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# 2025 Albuquerque Summer Government Training



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# Fun and Effective Financial Statement Review Tips

June 3, 2025



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# Learning Objectives

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Recognize the basic structure of governmental accounting, including funds and basis of accounting

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Recall the activities between the different basis of accounting related to capital assets

---

Recognize the issues with properly reporting debt on governmental financial statements

---

Recognize how to differentiate between deposits and investments

---

Identify how to properly disclose how much cash in the bank is at risk

---

Recall how to determine that investment disclosures are properly reporting your positions in investments

---



# Basis of Governmental Accounting

- Modified accrual basis
  - Revenues are recognized when measurable and available
  - Expenditures are recognized when incurred
- Full accrual basis
  - Revenues and expenses are recognized when earned or incurred



# Understanding Fund Types in Governmental Accounting



- Governmental accounting uses various fund types for financial management
- Each fund type has specific purposes and regulatory requirements
- Major fund types include governmental, proprietary, and fiduciary funds

# Governmental Funds

Governmental funds focus on the flow of current financial resources

They are used to account for most public services

Common types include General Fund, Special Revenue Fund, and Capital Projects Fund





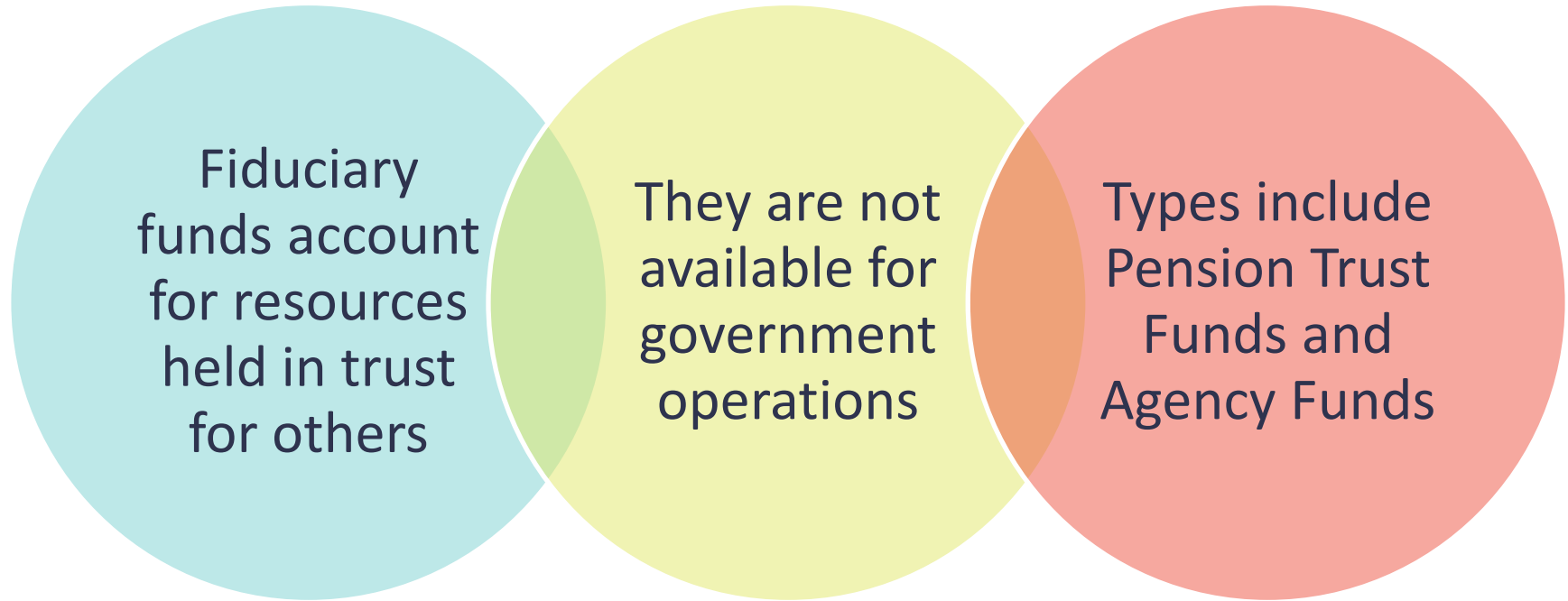
# Proprietary Funds



- Proprietary funds operate similarly to private businesses
- They include Enterprise Funds and Internal Service Funds
- These funds focus on the flow of economic resources



# Fiduciary Funds



# This Morning's Contents

## Capital assets and capital outlay

Modified accrual: capital outlay

Full accrual: capital asset



## Debt service payments

Modified accrual: debt service issuances  
and expenditures

Full accrual: additions and reductions  
of liabilities



## Leases and SBITAs

Modified accrual: capital outlay, debt service  
issuance and expenditures

Full accrual: capital assets (right to use assets),  
additions and reductions of liabilities





# Capital Assets and Capital Outlay



# What is Capital Outlay?



# What is Capital Outlay?

- It is a character of expenditure
  - Character of expenditure is a classification of expenditure, based on the fiscal period the expenditure is meant to benefit
    - Current expenditures – expenditures that benefit the current period
    - Capital outlay – expenditures for the current period and future periods



# What is a Capital Asset?

Per GASB  
Codification  
Section 1400.103:

- Tangible or intangible assets that are used in operations and that have initial *useful lives extending beyond a single reporting period*



Should capital asset additions in  
governmental activities equal capital outlay  
expenditures in governmental funds?





# In Some Cases, Yes

	State of Tennessee General Fund	State of Tennessee Capital Projects Fund	Various Governmental Funds	Total Governmental Funds
Intergovernmental				
Federal Grants	\$ -	\$ -	\$ 11,156,116	\$ 11,156,116
Transfers and Reimbursements	-	-	1,036,716	1,036,716
Other	-	-	287,887,285	287,887,285
Other Financial Support - Statewide	-	88,888,875	812,877	89,701,752
State Services - Personal	1,176,888,888	-	-	1,176,888,888
State Services - Material	84,227,286	-	-	84,227,286
Capital Outlay	-	-	-	193,120

	June 30, 2023	Transfer In/ Additions	Transfer Out/ Deletions	June 30, 2024
Depreciable Assets:				
Office/Data Processing Equipment/ Furniture	\$ 202,017	\$ 34,232	\$ -	\$ 236,249
Software	8,677,988	124,959	-	8,802,947
ROU - Leased Equipment	206,275	33,929	-	240,204
Total Capital Assets	9,086,280	193,120	-	9,279,400

# In Some Cases, No

- Internal Service Funds (ISF)
  - Generally, ISF are considered governmental activities
  - If the capital asset disclosures are made at the governmental activities level with the ISF funds included with the governmental funds, the additions would include all additions



