *Return of Organization Exempt from Federal Income Tax*, for tax year ending 12/31 /2019. Please have the following information ready for review on 11 /2/2023 and 11 /3/2023.



How much detail do you think they asked for?



Financial Statement Deep Dive

1. Copies of the invoices, bills and all the supporting documents for the selected items. (30 transactions)

2. For the selected 6 transferred amounts, please provide the following information:

- a. Bank statements for each transfer which show the account number and date of the transfer.
- b. Deposit slips.
- c. Copies of the checks.

3. The revenue, expenses, assets and liabilities you report on your Form 990 are not reconciled to the financial information on your bank statements), please provide a reconciliation work paper with the explanation and all the adjustments you have made.

4. How was the retainer amount determined? What were the eligibilities to receive your eviction defense services and other services?

5. For the selected items below, please provide the following information:

- a. Copies of all the retainer agreements and the applications for the services.
- b. Any other documents indicate the clients' eligibilities to receive your services (if these eligibilities are not stated on the above retainer agreement.)



Payroll



- **Payroll records:** In order to reconcile your employment tax reported on Form 941, please provide the payroll records for each quarter including the following information: name, detailed calculation of the pay, etc.
 - a. For your attorneys (your employees), please include a list of the detailed breakdowns of their compensation (i.e. base pay, commission, award, etc.).



Employer Provided Vehicle

You stated in your response that you agreed that the employer-provided vehicle to Mr. Smith is a taxable fringe benefit. To demonstrate ownership of the vehicle and the date placed into service, please provide the following:

- The exact month, day and year, the vehicle was purchased and placed into service by XYZ, Inc.
- The exact month, day and year the vehicle was made available to Mr. Smith.
- Title and registration for the vehicle (showing make and model).
- State who is responsible for the repairs, gas, insurance, registration, etc. If XYZ, Inc. is responsible for any part of these expenses, please provide the expenses for 2019 and 2020. Also, include where they are located in the general ledger.



Commission

When did you start the commission pay system?

How long does a new attorney need to work before receiving his/her commission?

Does each attorney (including the president) receive same percentage of the commission?

- If not, how to determine the percentage of the commission?

For the commission fee paid to your attorneys (your employees) in 2019, please provide the following information: date, case name, detailed calculation of the fee, paid amount, etc.



Discounted Debt Loan

On your "Minutes for the annual meeting of the board of directors, Company X, Inc. (2019)", you state that "Thus, the Organization currently owes Mr. Smith a grand total of approximately \$1,125,198 in unpaid bonuses and deferred salary ... The Organization approves converting \$1,000,000 of the debt owed to Mr. Smith into a temporary loan from Mr. Smith to the Organization (the "Discounted Debt Loan") ... Effective January 1, 2020, the Organization approves interest payments to Mr. Smith on the Discounted Debt Loan, at a rate of 4.75% annually which is the current Fed Prime Rate without any additional points ... ". Please provide the following information:



Discounted Debt Loan



Has the Discounted Debt Loan of \$1,000,000 been reported on Mr. Smith's Form W-2, *Wage and Tax Statement*, in either 2020, 2021 , or 2022? If Yes, please provide his payroll records and copy of the Form W-2.



When did your organization start to repay the loan?



Please provide the payment schedules with the following information: date, principal amount, interest amount, balance amount, etc.



Bank statements and copies of the checks for the payments.



Employee / Independent Contractor

The following documents are requested for the examination of your organization's Forms 941 for tax periods ended March 31, 2021 through December 31, 2022. The following documents are being requested to verify correctness of Forms 941 filed and to determine if the following worker class: Officer-Treasurer was classified correctly. Please refer to the enclosed Publication 1976 *Do You Qualify for Relief Under Section 530?* Documents can be mailed or faxed. Mailed documents can be provided on a flash drive.

Information is being requested for the following worker class:

Officer / Treasurer



Employee / Independent Contractor

Provide detailed written description of job duties and responsibilities.

Approximate hours worked per week. If there is documentation of hours worked such as a schedule or calendar, provide copies.

Location of where the work is conducted.

Is the position year-round or seasonal? If seasonal, please specify what months.

What is the method of payment? (salary, hourly wage, commission, amount per event, stipend, percent of profit, etc.)

Is the worker eligible for benefits? If so, list the benefits such as health insurance, paid leave, pension plan,

How often are they paid? (weekly, bi-weekly, monthly, etc.)

To whom do they report?

Are they required to keep time sheets or other methods to report their time?

Are they reimbursed for expenses? What expenses are reimbursed and how is it documented?

What job training is provided to the worker?

What instructions are provided concerning the work to be done?

Do they submit written reports?

Who sets or determines their job schedule and assigns their work duties?

What supplies and equipment does the organization provide to the worker?

Is the worker required to bring their own supplies?

How long has the compensated person worked with your organization? (Months, years, etc.)

Provide copy of written job contract or agreement if applicable.

Does the worker make their services available to the public?



During the interview on 11/17/2023, you stated that the president was paid biweekly in 2019, please explain the followings:

i. How did you determine how much you want to be paid on your paycheck for each pay period? Did the Board need to approve this?

ii. How did you communicate with your payroll department or your accountant department for the amount you want to be paid? When?

iii. Please submit samples of the communication, if there's any, i.e. emails, memo, etc.

iv. How often did you communicate with your payroll department or your accountant department to make the change of your pay?

v. Please submit breakdowns of the president's payroll for each pay period in 2019.



Legislative & Political Activities

In determining whether you comply as an organization described in Section 501 (c)(3), it is necessary to review and clarify your activities with respect to legislative and political activities. Therefore, please provide responses to the following questionnaire and mail them by the stated due date in an electronic format.

Legislative

1. Do you urge either the public or your members to contact lawmakers regarding proposing, supporting or opposing specific legislation?
2. Do you make direct appeals to lawmakers concerning specific legislation, either in person or by letter?
3. Do you donate to or support other organizations, groups, or committees whose primary purpose is to engage in legislative or lobbying activities?
4. Do you provide information to the public or to your members concerning legislative issues?
5. Do you employ/contract with a professional lobbyist?

Political

1. Do you make donations to political campaigns or endorse political candidates?
2. Do you have a political action committee (PAC)?
3. Do you donate to any PAC funds?
4. Do you collect political campaign donations from your members or the public and remit them to a PAC?
5. Do you permit candidates to use your facilities, computers, employees, mailing or membership lists?
6. Do you provide non-partisan information about candidates to any persons or groups?
7. Do you conduct voter registration drives or promote voter participation in elections?
8. Do you allow political intervention, in that do you permit employees to disseminate information using company computers to email staff members and students encouraging or discouraging them to vote for particular candidates running for public office?



Unrelated Business Income



Campus Bookstore: You clarified in your previous response that non-student revenue, not sales from the public, represents 70%. You then stated that sales to the public represent 25% - 35%. For greater clarity, please provide the following for the years ending June 30, 2019 and 2020:

1. Worksheets that demonstrate how the “70%” of revenue was determined to be attributable to non-students.
2. Worksheets that demonstrate how the “25% - 35%” of revenue was determined to be from the public.
3. Provide total sales for snack items and non-snack items. Distinguish the sales from public and non-public sales.



During our initial tour of the XYZ Store, Mr. Smith and/or Mr. Thomas clearly stated that Facebook and was utilized in marketing the products sold. Therefore, please provide the following:

Copies of advertisements or any other documentation that was used to promote the sale of products sold at the XYZ store which included but is not limited to Facebook and any other platforms.



If an audit occurs... all compliance areas are potential audit risks.



HOW CAN YOU
MITIGATE THIS RISK



INTERNAL
COMPLIANCE
ASSESSMENT



PRACTITIONER
COMPLIANCE
ASSESSMENT



HEAT MAP



BE PROACTIVE NOT
REACTIVE

Thank you!

Sarah Hintz

Sarah.Hintz@claconnect.com

Michael DePrima

Michael.DePrima@claconnect.com



CLAcconnect.com



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Lunch and networking



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GASB Update 2024



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Learning Objectives

- Describe provisions of recent GASBs and the implementation impact on financial reporting and disclosures
- Identify lessons learned on GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*
- Discuss upcoming electronic data standards affecting governments





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GASB Statement No. 100

Accounting Changes and Error Corrections

Effective for Fiscal Years Beginning after June 15, 2023

Accounting changes

- Accounting principles
- Accounting estimates
- Financial reporting entity

Error corrections

- Mathematical mistakes
- Accounting principle misapplication
- Oversight/misuse of facts
- Change from non-GAAP to GAAP



Change in Accounting Principle

From one generally accepted to another – justify on the basis that new principle is better

Implementation of new pronouncements



Not a Change in Accounting Principle

Events that are
clearly different in
substance

Occurring for the
first time

Previously
insignificant



Change in Accounting Estimate



Accounting estimates –
outputs based on inputs

Data

Assumptions

Measurement methodologies



Change in circumstances, new information, more
experience



Change in methodology – justified based on improvement
unless required by a GASB pronouncement

Change to/within Financial Reporting Entity



Addition or removal of a fund

Movement of continuing operations
in primary government



Change in fund as major or nonmajor



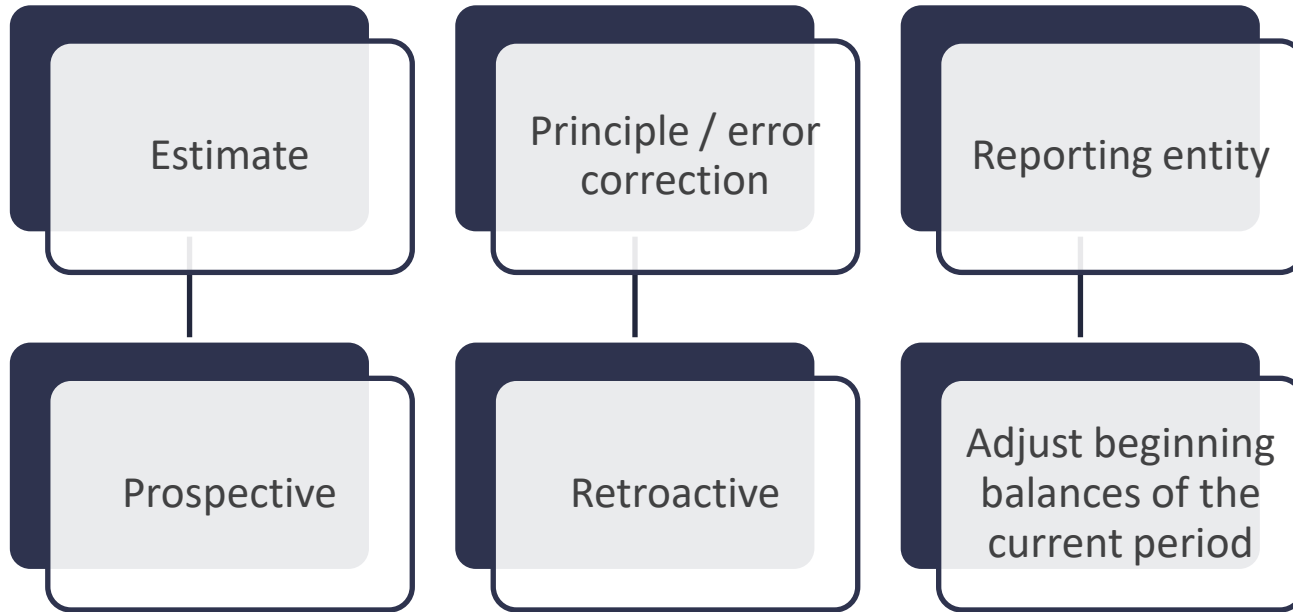
Addition or removal
of component unit

Exception: GASB 90, *Majority Equity Interests*



Change between blended or discretely
presented component unit presentation

Presentation Change



Key Requirements

Financial
statements

Display aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position by reporting unit