# In Some Cases, No

- Construction in Progress (CIP)
  - Once a construction project is completed, it is moved to a depreciable asset class
  - If the reclassification is not separately disclosed, then the amount would be shown as both an addition (to the depreciable asset class) and a deletion (of the outstanding CIP balance)



# In Some Cases, No

- Transfers in of capital assets
  - When governmental activities receive capital assets from business-type activities, they could result in additions that are not tied to capital outlay
  - If the transfers are not separately disclosed in the capital asset schedule, then the amount would be shown as an addition (to the depreciable asset class)



# FS Preparation Activity





# Debt



# What is Debt (Long-term Liabilities)?

Examples of  
long-term  
liabilities:

Bonds

Notes

Leases

Subscription Based Information Technology Arrangements (SBITA)

Pensions

Claims and judgments

Compensated absences

Termination benefits

Landfill closure and post closure care

Pollution remediation obligations





# What is Debt (Long-term Liabilities)?

- From GASB Codification Section 1500:
  - Fund long-term liabilities
    - Long-term liabilities directly related to and expected to be paid from proprietary funds and fiduciary funds should be included in the accounts of such funds
  - General long-term liabilities
    - Long-term liabilities that is not a specific liability of any proprietary fund or fiduciary fund



# Issuance of Debt (Bonds, Notes)

Usually,  
governments will  
receive proceeds  
less some of the  
costs of  
debt issuance

The fund receiving  
the funds should  
display the face  
amount of the  
bonds as Other  
Financing Sources

Any premiums or  
discounts would  
be shown as  
Other Financing  
Sources or Other  
Financing Uses,  
respectively

The debt issuance  
costs are  
expensed with  
the current  
expenditures



# What are Debt Service Expenditures?



# What are Debt Service Expenditures?

- It is a character of expenditure
  - Character of expenditure is a classification of expenditure, based on the fiscal period the expenditure is meant to benefit
    - Current expenditures – expenditures that benefit the current period
    - Capital outlay – expenditures for the current period and future periods
    - Debt service – expenditures that benefit prior, current, and future periods



Should all debt service expenditures result in  
reduction of long-term liabilities?



# No

- Common difference is the interest on the debt which is expensed in both the modified accrual and full accrual basis of accounting

	State of Oregon Debt Service Funds	State of Oregon Capital Project Funds	Various Governmental Funds	Total Governmental Funds
<b>EXPENDITURES</b>				
Current				
Personnel Services and Employees				
Benefits	-	-	2,096,440	16,221,285
Contractual Services	-	-	7,440,388	40,750,000
Other	-	-	287,887,348	447,221,127
Other Fiscal Support - State Costs	-	86,886,872	912,877	271,879,889
Debt Service - Principal	1,776,885,444	-	-	1,776,928,038
Debt Service - Interest	84,227,564	-	-	84,228,210

Should all reduction of long-term liabilities  
be the result of debt service expenditures?





# Depends on the Liability

Some liabilities may have all activity booked through the full accrual basis accounts, for example:

Pensions

Claims and  
judgments

Compensated  
absences

Termination  
benefits

Landfill  
closure and  
post closure  
care

Pollution  
remediation  
obligations





# Leases and Subscription Based Information Technology Arrangements (SBITA)



## GASB 87 and GASB 96

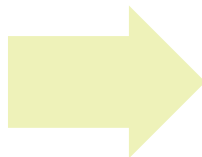
Changes made by the GASB to show the amounts owed on leases and certain IT arrangements that will be paid from a government's assets



# How Much Debt to Record?

First, identify the lease/agreement term

- The lease term is the period during which a lessee has a noncancelable right to use an underlying asset plus any option periods if the options are reasonably certain to be exercised



Second, identify the following over the agreement term

- Fixed payments
- Variable payments that are “Fixed in Substance”
- Variable payment based on an index or rate (Like CPI)



# Modified Accrual Accounting

The present value of the future payments of the lease or SBITA is recorded as a debt issuance and a capital outlay expenditure when the lease is started.

As payments are made, a portion of the payment is reclassified to debt service principal, with the remainder reclassified to debt service interest.



# Full Accrual Accounting

- The following modified accrual balances should be converted to the following balance sheet accounts on the full accrual basis:
  - OFS – Lease/SBITA financing -> Lease/SBITA Liability
  - Capital Outlay – Lease/SBITA -> Right of Use (ROU) Asset
  - Debt Service Principal – Lease/SBITA -> Reduction in Lease/SBITA liability
- Additionally, the lease asset should be amortized only on the full accrual basis of accounting.



# Lease Activity







# Deposits and Investments



# This Afternoon's Sessions

## Deposits

- Clarify some instances where an item could be considered an investment
- Review how to properly disclose the custodial credit risk

## Investments

- Learn about the disclosures required for investments
- What is a debt investment and why does it matter?



# Money, Money, Money, Money

- Deposits
  - Not defined in the GASB Codification, however the Blue Book gives the following suggestion:
    - Cash deposit should include any government resources that could qualify for federal depository insurance
- Investments
  - A security or other asset that (a) a government holds, primarily for the purpose of obtaining income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.



# How Would You Describe the Following?

- Checking and savings accounts
- Certificate of Deposits (CDs)
  - Nonnegotiable – deposits
  - Negotiable – investments
- Money market accounts
  - Money market accounts at financial institutions – deposits
  - Money market mutual fund issued by a financial institution – investments
- Investment contracts
  - Bank investment contracts – deposits
  - Guaranteed Investment Contracts (GICs) – Investments



# Custodial Credit Risk of Deposits

The risk that in the event of a bank failure, the government's deposits may not be returned to it.

- Uncollateralized
- Collateralized with securities held by the pledging financial institution
- Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.



# Debt Investments and Equity Investments



- Determining the difference is a key item to consider as you are planning for your disclosures

# Investment Disclosures



Custodial  
credit risk for  
investments



Credit risks



Concentration  
of credit risks



Interest  
rate risk



Foreign  
currency risk



# Custodial Credit Risk for Investments

- Similar to the deposit risk, it is the risk that investments will not be recovered if a custodial financial institution were to fail.
  - Investments are exposed to custodial credit risk if they are uninsured, are not registered in the name of the government, and are held either by:
    - The counterparty or
    - The counterparty's trust department or agent but not in the government's name





# Credit Risk for Investments

The risk that a company who owes money will fail and not repay the debt

This disclosure applies to the following investment types

## **Debt securities**

(excluding U.S. govt. obligations and obligations backed by the full faith and credit of the U.S. govt. — unless there is information to the contrary indicating credit risk)

**External  
investment pools**  
(including 2a7-like pools)

**Money market  
funds**

**Bond mutual  
funds**  
(regardless of the types of investments included in the fund's portfolio)

**Other pooled  
investments of  
fixed-income  
securities**



# Concentration of Credit Risks

- Governments should disclose, by amount and issuer, the investments it holds in any one issuer that represent 5 percent or more of total investments
  - This would exclude the following investments:
    - Investments issued or explicitly backed by the U.S. government
    - Investments in mutual funds
    - Investments in external investment pools
    - Investments in other pooled investments