Notes

Disclose by reporting unit in tabular format to reconcile beginning balances as previously reported to beginning balances as restated



Illustration 1

	12/31/20X1 As Previously Reported	Change to or within the Financial Reporting Entity (A)	Change to or within the Financial Reporting Entity (B)	Error Correction (C)	12/31/20X1 As Restated
Government-Wide					
Governmental Activities	\$ 768,033	\$ -	\$ -	\$ 71,312	\$ 839,345
Business-Type Activities	543,163	(2,184)	-	-	540,979
Total Primary Government	\$ 1,311,196	\$ (2,184)	\$ -	\$ 71,312	\$ 1,380,324
Governmental Funds					
Major Funds:					
General Fund	\$ 631,607	\$ -	\$ -	\$ -	\$ 631,607
Fund A	100,922	-	-	-	100,922
Nonmajor Funds	40,486	-	-	-	40,486
Total Governmental Funds	\$ 773,015	\$ -	\$ -	\$ -	\$ 773,015
Proprietary Funds					
Major Funds:					
Enterprise Fund C	\$ 418,910	\$ -	\$ -	\$ -	\$ 418,910
Enterprise Fund D	74,831	(2,184)	-	-	72,647
Nonmajor Funds	49,422	-	-	-	49,422
Total Proprietary Funds	\$ 543,163	\$ (2,184)	\$ -	\$ -	\$ 540,979
Fiduciary Funds					
Pension and Other Employee Benefit Trust Funds	\$ 3,071,227	\$ -	\$ -	\$ -	\$ 3,071,227
Discretely Presented Component Units					
ABC Authority	\$ 1,696	\$ -	\$ -	\$ -	\$ 1,696
QRS Foundation	-	2,184	-	-	2,184
XYZ Foundation	-	-	1,500	-	1,500
Nonmajor Component Units	2,730	-	-	-	2,730
Total Discretely Presented Component Units	\$ 4,426	\$ 2,184	\$ 1,500	\$ -	\$ 8,110



Illustration 2

	Reporting Units Affected by Adjustments to and Restatements of Beginning Balances				
	Funds	Government-Wide		Component Units	
	Enterprise Fund D	Governmental Activities	Business-Type Activities	QRS Foundation	XYZ Foundation
12/31/X1, as previously reported	\$ 74,831	\$ 768,033	\$ 543,163	\$ -	\$ -
Change from blended to discrete presentation	(2,184)	-	(2,184)	2,184	-
Addition of discretely presented component unit	-	-	-	-	1,500
Error correction	-	71,312	-	-	-
12/31/X1, as restated	\$ 72,647	\$ 839,345	\$ 540,979	\$ 2,184	\$ 1,500



Retroactive Treatment – Single Year

Retroactively restate
beginning net position,
fund balance, fund net
position

Cumulative effect of
the change on prior
periods



Retroactive Treatment – Comparative

Retroactively restate all prior periods presented

If not practicable to restate all prior periods, restate to earliest period practicable, except for errors



Notes for Change in Accounting Principle

- Effects on beginning net position, fund balance, or fund net position
- Nature of change
 - Financial statement line items impacted
 - Reason for change and why preferable
 - New accounting principle, if applicable
 - If comparative and all prior periods not restated, why not practicable



Notes for Change in Accounting Estimate

- Nature of the change in accounting estimate including financial statement line items affected
- Change in measurement methodology
 - Reason for change
 - Explanation of why new measurement methodology is preferable
 - Exception: required by GASB pronouncement



Notes for Change within Reporting Entity

- Nature of the change
- Reason for the change, unless due to meeting requirement for major fund determination
- Effects on beginning net position, fund balance, fund net position



Notes for Error Correction

Effects on beginning net position, fund balance, or fund net position

Nature of error and correction, including financial statement line items impacted

Single period – effect on the prior period’s change in net position, fund balance, or net position, as if the error didn’t happen

Comparative – effect of the error correction on the prior period change in net position, fund balance or fund net position



RSI and SI

Accounting principle or reporting entity

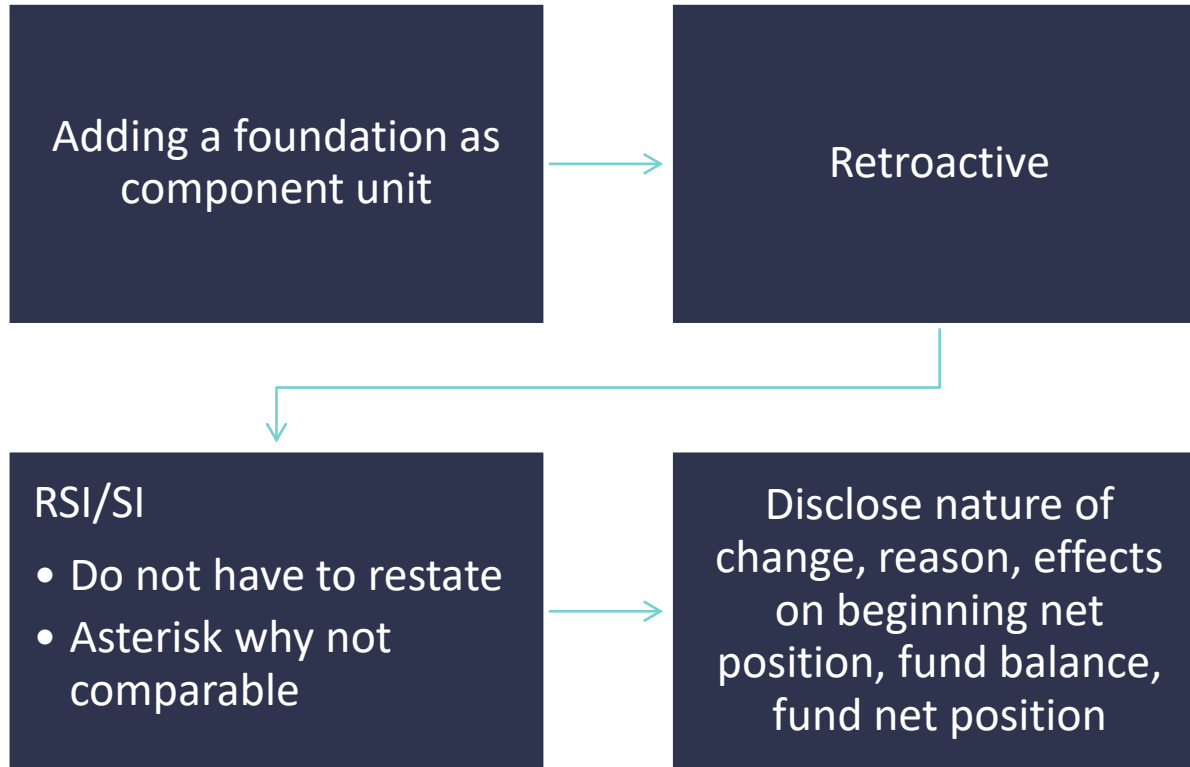
- Restate prior year to be consistent with basis FS
- If not restated, disclose why not and reference note disclosure
- Do not restate the second prior period

Error correction

- Restate prior periods for any periods in the financial statements
- Restate second prior period for comparative statements
- Identify as restated
- If not practicable, disclose why



Example: Change within Financial Reporting Entity



Example – Change in Estimate

Depreciable life of building

Change based on new information (input)

Apply prospectively

Disclose change and reason





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GASB Statement No. 101 Compensated Absences

GASB 101: Compensated Absences

- Effective for fiscal years beginning after December 15, 2023 (12/31/24 & 6/30/25)
- A compensated absence is a leave for which employees may receive one or more
 - Cash payments when the leave is used for time off
 - Other cash payments, such as payment for unused leave upon termination
 - Noncash settlements
- Liabilities for comp abs for:
 - Leave that has not been used
 - Leave that has been used but not yet paid



Examples

- Vacation leave
- Sick leave
- Paid time off (PTO)
- Holidays
- Parental leave
- Bereavement leave
- Certain types of sabbatical leave



Exceptions

- Para 13. Settled through conversion to defined benefit postemployment benefits
- Para 14. Leave dependent on occurrence of sporadic events that affect small proportion of employees – not until the leave commences
 - Parental leave
 - Military leave
 - Jury Duty
- Para 15. Unlimited leave or holiday leave

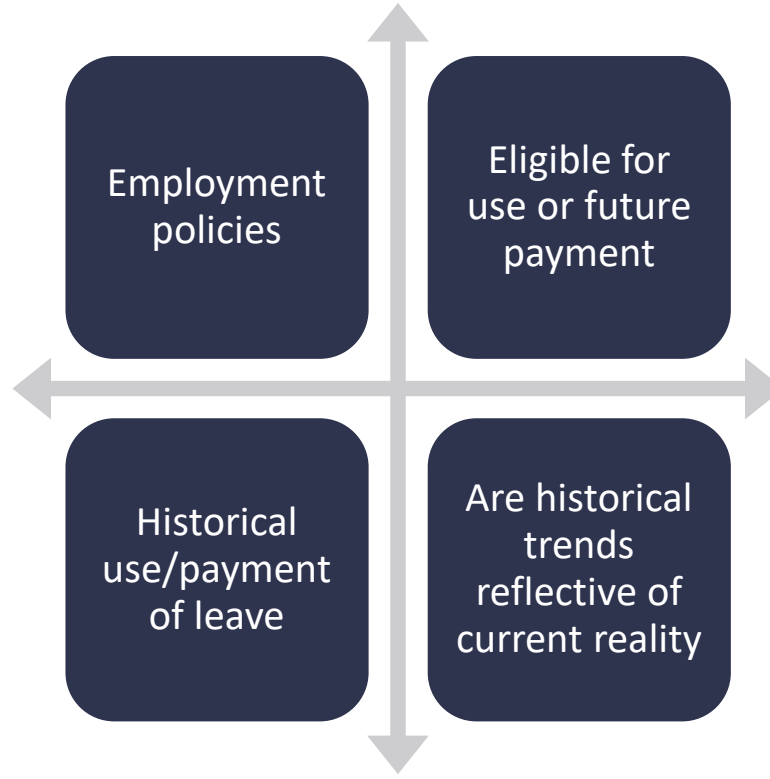


Recognition Criteria

- Liability should be recognized for leave that has not been used if all of the following are true:
 - Attributable to services already rendered
 - Leave accumulated
 - Leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means



More Likely Than Not (Para 12)



Measurement Criteria

- Use the rate of pay in effect as of the balance sheet date when calculating the liability
 - Exception: when a compensated absence calls for a different rate of pay at the time of payment
- Stated adjustments to payment amount
 - Example: 50% referenced in the arrangement
- Salary-related payments
 - Directly associated
 - Incrementally associated



Disclosures

- No new disclosures
- Long-Term Liability Roll Forward
 - Separate increases and decreases, OR
 - A net increase or a net decrease (should indicate it is net)
 - Amount due in one year still required
- Not required to disclose the government fund typically used to liquidate comp abs



LTL Roll Forward Options Illustrated

	Beginning			Ending	Amount Due
Option A	Balance	Additions	Deletions	Balance	Within
					One Year
Governmental Activities:					
Compensated Absences	\$ 100,000	\$ 50,000	\$ (40,000)	\$ 110,000	\$ 110,000
Total Governmental Activities	\$ 100,000	\$ 50,000	\$ (40,000)	\$ 110,000	\$ 110,000
Option B	Beginning	Additions	Deletions	Ending	Amount Due
	Balance			Balance	Within
					One Year
Governmental Activities:					
Compensated Absences	\$ 100,000	\$ 10,000	\$ -	\$ 110,000	\$ 110,000
Total Governmental Activities	\$ 100,000	\$ 10,000	\$ -	\$ 110,000	\$ 110,000



County pays all
vacation leave upon
termination

100 hours accrued at
6/30/2025

Example Vacation Leave

Pay rate 6/30/2025:
\$20/hour

Pay rate 7/1/2025:
\$25/hour



Gov't pays 25% upon termination up to 240 hours

300 hours accrued at 6/30/2025

Example Sick Leave Hours

What's the fewest number of hours to accrue?

Other considerations?



Example – Sick Leave Not Paid Upon Termination

Sick leave attributable to services already rendered and accumulates



Collective unused sick leave balance = \$1,000,000



Based on historical trends, 50% of sick leave is more likely than not to be used



Liability amount = \$500,000 ($\$1,000,000 \times 50\%$)



Example – Sick Leave Paid Upon Termination with Vesting

Sick leave paid out at 50% after 5 years of service

Based on historical trends, 75% of sick leave is more likely than not to be used or employee will stay for more than 5 years and receive termination payment

Unused sick leave employees over 5 years of service = \$1,000,000

Unused sick leave employees less than 5 years of service = \$2,000,000

Liability amount = \$1,250,000 $(\$1,000,000 \times 50\%) + (\$2,000,000 \times 50\% \times 75\%)$



Example – Parental Leave

10 employees are on parental leave at
6/30/2025

Leave started at various times in May-
June 2025

At 6/30/2025, liability should be
calculated for each employee's remaining
leave



Example – Salary-Related Payments

Medicare and
social security
payroll taxes

Defined
contribution
pensions

Medical insurance

Life insurance





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GASB Statement No. 96 Subscription-Based Information Technology Arrangements

Lessons Learned

Prepaid Items for Software

Issue

- Governments showing multi-year software as prepaid items may double count when converting to SBITA assets on the full accrual basis

Recommendations

- Treat software similar to other capital assets
- Do not use prepaids for software going forward



Content or Software

Issue

- Should purchases of content that includes software as the delivery mechanism for the content be considered SBITAs?

Recommendations

- **Requires judgment**
- Document considerations and basis for conclusion



Variable Payments

Issue

- What should a government do if a software subscription is long-term and material, but all the costs are variable (such as “per user”), meaning that the calculation results in zero for the SBITA asset and liability

Recommendations

- Disclose the variable payments for the software in the footnotes without a SBITA asset or liability.
- Similar to requirement for leases (GASB Comprehensive Implementation Guide 12.49.3)



Subscription Term

Noncancelable - include

Option periods where **one** party (either government or SBITA vendor) has the option to extend or terminate.

Cancelable - exclude

Option periods where **both** parties have the option to extend or terminate.



Going Forward

- Governments need to continue to monitor for SBITAs each year
 - GASB 96 is not finished after the implementation year
- Be especially mindful of large system implementations such as new ERP systems
 - Implementation year generally did not require much judgment on capitalization vs. expense for software, but those decisions will become more common in subsequent years





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Financial Data Transparency Act (FDTA)

What is the Financial Data Transparency Act?

- Requires certain federal agencies, including the SEC, to issue a joint rule promulgating data standards
 - Data standards are applicable to municipal filings with the SEC under EMMA
- Requires common identifiers (taxonomy) for reported information
- Data standard must be searchable, machine readable, and in an open data format
- No new information or disclosures are required



Searchable and Machine Readable

- Isn't a PDF already searchable and machine readable?
 - Yes and no. While the text in a PDF of financial statements is searchable and readable, it is not in a format that is “understood”
 - “Machine readable” requires a common taxonomy to be created and followed so that the data can be read and organized across governments without additional human input



What is a taxonomy?

- A taxonomy is a dictionary of items (identifiers) and classifications used in financial reporting.
- Taxonomy will be created/defined as part of the rule issued in December 2024
- May be helpful to think of it similar to a chart of accounts for financial statements.
 - Includes attributes/tags such as “Cash,” “Current Asset,” “\$100,000 USD Value,” “As of 12/31/24”
- FDTA requires that the taxonomy be “open”
 - Cannot require proprietary software or data



FDTA Timeline

- FDTA passed Congress in December 2022
- Proposed rule published for public comment in June/July 2024
- Final rule to be published by December 2024
- Governments to be required to comply with requirements by December 2026



Other Common Questions

- What governments are required to implement?
 - Currently governments filing with EMMA are required. May expand to other governments in the future
- How much will implementation cost?
 - Depends on final rule and the complexity of the software chosen to implement. Likely a very wide range of costs.
- Will software be required to implement the requirements of the FDTA?
 - Yes. If your auditor currently prepares your financial statements, they may be able to assist with their own software.



What are the goals of the FDTA?

- Increased uniformity of financial reporting data
- Improved accessibility for municipal bond markets
- Increased transparency into government's financial information



Potential downsides – increased cost and burden on financial statement preparers



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Accounting Complexities For Governments

March 26, 2024



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Learning Objectives

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

- Recognize certain accounting complexities in governmental accounting
- Identify the proper usage and disclosures required for various transactions



Component Entities

Economic substance over legal form

- Parent/Subsidiary = primary government / component unit
- Primary government (PG)
- Special purpose government
 - Separate legal status
 - Separately elected governing body
 - Fiscal independence
- Identifying component units
- Legally separate organization
- Financial accountability
- Fiscal dependence



Types of Transaction and Basis of Accounting

Complexity increases as bases change:



Cash



Modified Accrual



Accrual



Non-GAAP



Cash Basis

- Easiest to quantify and record
- All transactions based on cash (investments) changing hands
- No estimates or judgements
- Cash in and cash out
- Shortfalls –
 - Easy to manipulate by not paying your bills or delaying recording receipts



Modified Accrual Basis

- Cash basis with some accrual and revenue recognition adjustments
- More difficult than cash, but not the most difficult
- Issues to consider
- Investment fair value
- Allowances for receivables
- Certain accruals and payables
 - Accounts payable
 - Compensated absences
 - Retainage
 - Most can be a by-product of full accrual transactions



Modified Accrual Basis

- Revenue recognition – susceptible to accrual
 - Deferred inflows
- Period of availability – 60, 90, 120 days
- Capital outlay
- Debt service
- Other financing sources and uses
 - Proceeds (long term debt, leases, subscription-based information agreements)
 - Advance refundings
 - Transfers



Accrual Basis

Revenues are recognized when earned and liabilities are recorded as incurred

- Builds on modified accrual
- No susceptibility to accrual for revenues
- All accruals recorded – short and long term
- Long Term Assets
 - Capital Assets



Accrual Basis

Long term liabilities

- Certain accruals (e.g., interest expense)
- Debt
- Net pension liability
- Net OPEB liability
- Leases
- Subscription-based Information Technology Arrangements
- Pollution remediation
- Escheated property





Accounting Issues



Investments

- Investment fair value
- Level within the fair value hierarchy determines complexity in determining fair value
 - As level increases, so does the amount of estimation of value
- Alternative Investments
 - Understand how they are valued
 - Question the experts
 - Check for reasonableness
- Foreign denominated investments add another layer of uncertainty because of currency conversion



Investments (Continued)

- Disclosure requirements
 - GASB 72 valuation methodologies
 - Future commitments
 - Disclosure of valuation methodologies



Receivables

Accounts
Receivable –
Allowance
and
unavailable

- Understand the population and desired results
- Understand the basis for the calculations
 - Is the methodology sound?
 - Is it representative of the population?
 - Are we overlooking trends?
 - Look at relationships (e.g., taxpayer), not just individual amounts?
- Question large changes in either direction
 - Is there a flaw in the methodology?
 - Bad data?



Capital Assets

- Capitalization policy
 - Understand the level at which items are capitalized
 - Set up accounting systems to capture such items
- Conversion of CIP to depreciable item
 - Review CIP at least at year end to identify completed projects
- Depreciation calculation
 - Depreciable lives
 - Depreciation methods



Capital Assets (Continued)

- Internally developed software costs
 - Increase in functionality of the software
 - Increases in efficiencies
 - Extension of useful life
 - Set up accounting systems to capture such items
- Three stages
 - Preliminary
 - Development
 - Post implementation
- Costs related to activity in the development should be capitalized, preliminary and post implementation costs should be expensed as incurred



Certain Accruals

Unused vacation/compensated absences

- Easy calculation
- Hard to determine the current portion
- Remove pension contributions

Interest payable

- Easy calculation
- Principle times interest rate, prorated over period of time

Termination benefits

- Incentive to retire early
- Amounts to be provided in the future, gets recorded at time of acceptance



Debt

- Receive cash, repay according to a predetermined schedule
- Complications
 - Premiums/discounts at issuance
 - Amortize over the life of the debt as interest adjustment
 - Utilize interest method or approximate interest method
 - Refundings
 - Recognize a gain or loss on the transaction
 - Calculation is tricky
 - Amortize over the shorter of the life of the new debt or remaining actual life of the old
 - Disclosures are more complicated



Leases

- Basically 2 transactions
 - Borrowing of money
 - Purchase of asset
- Proper recording on the face of the operating statement of governmental funds
 - Recognition criteria
 - Other financing source – Proceeds
 - Capital outlay
- Note disclosure is different from bond or loan



Pension and OPEB

Net Pension/OPEB liability

Actuarial-based

Understand the assumptions used

- Review them for reasonableness and propriety

Know the standards to determine what is acceptable

- Method
- Discount rate
- Amortization method



Pension and OPEB (Continued)

Know the standards

Be willing to question things you don't understand

- Deferred inflows and outflows
- Grouping – netting only allowed for return expectations
- Amortization

Allocations of liability, deferred outflows, and deferred inflows

- Verify methodology
- Determine consistency



Pension and OPEB (Continued)

Special funding situations

Legal responsibility to contribute directly to plan

Contribution not dependent on events unrelated to pensions

Non-employer entity is the only entity required to pay



Self Insurance

- Incurred but not reported (IBNR) Liability
- Actuarially calculated
 - Understanding of calculation and assumptions used
 - Big driver is claims experience
 - Look for outliers in data
- Understand disclosures



Pollution Remediation

- Be able to identify triggering events
 - Awareness
 - Responsibility
 - Reasonable estimate
- Obtain estimates
 - How derived?
 - Who determined?
 - Review methodology for appropriateness and consistency



Claims and Judgements

- Obtain information from “experts” (attorney)
- Determine likelihood of outcome based on professional opinion
- Attorney’s help in assessing -
 - Remote (nothing to be said)
 - Possible (footnote it)
 - Probable (book it)
- Review estimated range of losses
- Determine estimate of liability based on the above factors



Net Investment in Capital Assets

Capital asset (net of depreciation)+ capital related deferred outflows less capital related borrowing and deferred inflows

- Adjustments for unspent bond proceeds
- Retainages and accounts payable



Fund Balance



Long term amount of loans and notes receivables (unless proceeds are restricted, committed or assigned)



Reconciling restricted from fund statements to government wide statements



Stabilization arrangements



Negative and positive fund balance amounts

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Principal
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Twenty Minute Break



We'll get you there.