# Interest Rate Risk

The risk that changes in interest rates will adversely affect the fair value of an investment

- The following investments would be subject to these disclosures:
  - Investments in debt
  - Investments in debt mutual funds, external debt investment pools, and other pooled debt investments that do not meet the definition of a 2a7-like pool



# Foreign Currency Risk

- The risk that changes in exchange rates will adversely affect the fair value of an investment
  - Governments should disclose the U.S. dollar balances of any deposits or investments that are exposed to foreign currency risk
  - The disclosure should be organized by:
    - Currency denomination
    - Investment type, if applicable



# Investment Statement Activity



# Disclosure Checklist



*Thank you.*

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# Avoiding a Crisis

## Municipal Succession Planning

June 3, 2025





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# Learning Objectives



Recall what you learned  
about Succession Planning  
and Recommended Practices



Recall strategies for  
identifying and reducing  
skill gaps



Identify steps to create  
a succession plan

# What Is Succession Planning?



Succession planning is a process in which employees are identified and prepared to move into key leadership positions within the organization.



This strategy requires the involvement of the entire organization and the commitment of every current leader. It is essential for leaders to recognize its value and dedicate the necessary time and energy to support the plan's success.



Effective succession planning helps support continuity and performance, especially during times of leadership transitions and organizational changes.

# Don't Wait to Develop a Plan



A successful transition takes time. To foster the most seamless transfer of duties, knowledge, and resources, we recommend dedicating no less than a year to the process, and ideally as long as 18 months.



Every office should have an emergency succession plan established for unexpected short- or long-term absences.



Achieving a seamless transition requires meticulous planning and foresight.



The next few slides will identify some key factors considerations for crafting a successful plan in the public sector.

# Create the Action Plan

Participating in the functional areas of the incumbent's role, especially areas outside of the incumbent's current experience

Mentoring from the incumbent

Providing coaching opportunities

Acting for the incumbent while they are away from work

Is the employee engaged in special projects that will allow them to expand their skills

Dual incumbency opportunities when the incumbent transitions out of their role



# Identify Critical Roles



Positions with a high impact on operations. This includes all supervisory, management, and leadership positions — not just department directors.



Positions that require specific knowledge, experience or training, including public health and environmental people.



Positions that are vital for continuity of government programs or services, such as a chief financial officer or finance director.



Positions with a high talent scarcity, such as IT professionals.

# Define Succession Criteria

After identifying the key roles in your organization, define the skills and experience needed for each role, both now and in the future.

Consider the following points:

- Highlight the key skills that are required for each role, including both technical acumen and leadership abilities. The nature of work is changing dramatically, so governments must assess how jobs that become vacant will be affected by factors such as automation and what skills will be needed in future iterations of these roles.
- If hiring from within, consider employees' experience levels and their track records within your government. - Verify that candidates' professional goals align with the long-term vision of your program, service, or agency.
- The goal of succession planning is to find people individuals who can meet the evolving demands of the field and fill the gaps that will arise after the current tenure.



# Identify a Talent Pipeline



Assess current employees to identify those who show potential to move into critical positions in the future. This assessment should take into account their skills, performance, and leadership potential.



Choose individuals from the talent pipeline who are most likely to succeed and create an action plan for their development. This plan should include providing necessary training, development opportunities, and, most importantly, mentorship.



# Nominate Successors



Consider inviting leaders to nominate qualified employees for development in a succession plan but also invite employees to express their interest as well. Making the process transparent cultivates equity and trust in the process.



Work with your leadership to determine a final list of candidates whose performance and job description makes them eligible for development into the successor role.

# Evaluate Your Plan

By evaluating your organization's succession planning efforts each year, you can continually improve your planning strategy and your organization's effectiveness. When evaluating your succession planning program, consider the following:

- Your organization's bench strength prior to succession planning versus after succession planning started
- The number of qualified "ready now" candidates compared to before succession planning started
- Improvements in the way your organization develops employees, such as new learning and development tools or processes
- Organizational performance overall
- Whether there is reduced risk associated with employees leaving the organization



Questions?

*Thank you.*

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# Albuquerque Summer Government Training

Economic and Market Update

June 3, 2025

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# *Agenda*

- Current Economic Conditions
- CLA Outlook
- Timing and Diversification



# Learning Objectives



Identify how diversified portfolios can navigate elevated volatility and valuations after taxes and expenses



Discuss the current state of the U.S. economy and capital markets



Review the key takeaways for 2025, such as growth moderation, lower inflation, a weaker labor market, and the importance of staying invested and diversified



# Economy

While CLA does not see a recession, an incremental slowdown is likely as high interest rates start impacting activity and sentiment.

# Policy

Expect continued political and regulatory change given the sunset of the Tax Cuts and Jobs Act and new presidential administration.

## Key Takeaways

# Industry

CLA sees more industry differentiation given elevated interest rates and an aging demographic will lead to more business transitions.

# Markets

Diversified portfolios can navigate elevated volatility and valuations – after taxes and expenses.





# Current Economic Conditions



# Snapshot - Economic conditions remain strong overall.

## Economic Activity



GDP

GDP was strong at +2.3% in 4Q24.

## Consumer Strength



Income/Spending



Consumer Finances

Consumer spending and balance sheets remain strong.

## Business Conditions



Earnings Growth



Profit Margins



ISM Purchasing Managers Index®



Small Business Confidence

Large cap stocks have generated strong earnings growth. Small business owners are more optimistic in anticipation of pro-business policies and legislation in the new year .

## Labor



Unemployment Rate



Wage Gains



Number of Job Openings

Labor markets remain strong, although there is an intense focus on automation using artificial intelligence.

## Fed Policy



Interest Rates



Inflation



Fed's Balance Sheet

The Fed has increased interest rates and reduced its balance sheet to dry up excess liquidity and fight inflation.

## Fiscal Policy



Spending



Taxes



Regulatory Environment

Government spending has helped maintain economic growth but rising deficits are a concern.