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Automation and AI: Use Cases and What's In It For You

March 26, 2024



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Today's Presenters



Matt Anderson, CPA/CFF, CFE

Managing Principal
Digital Data Analytics



Mitch Thompson

Director
State and Local Government

Key Learning Objectives



Recognize the Basics of AI and Automation in finance: Recall comprehensive insights of how AI and automation technologies work, specifically in the context of accounting and finance



Exploring Real-World Use Cases: Review a range of practical use cases of AI and automation in financial processes



Benefits and Impact on Efficiency: Recall how implementing AI and automation can significantly improve efficiency, reduce errors, further organizational mission, and improve the lives of the workforce



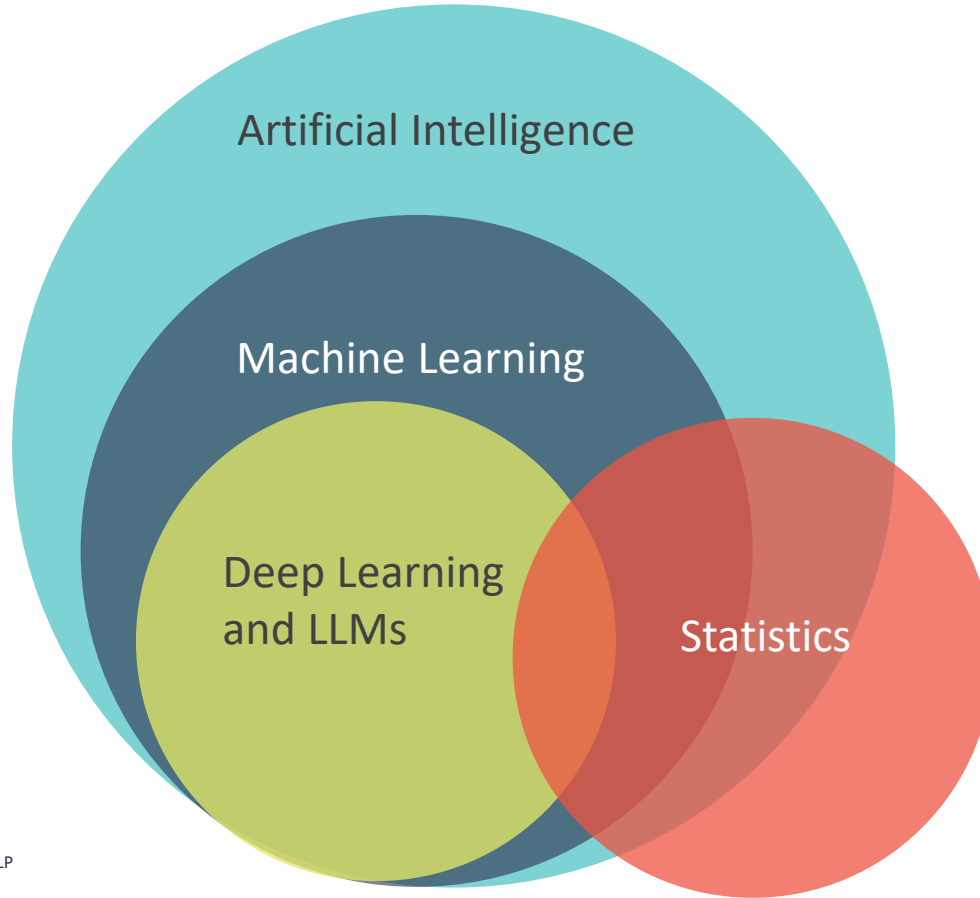
Future Trends and Adaptation Strategies: Identify ways your organization can adapt and stay ahead in this rapidly evolving field, including strategies for implementation and overcoming potential challenges



Basics and Definitions



What is Artificial Intelligence?



Automation

Using technology to reduce human intervention to a minimum.

Misconceptions

- Unemployment
- Only impacts low-skill jobs
- Automation is always the best option
- It's quick and easy
- It's unbiased



What is GPT?



GPT is a kind of Large Language Model: Able to generate novel, human-like text, write code, and create datasets



Goal of GPT project was to create chat agent that can interact conversationally, generate coherent, relevant content, answer follow up questions.



Trained on websites, books, and online material.



Human AI trainers helped GPT models provide more desirable outputs via reinforcement learning.



OpenAI released ChatGPT November 2022



Many updates and other new generative AI apps & services



AI Today – Audience Participation

Can you give examples of AI in your daily personal or professional life today?

Scan QR code and send answers!