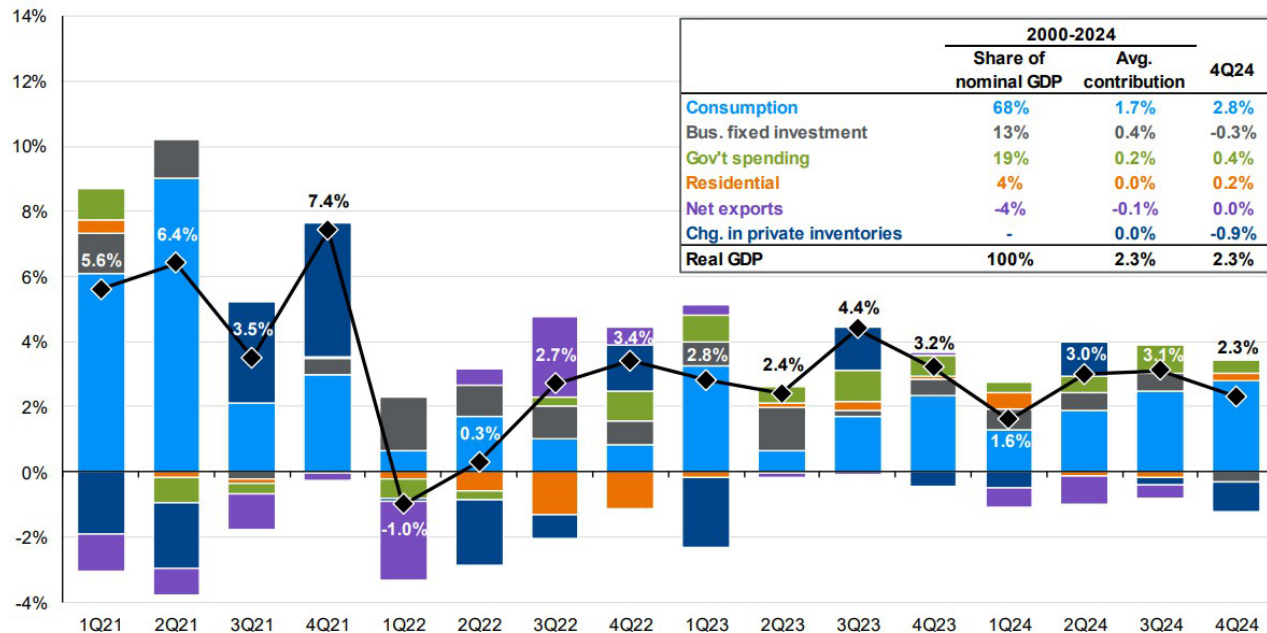


# Economic Overview

GDP has defied all recessionary expectations since rebounding in second half of 2022

## Contributors to real GDP growth

Quarter-over-quarter, seasonally adjusted annualized rate

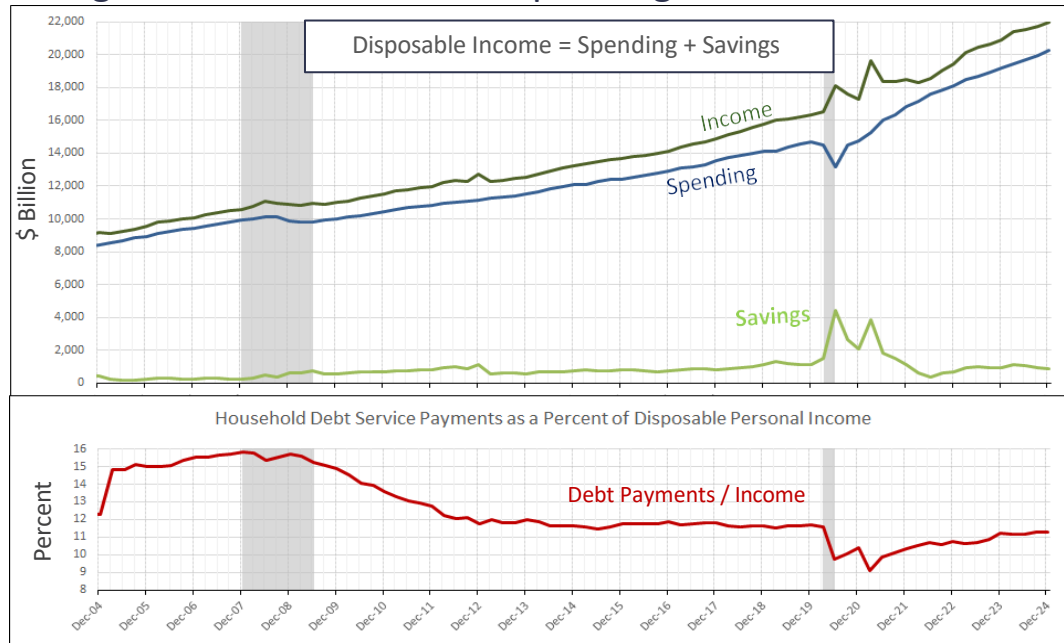


Source: BEA, FactSet, Standard and Poor's, J.P. Morgan Asset Management  
Data is based upon availability as of 2/7/2025



# Consumer Finances Remain Strong

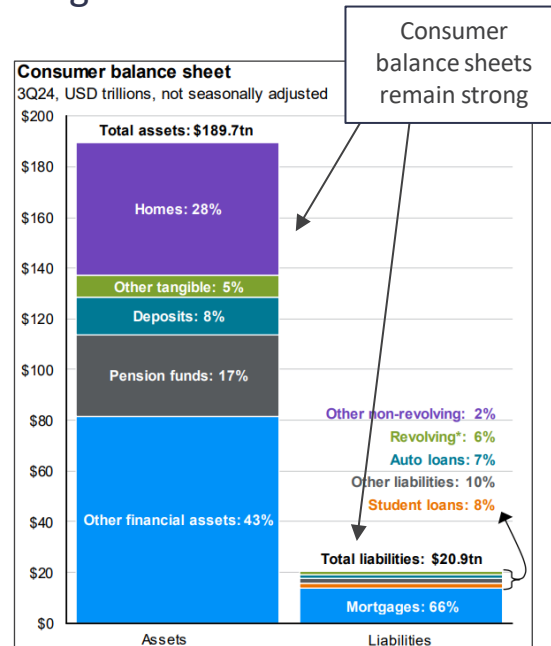
Rising consumer income and spending have contributed to economic growth



Grey areas denote recessions.

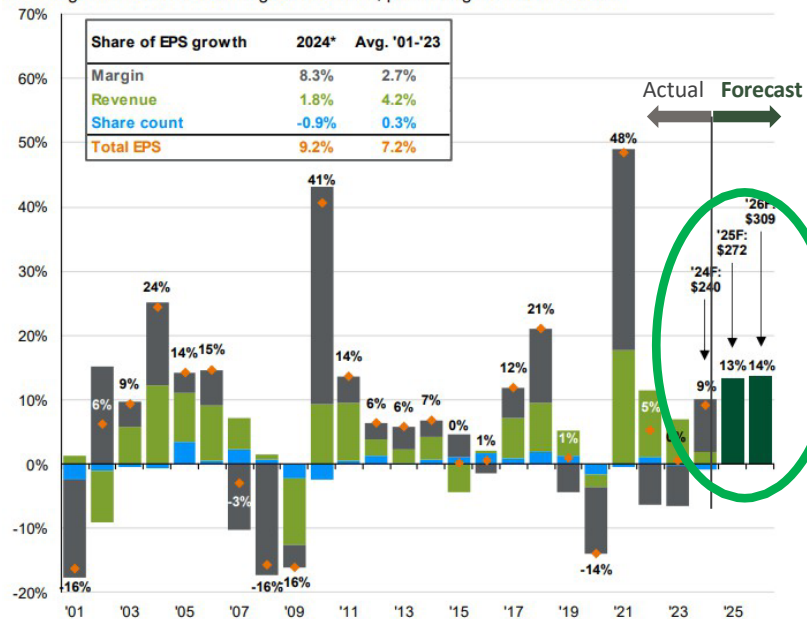
Data is based upon availability as of 2/7/2025.

Source: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System, FactSet, JP Morgan Asset Management, CLA Wealth Advisors



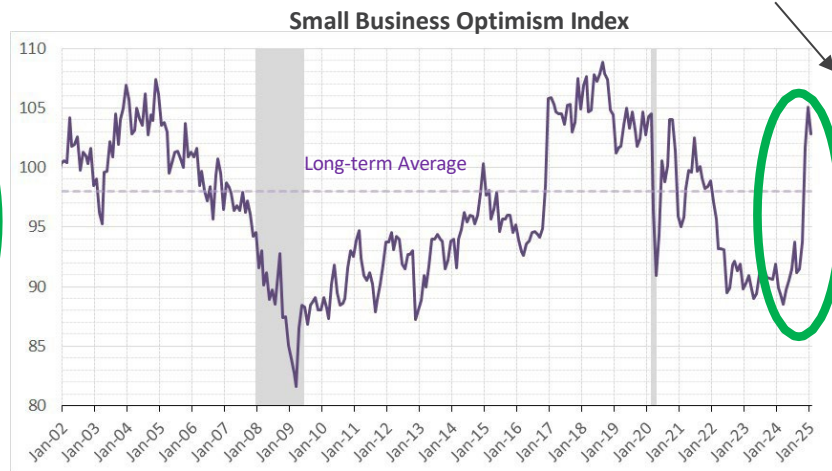
Corporate profitability remains healthy. Future business optimism jumps.

## Annual growth broken into changes in revenue, profit margin and share count



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NFIB Chief Economist Bill Dunkelberg: *“Overall, small business owners remain optimistic regarding future business conditions, but uncertainty is on the rise. Hiring challenges continue to frustrate Main Street owners as they struggle to find qualified workers to fill their many open positions. Meanwhile, fewer plan capital investments as they prepare for the months ahead.”*



Source: Bureau of Economic Analysis, National Federation of Independent Business ("NFIB"), U.S. Census Bureau, Manufacturers: Inventories to Sales Ratio, Federal Reserve Bank of St. Louis, CLA Wealth Advisors

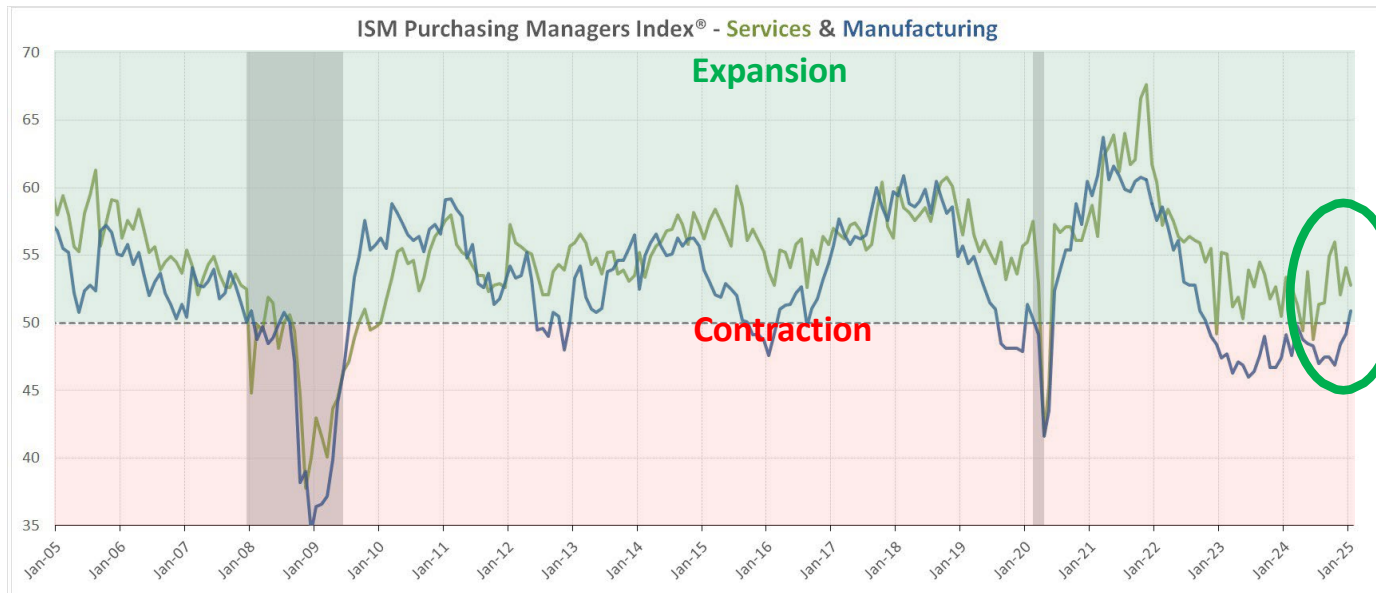
Grey areas denote recessions.

*Data is based upon availability as of 2/11/2025.*



# Businesses

Services are expanding, Manufacturing is contracting.



Grey areas denote recessions.

**Note:** With a diffusion Index, any reading above 50 (dotted line) indicates growth. Readings below 50 indicate contraction.

**Services** include real estate, utilities; construction; education; information; transportation and warehousing; health care and social assistance; public administration; finance and insurance; management of companies and support services; professional, scientific and technical services, agriculture, forestry, fishing and hunting; and arts, entertainment and recreation; and other services.