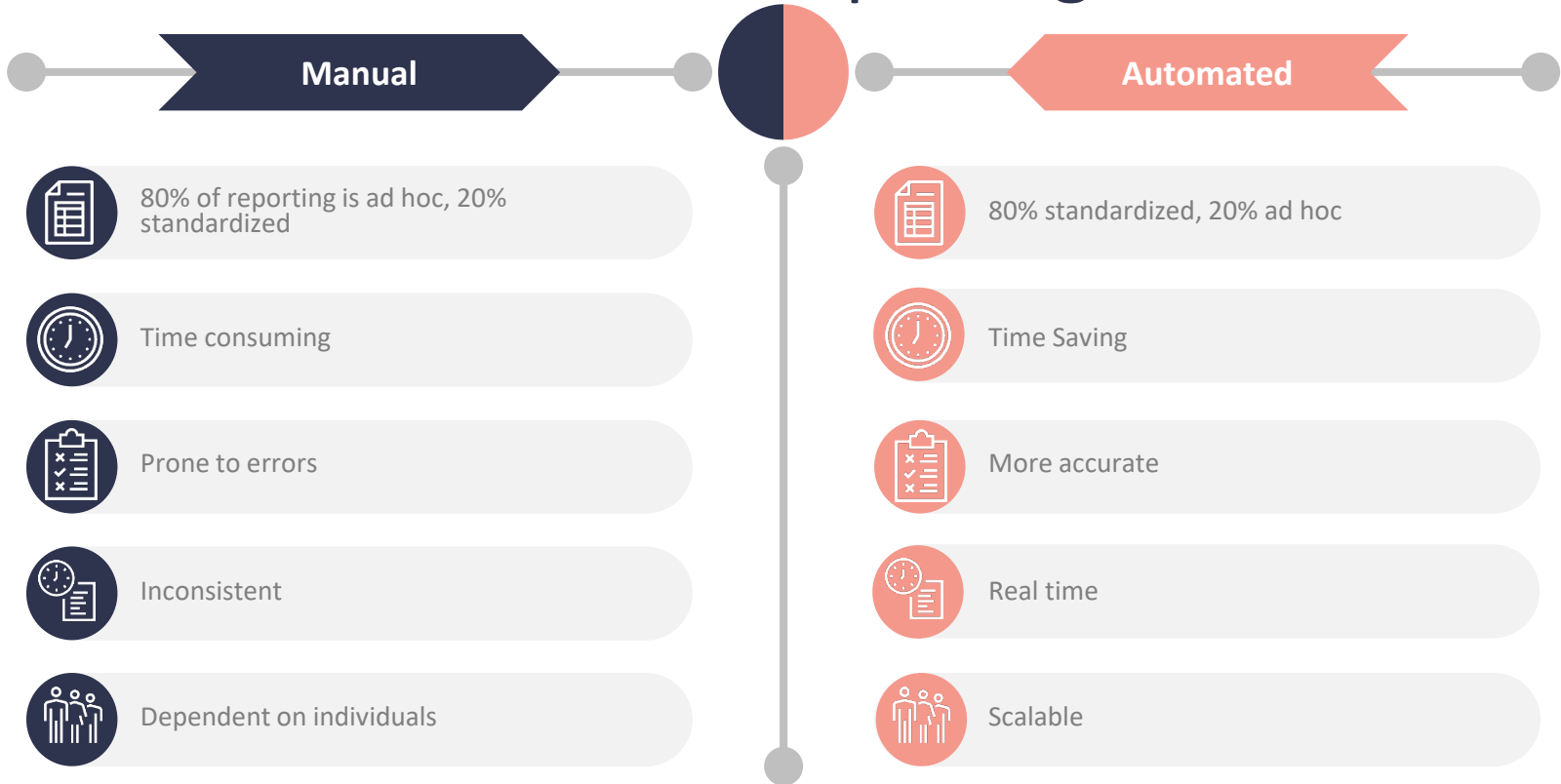




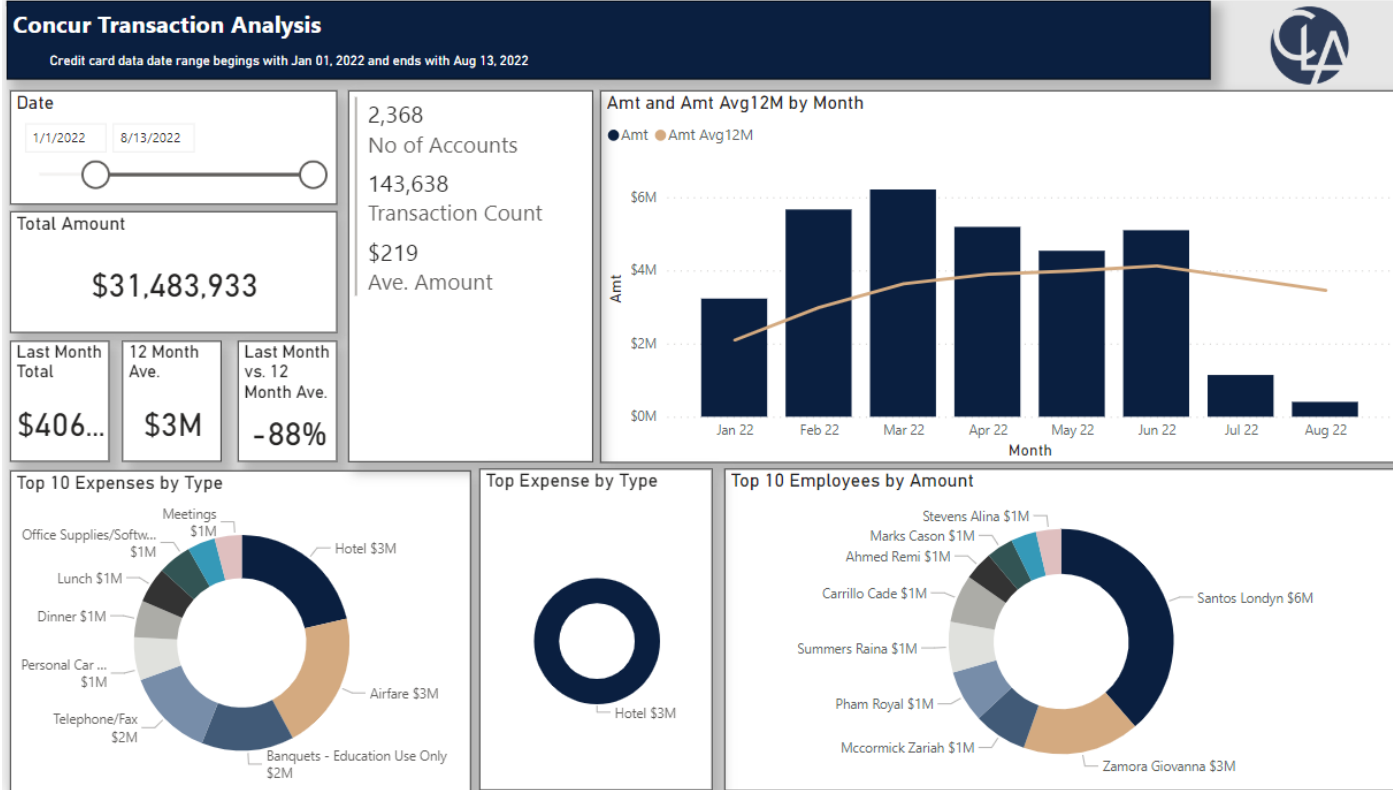
Use Cases



Manual Vs. Automated Reporting



Expense Reporting Analysis





Forecasting demand for public transportation



Improving energy efficiency in public buildings



Personalized communication to donors



Volunteer matching to project needs from skills, preferences, and availability



Analyzing satellite images for urban planning



Enhancing public safety through surveillance video analysis



Speech recognition for accessibility with voice-activated controls and transcribing services



Predictive analytics for program success improving allocation of resources

LARGE LANGUAGE MODELS (LLM)



Automating responses to public inquiries in multiple languages



Analyzing public feedback on policies



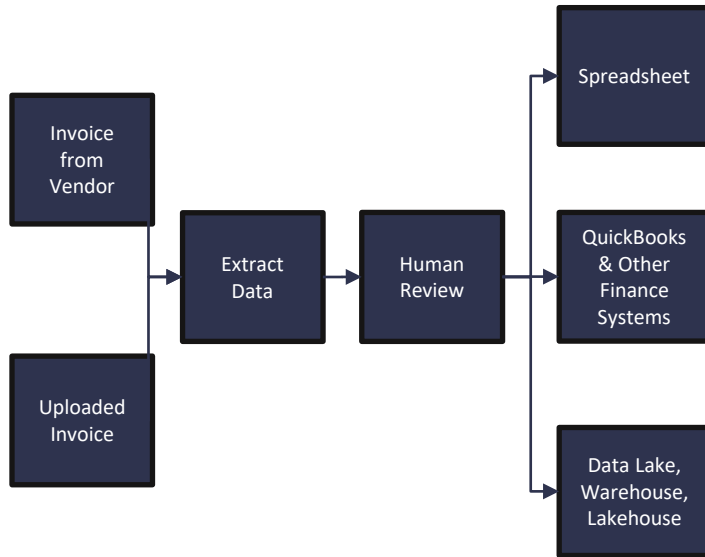
Automating large bodies of content for conversational retrieval



Automated grant proposal review, summarizing key points and alignment with programs



Use Case Study: AP Automation



Reduce manual data entry from documents such as invoices

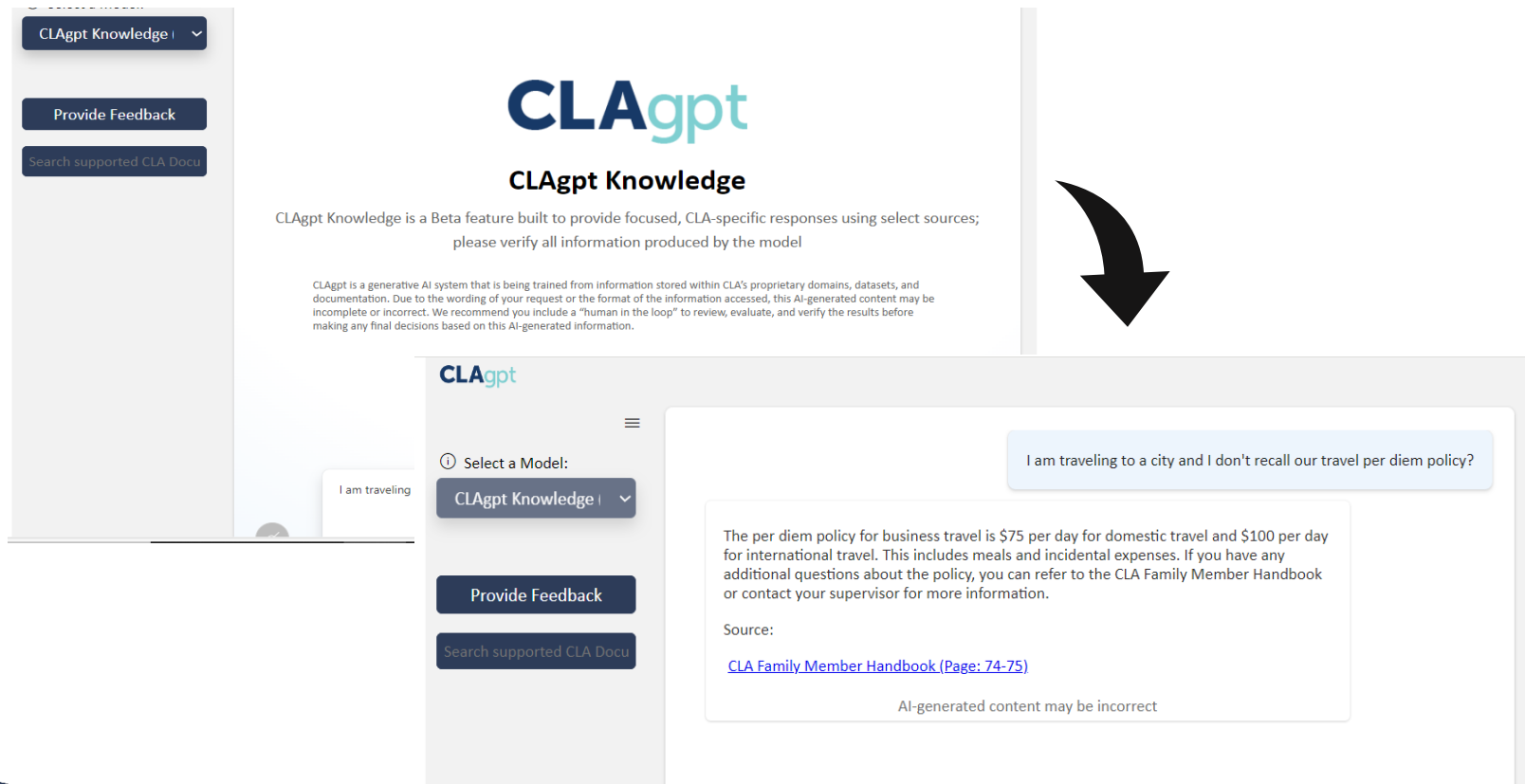
Minimize error associated with manual processing

Integrate with existing workflow and enterprise systems

Reduction in manual invoice processing time



Use Case Study: Large Language Models



The image shows a two-part screenshot of the CLAgpt Knowledge interface. The top part is a header area with the CLAgpt logo, the text 'CLAgpt Knowledge', and a description: 'CLAgpt Knowledge is a Beta feature built to provide focused, CLA-specific responses using select sources; please verify all information produced by the model'. Below this is a disclaimer: 'CLAgpt is a generative AI system that is being trained from information stored within CLA's proprietary domains, datasets, and documentation. Due to the wording of your request or the format of the information accessed, this AI-generated content may be incomplete or incorrect. We recommend you include a "human in the loop" to review, evaluate, and verify the results before making any final decisions based on this AI-generated information.' A large black arrow points from this header area down to the bottom screenshot.

The bottom screenshot shows the user interface. On the left, there is a sidebar with a dropdown menu set to 'CLAgpt Knowledge', a 'Provide Feedback' button, and a 'Search supported CLA Docu' button. The main area contains a chat interface. The user's input is: 'I am traveling to a city and I don't recall our travel per diem policy?'. The AI's response is: 'The per diem policy for business travel is \$75 per day for domestic travel and \$100 per day for international travel. This includes meals and incidental expenses. If you have any additional questions about the policy, you can refer to the CLA Family Member Handbook or contact your supervisor for more information.' Below the response, it says 'Source: [CLA Family Member Handbook \(Page: 74-75\)](#)'. At the bottom of the response box, it says 'AI-generated content may be incorrect'.





Benefits, Challenges, Where to Start, Future Trends



Benefits



Improve Efficiency



Improve Accuracy



Improve
Organizational
Capabilities



Improve Employee
Satisfaction

Challenges



Data accuracy



Bias



Security



Trust but
Verify



Know the
source



Fear of use of
available tools



How to Get There



Assess current state



Data strategy



Develop a roadmap



Short-term and long-term objectives



Internal working group



Test the technology



Educate yourself!



Future Trends



- It's not going away
- Speed of growth will continue to expedite
- Controls?
- There will be many models to choose from
- The use cases will become endless

Question and Answer Session





Thank you!

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Fraud, Waste, and Abuse: Current Trends

March 26, 2024



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Learning Objectives

- Recall methods for detecting fraud
- Identify common internal control breakdowns that contribute to fraud, build awareness of the types of fraud, the profile of a fraudster, and common red flags
- Identify leading practices for responding to an incident of fraud and for developing an internal anti-fraud program



Speaker Introduction



Emilie Deveraux, CFE

Signing Director

CLA's Forensics Practice

Over 23 years of experience leading fraud investigations, forensic accounting projects, and litigation support services for large government organizations, educational institutions, nonprofits, and commercial businesses.