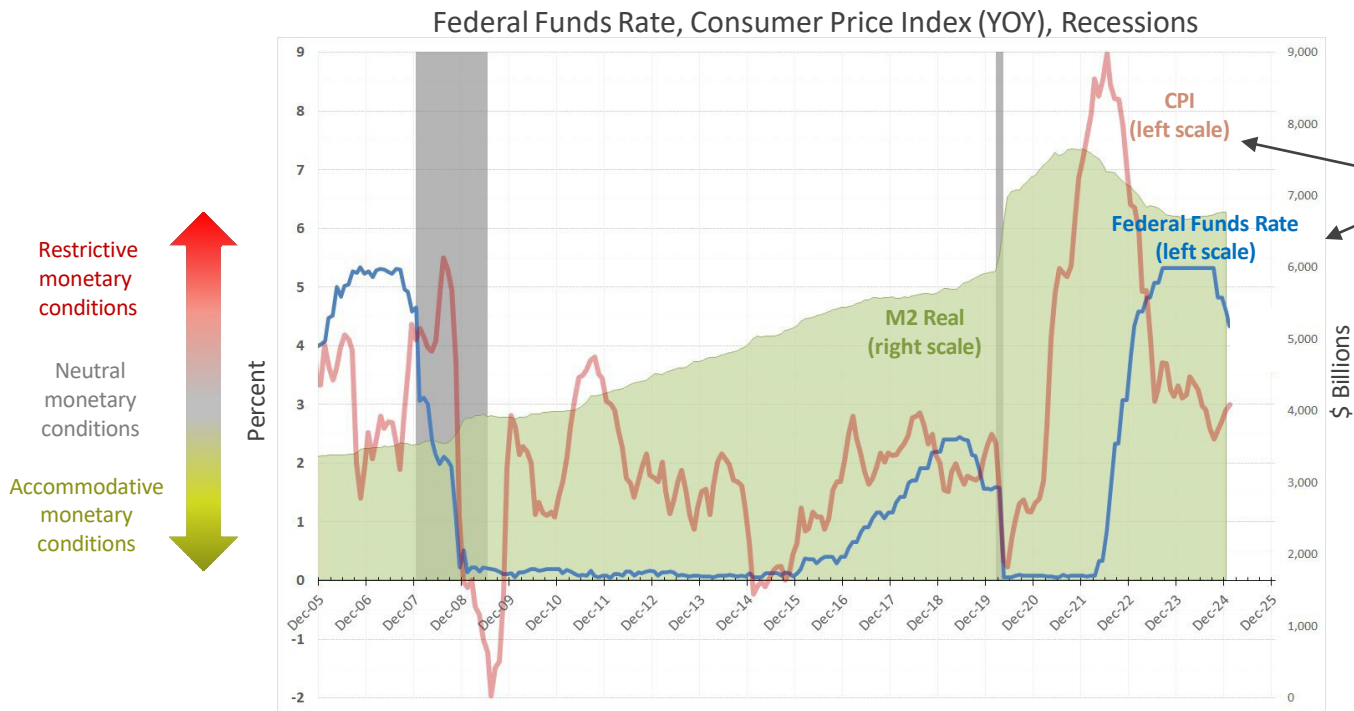
**Manufacturing** includes mineral products; petroleum and coal; transportation equipment; computer and electronic products; printing and related activities; plastics and rubber products; primary metals; machinery; food, beverage and tobacco products; wood products; apparel, leather and allied products; furniture and related products; paper products; chemical products; fabricated metal products; and electrical equipment, appliances and components.

Source: Institute for Supply Management, CLA Wealth Advisors  
Data is based upon availability as of 2/7/2025



# Federal Reserve

Monetary policy remains restrictive



By raising the federal funds rate, the Fed reduced lending activity, which contracted the money supply (M2) and reduced inflationary pressures.

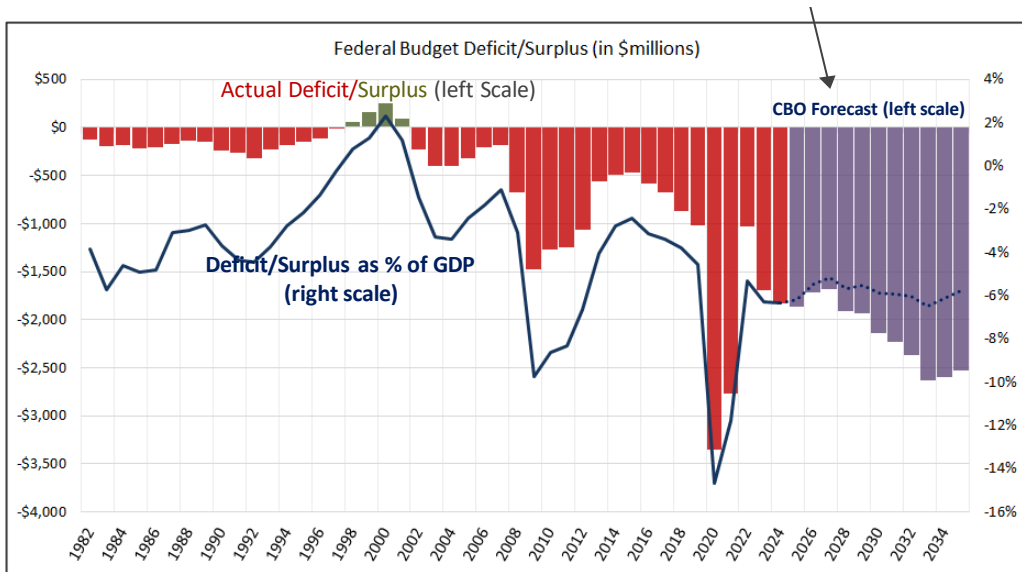
Grey areas denote recessions. Source: Board of Governors of the Federal Reserve System, U.S. Federal Open Market Committee, Federal Reserve Bank of St. Louis, NBER, Organization for Economic Co-operation and Development, CLA Wealth Advisors. Data is based upon availability as of 2/12/2025



# Fiscal Policy

Deficit spending is stimulative but can lead to “crowding out”.

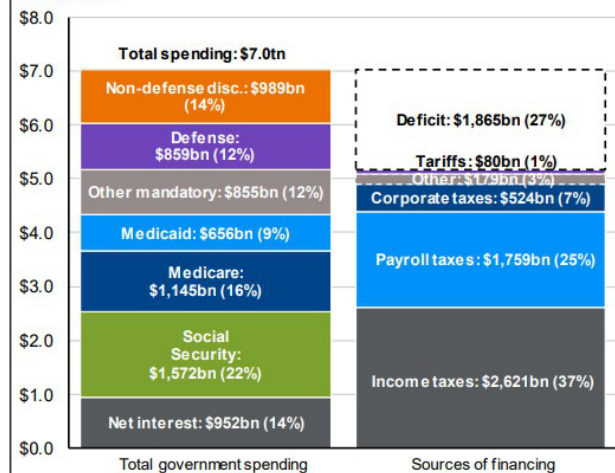
The “crowding out” effect occurs when the private sector is “priced out of the market”, making it unable to fund future growth.