Speaker Introduction



Ayla Grady, CPA, CFE

Manager

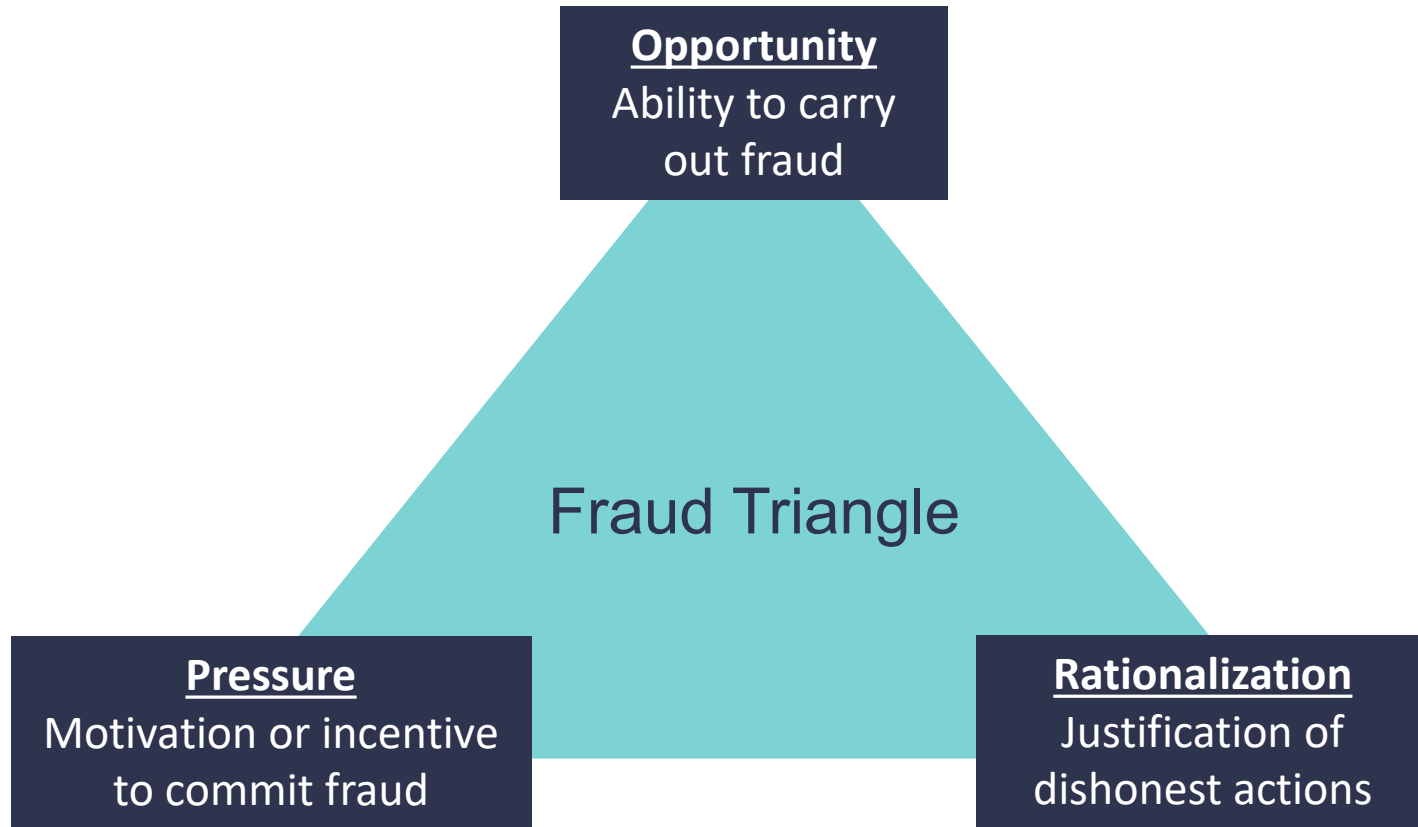
CLA's Forensics Practice

Over 11 years of audit, tax, and consulting experience serving state and local governments, nonprofits, and for-profit entities, including forensic accounting engagements, fraud investigations, and internal controls assessments.



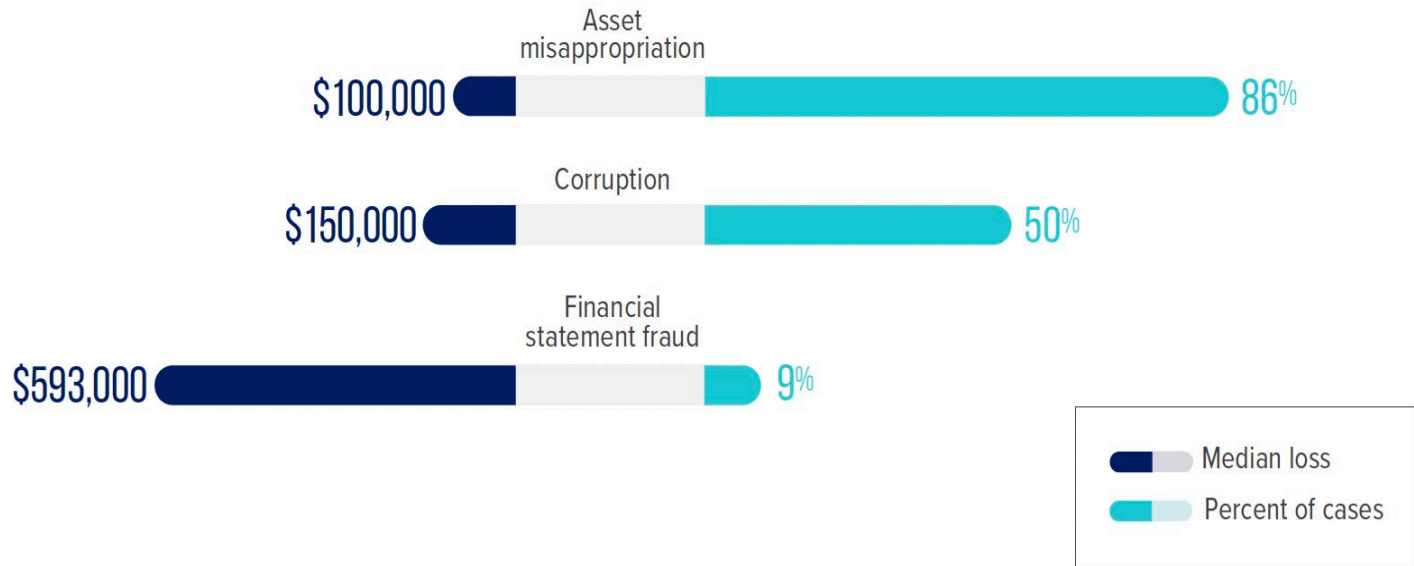
Types of Fraud





Categories of Occupational Fraud

FIG. 2 HOW IS OCCUPATIONAL FRAUD COMMITTED?



Most Common Occupational Fraud Schemes

FIG. 21 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
Government and public administration	198	21%	8%	7%	9%	57%	12%	8%	16%	16%	3%	8%
Education	69	26%	9%	12%	12%	49%	12%	12%	19%	14%	4%	12%



Common Schemes We See

Corruption

Conflicts of interest

Bid rigging

Bid splitting

Billing

Fictitious or
misdirected refunds

Billing for
underperformed
work

Theft of incoming
receipts

Noncash

Inventory or asset
misuse

Purchasing and
receiving schemes

Payroll

Unauthorized pay
increases or bonuses

Failure to report PTO

Excessive overtime

Ghost employee



Profile of a Fraudster



Knowledge Check

- What level of authority are responsible for the highest percentage of fraud incidents?
 - Employee, Manager, or Executive
- What level of authority are responsible for the highest median loss when committing fraud?
 - Employee, Manager, or Executive



Perpetrator's Position

FIG. 32 HOW DOES THE PERPETRATOR'S LEVEL OF AUTHORITY RELATE TO SCHEME DURATION?

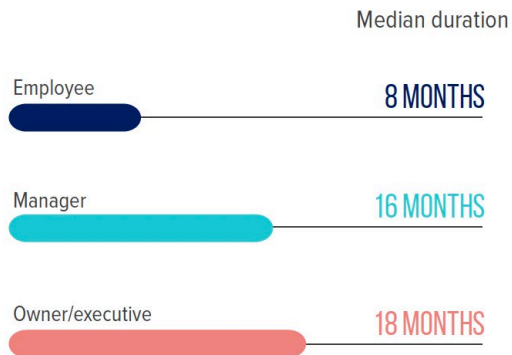


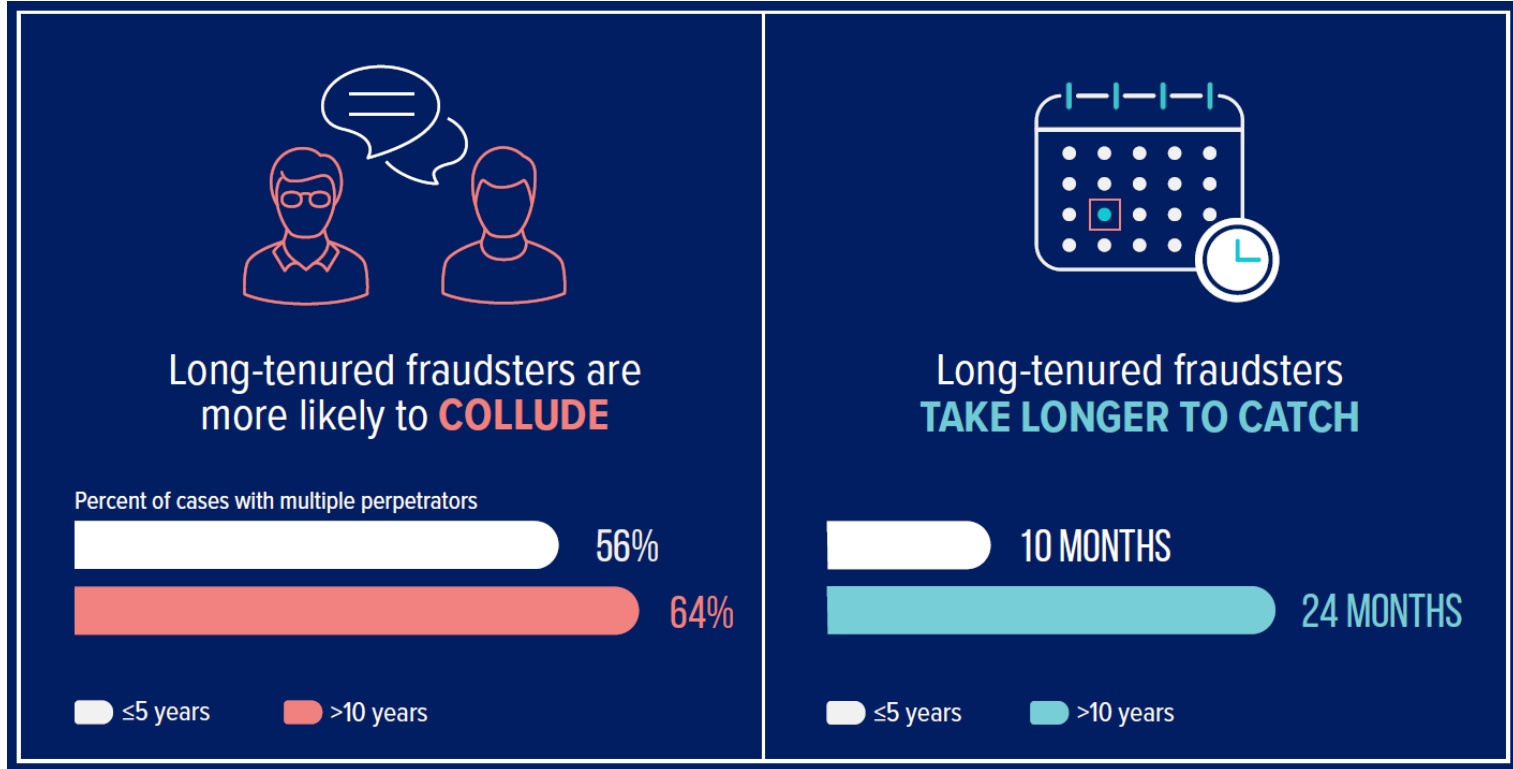
FIG. 31 HOW DOES THE PERPETRATOR'S LEVEL OF AUTHORITY RELATE TO OCCUPATIONAL FRAUD?



Perpetrator's Tenure



Perpetrator's Tenure (continued)



Perpetrator's Department

Department*	Number of cases	Percent of cases	Median loss
Operations	273	15%	\$74,000
Accounting	230	12%	\$155,000
Executive/upper management	206	11%	\$500,000
Sales	203	11%	\$100,000
Customer service	140	8%	\$40,000
Purchasing	131	7%	\$129,000
Administrative support	131	7%	\$90,000
Finance	95	5%	\$160,000

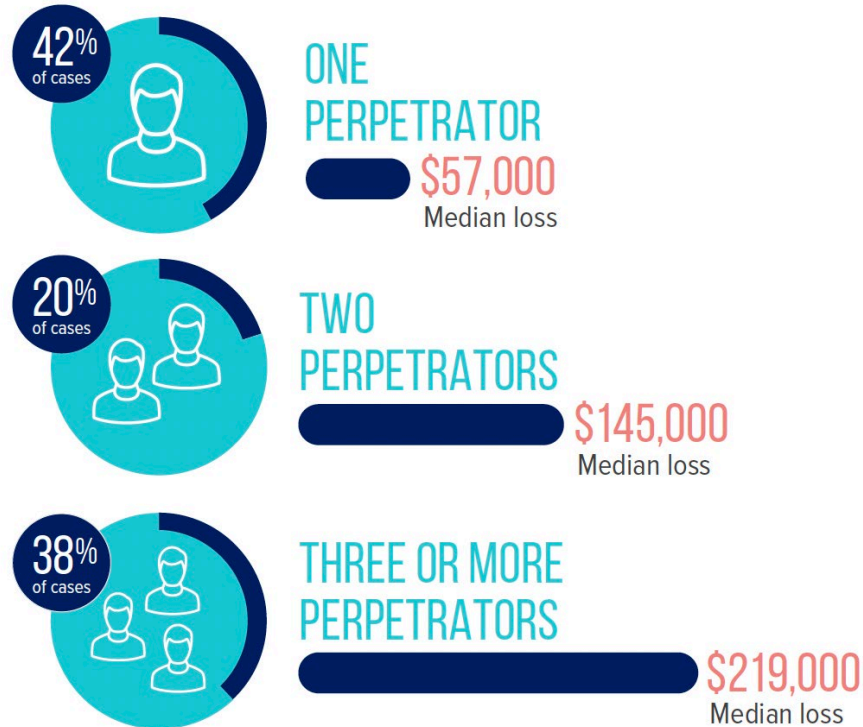
Department*	Number of cases	Percent of cases	Median loss
Board of directors	58	3%	\$500,000
Information technology	53	3%	\$150,000
Warehousing/inventory	58	3%	\$116,000
Manufacturing and production	63	3%	\$100,000
Facilities and maintenance	49	3%	\$58,000
Marketing/public relations	35	2%	\$112,000
Human resources	29	2%	\$100,000
Research and development	17	1%	\$75,000

**Departments with fewer than 10 cases were omitted.*



Collusion by Multiple Perpetrators

FIG. 41 HOW DOES THE NUMBER OF PERPETRATORS IN A SCHEME RELATE TO OCCUPATIONAL FRAUD?



Criminal Background and Employment History

FIG. 42 DO PERPETRATORS TEND TO HAVE PRIOR FRAUD CONVICTIONS?

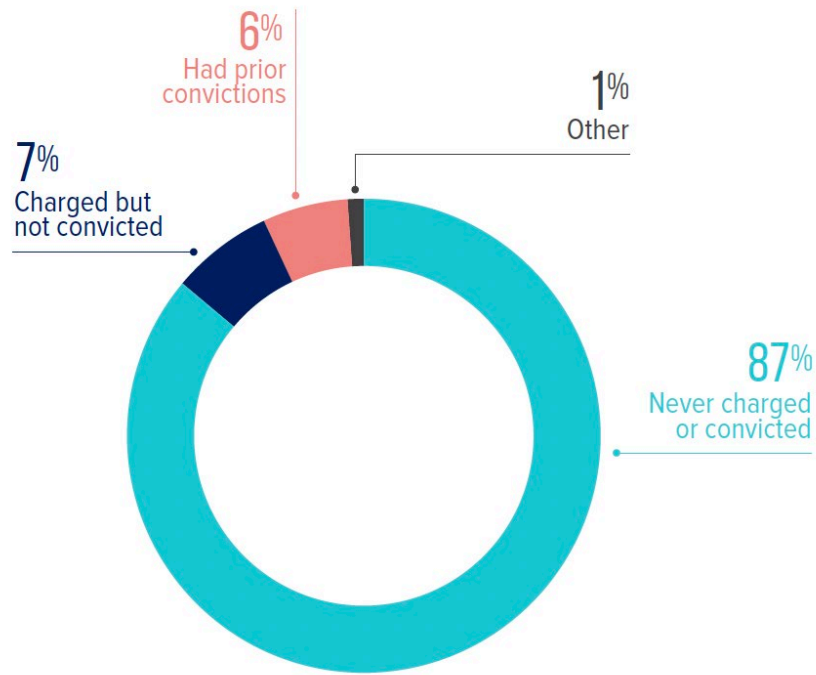
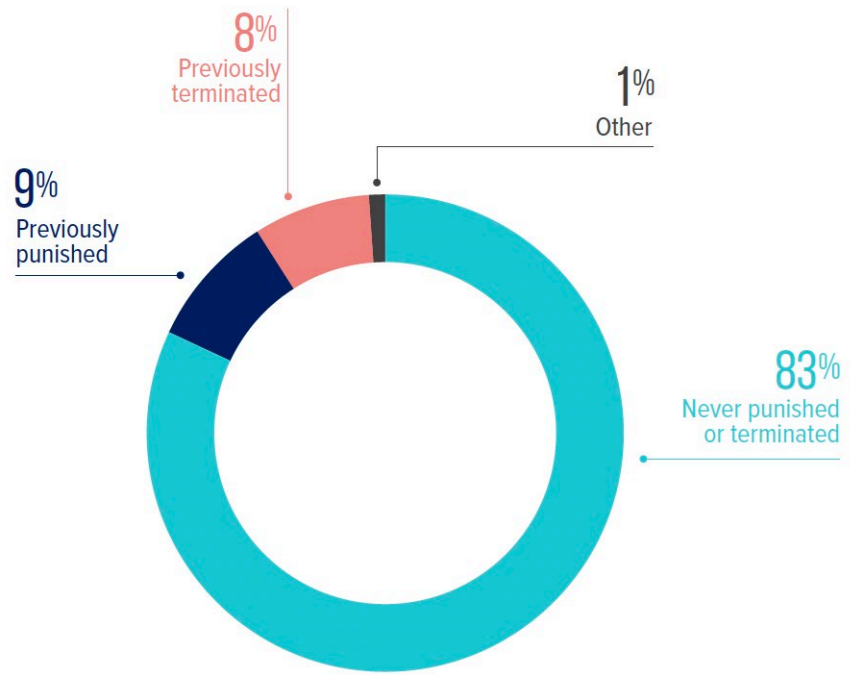


FIG. 43 DO PERPETRATORS TEND TO HAVE PRIOR EMPLOYMENT-RELATED DISCIPLINARY ACTIONS FOR FRAUD?



Common Red Flags



Behavioral Red Flags

At least one red flag was identified in 85% of the cases in the study.

Multiple red flags were present in 51% of cases.



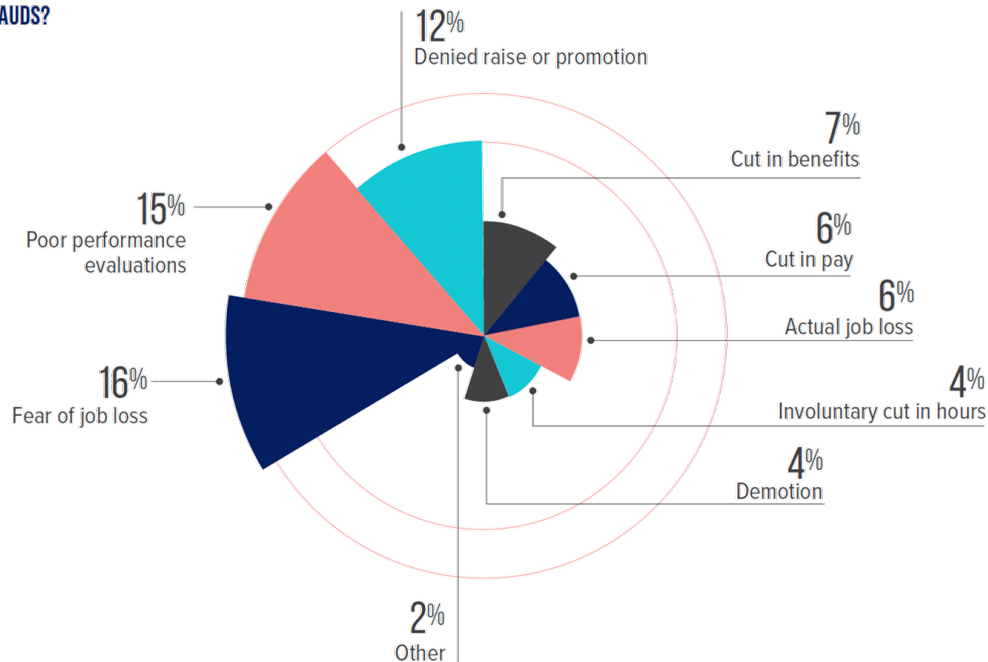
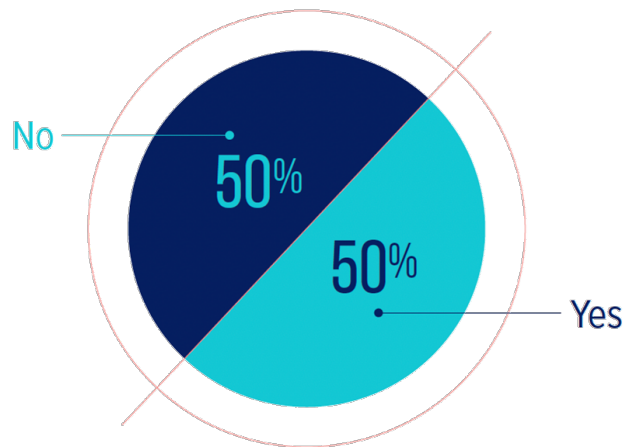
Source: 2022 ACFE Report to the Nations



Human Resources-Related Red Flags

FIG. 46 WHICH HR-RELATED ISSUES ARE MOST COMMONLY EXPERIENCED BY FRAUD PERPETRATORS?