Source: Congressional Budget Office - The Budget and Economic Outlook: 2024-2034, U.S. Office of Management and Budget, Federal Reserve Bank of St. Louis, CLA Wealth Advisors Data is based upon availability as of 2/7/2025

## The 2025 federal budget

USD trillions



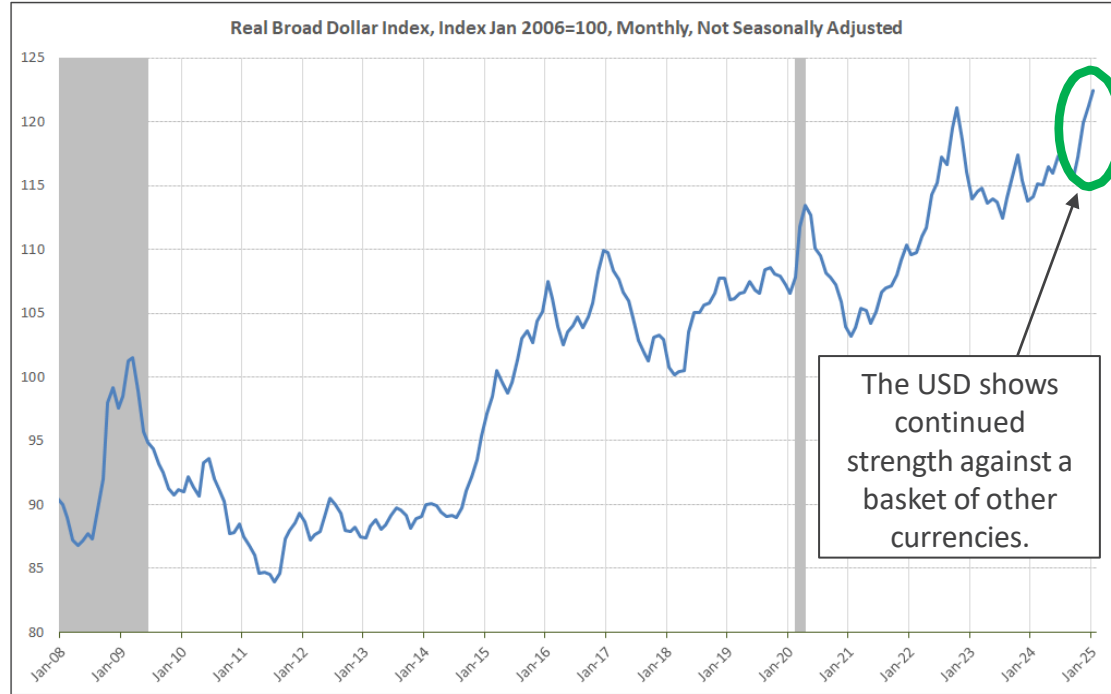
## CBO's Baseline economic assumptions

	2025	'26-'27	'28-'29	'30-'35
Real GDP growth	2.2%	1.8%	1.8%	1.8%
10-year Treasury	4.1%	3.9%	3.9%	3.8%
Headline inflation (CPI)	2.3%	2.4%	2.3%	2.2%
Unemployment	4.2%	4.4%	4.4%	4.4%



# U.S. Dollar

U.S. Dollar (USD) remains strong, reflecting US economic strength.



The exchange rate of any two currencies is influenced by some combination of the:

1. Inflation differential between the two currencies
2. Interest rate differential between the two countries
3. Trade surplus/deficit of each country
4. Overall level of public debt of each country
5. Level of economic growth of each country

The USD is considered a “safe haven” currency, which means it tends to increase in value during times of international turmoil and economic slowdowns.

*Grey areas denote recessions.*

*Source: Board of Governors of the Federal Reserve System, Federal Reserve Bank of St. Louis, CLA Wealth Advisors*

*Data is based upon availability as of 2/7/2025*

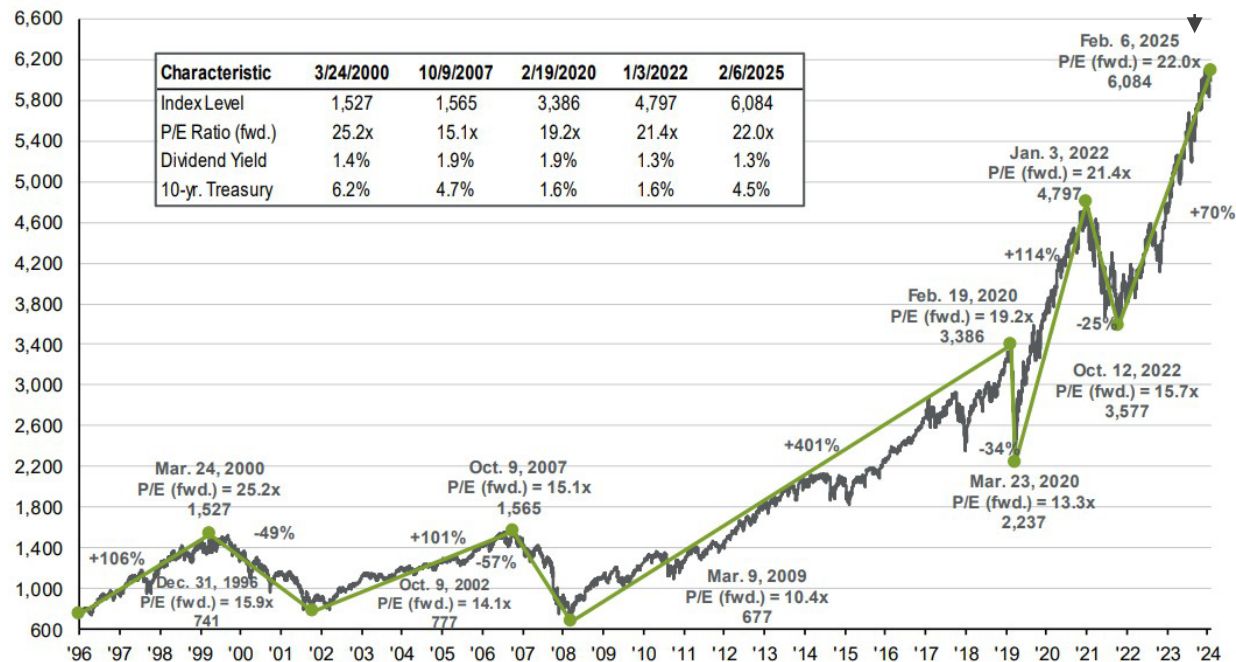


# Stock Market

Performance reflects strong economic backdrop and high profit margins.

## S&P 500 Price Index

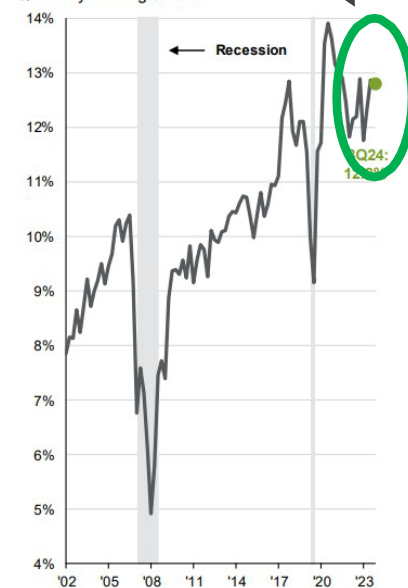
S&P 500 was up 70% from Oct. 2022 to Feb 6, 2025.