FIG. 45 DO FRAUD PERPETRATORS EXPERIENCE NEGATIVE HR-RELATED ISSUES PRIOR TO OR DURING THEIR FRAUDS?



Financial Red Flags

Accounting Records

- Missing documents
- Alterations on documents
- Excessive voids or credits
- Common names or addresses of payees or customers
- Revisions to vendor files (address, payee name, bank info)

Unrealistic Records

- Excess purchases
- Multiple payments to the same vendor in a month
- Unreasonable expenses or reimbursements
- Significant increases or decreases in account balances



Common Internal Control Breakdowns



Knowledge Check

What is the most common control breakdown leading to fraud?



Common Internal Control Breakdowns



Inadequate segregation of duties

Lack of review/approval by knowledgeable individual

No verification of supporting documents

Lack of timely reconciliations

No requirement for confirmation of vendor, customer, or employee changes



Detecting Fraud



Detection of Occupational Fraud

FIG. 10 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

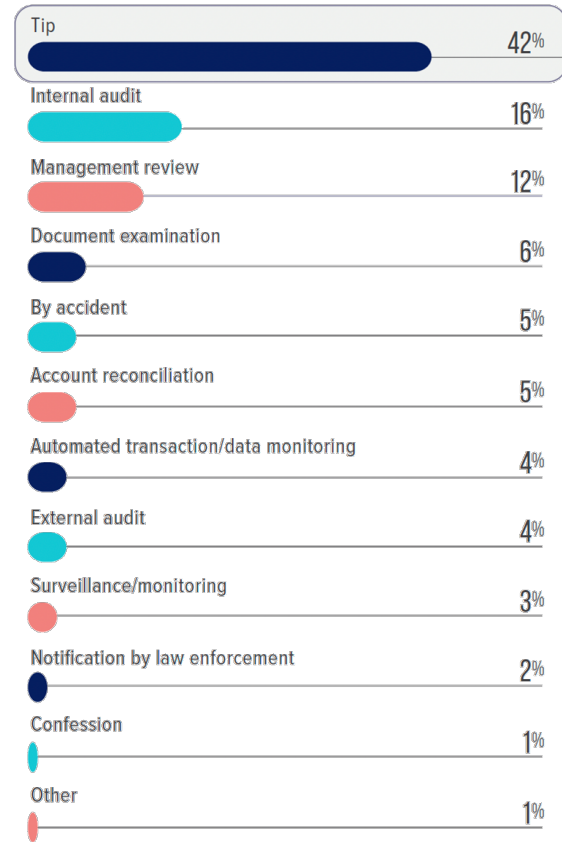
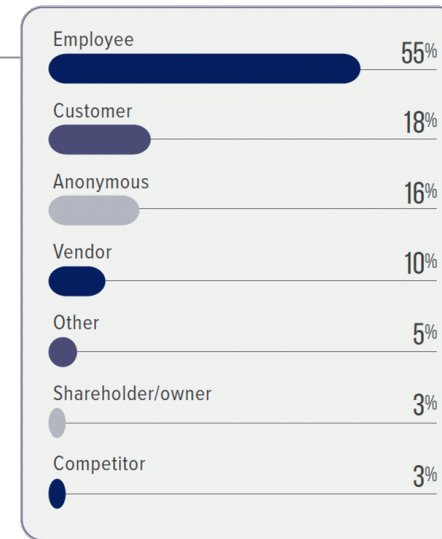


FIG. 11 WHO REPORTS OCCUPATIONAL FRAUD?



Fraud Prevention and Detection Strategies



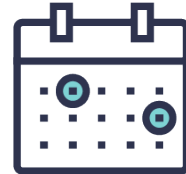
At least two people are looking at every transaction (adequate segregation of duties)



Establish secondary approval by someone with knowledge of the business area



Trust is NOT an internal control – verify proper and sufficient supporting documentation for all transactions



Establish regular and timely reconciliation of asset accounts; verify the reconciliations are reviewed

Fraud Prevention and Detection Strategies



Conduct regular monitoring and management review



Mandatory job rotation and/or vacations



Implement the use of positive pay with your bank (if available, include payee/account name positive pay)



EFT/ACH/Wires – Third-party services that verify bank account information



Require confirmation when vendor change requests are received



Implement adequate IT and system controls (multi-factor authentication, firewalls, etc.)

Limitations for Mitigating Fraud Risk

No set of internal controls guarantees the prevention of fraud

- What is your fraud risk tolerance?
- Lower tolerance = more controls



Most Critical Component of Fraud Detection



Responding to Fraud Incidents



Question

Does your organization have a fraud incident response plan in place?



Key Components to Response Plan

Identify response team members

Establish channels for individuals to report concerns

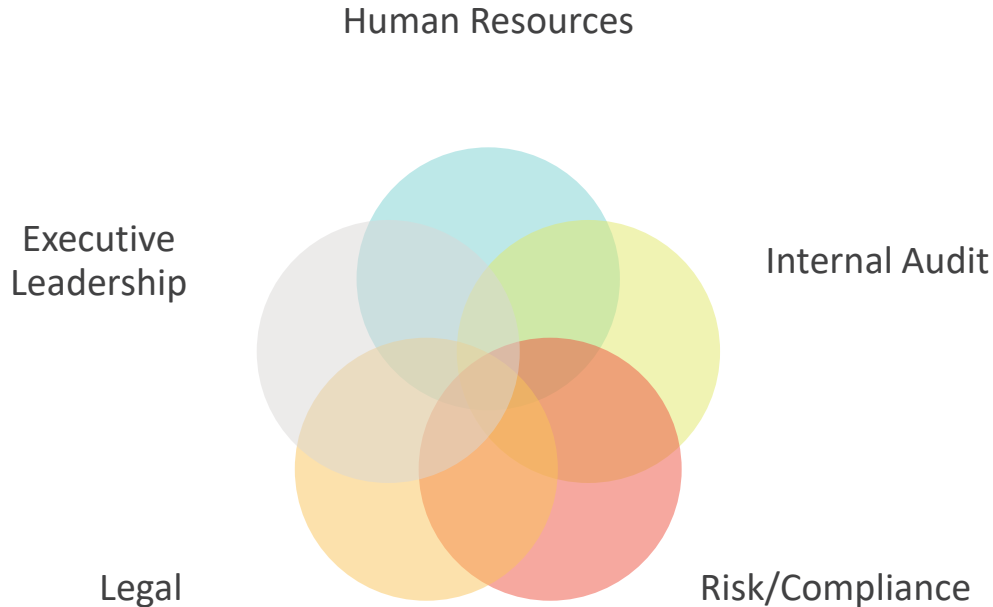
Identify methods to secure evidence

Determine how alleged suspects are handled (e.g., put on leave)

Outline steps for removing user access rights and physical access to documents



Response Team

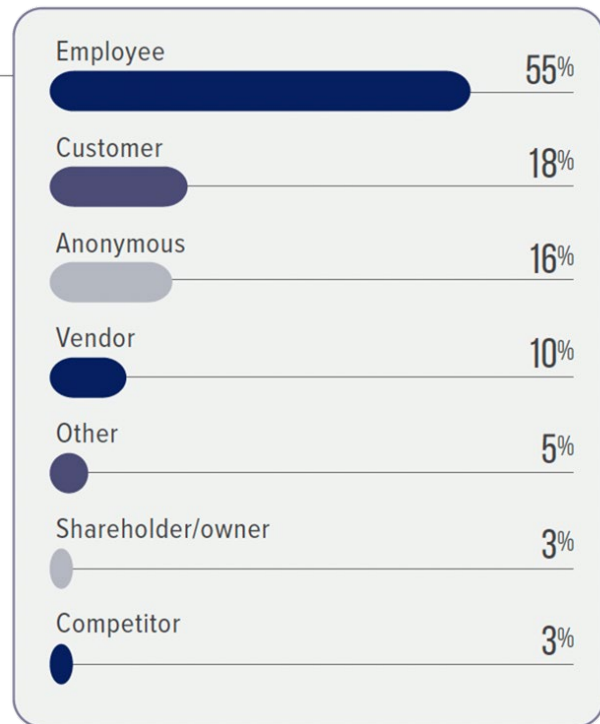


External consultants, as needed:

- Forensic accountant or investigator
- Digital forensics specialist
- Public relations
- Legal counsel

Reporting Methods

FIG. 11 WHO REPORTS OCCUPATIONAL FRAUD?



Allow anonymity

Maintain confidentiality

Consider publicizing a hotline or email address



Developing an Internal Anti-Fraud Program



Attributes of an Anti-Fraud Program

- ❑ Person or office responsible for anti-fraud, ethics, and compliance
 - ✓ Empowered by management and governance
- ❑ Lead by example (“tone at the top”)
 - ✓ Management and governance promote an environment of integrity
- ❑ Encourage transparency and accountability
 - ✓ Review, oversight, monitoring
- ❑ Well-developed anti-fraud and ethics policy and/or code of conduct
 - ✓ In writing, communicated to and acknowledged by employees
- ❑ Well-developed and updated written policies and procedures
 - ✓ Kept current and acknowledged by employees



Attributes of an Anti-Fraud Program (continued)

- ❑ Regular technical training of employees on policies, procedures, applicable laws, ethics, fraud awareness, etc.
 - ✓ Internal or external instructors
- ❑ Strong compliance/internal audit programs
 - ✓ Internal, outsourced, or combination – prioritized by management and governance
- ❑ Established fraud and ethics hotline
 - ✓ Anonymous, confidential, protect whistleblowers – prioritized by governance
- ❑ Reinforce good behavior and don't reinforce bad behavior
 - ✓ Follow through on reports of misconduct – encourages people to come forward



Questions?



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Please be sure to drop the completed forms off at the registration desk.

- CPE sign-in sheets (Don't forget to sign them)
- Evaluation forms