Profit margins hover near 13%.

## S&P 500 profit margins

Quarterly earnings/sales



# Stock Market Style Factors

P/CF Ratios (where P = Price, CF = Estimate of current fiscal year cash flow per share)

Most P/CF ratios remain elevated.

## Current, Median, Prior Year-End and Historical Range

Data runs from 3/31/2008 to 12/31/24, unless noted by \*.



\* Data from  
5/31/2011

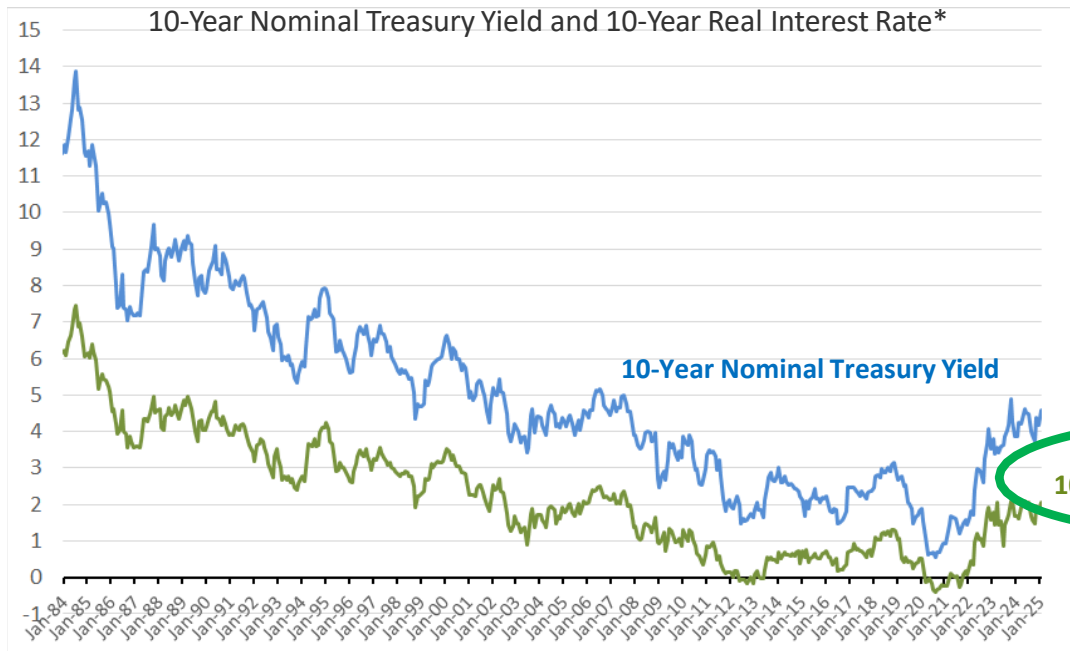
Source: Morningstar, CLA Wealth Advisors

Note: the most recent measurement is denoted by "◆", the median value by "—", and the prior year-end value (12/31/23) by "○".



# Bond Market

The “10-year real interest rate” is at its most attractive level in nearly 20 years.



Real Interest Rate = Nominal Rate – Inflation

The “real” interest rate is the return an investor or lender expects to receive after factoring in the effects of inflation.

Source: Federal Reserve Bank of Cleveland, Federal Reserve Bank of St. Louis, CLA Wealth Advisors.

Data is based upon availability as of 2/7/2025

\* “The Federal Reserve Bank of Cleveland estimates the expected rate of inflation over the next 30 years along with the inflation risk premium, the real risk premium, and the real interest rate. Their estimates are calculated with a model that uses Treasury yields, inflation data, inflation swaps, and survey-based measures of inflation expectations.”



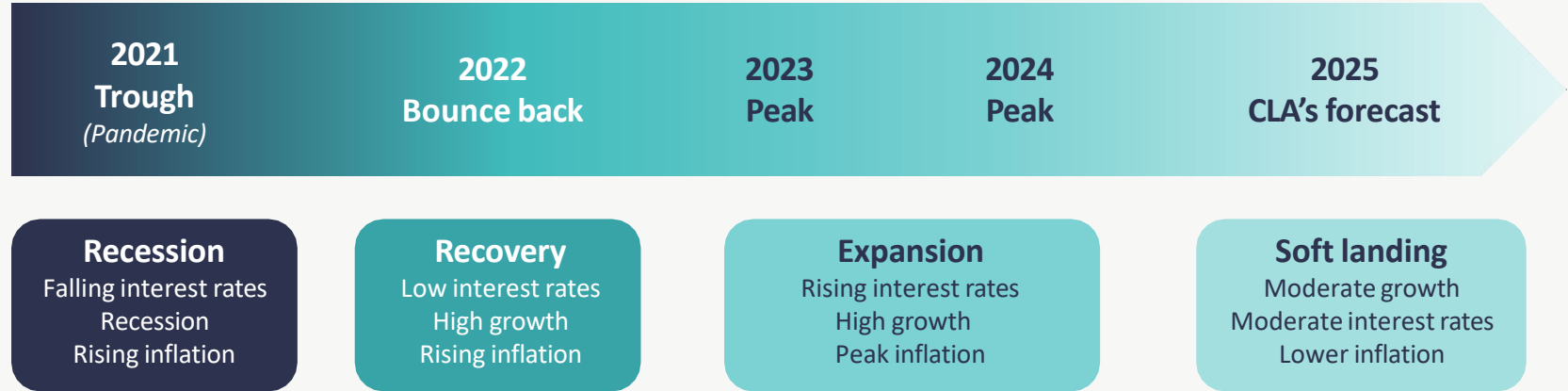


# CLA Outlook



# Economic Outlook – 2025 Forecast

Where are we in the economic cycle?



# Economic Outlook – Snapshot

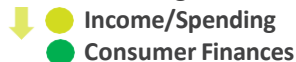
Economic activity is likely to slow from current levels, but no recession is in sight.

## Economic Activity



U.S. Economic growth to slow from current levels.

## Consumer Strength



Spending to slow amid higher interest rates and slower wage growth.

## Business Conditions



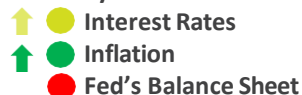
Profit margins likely to compress given sticky input costs.  
Small business confidence was boosted by election results.

## Labor



Labor market continues to weaken while wage gains moderate.

## Fed Policy



Monetary policy remains restrictive, keeping inflation on a downward path. Fed continues “Quantitative Tightening”.

## Fiscal Policy



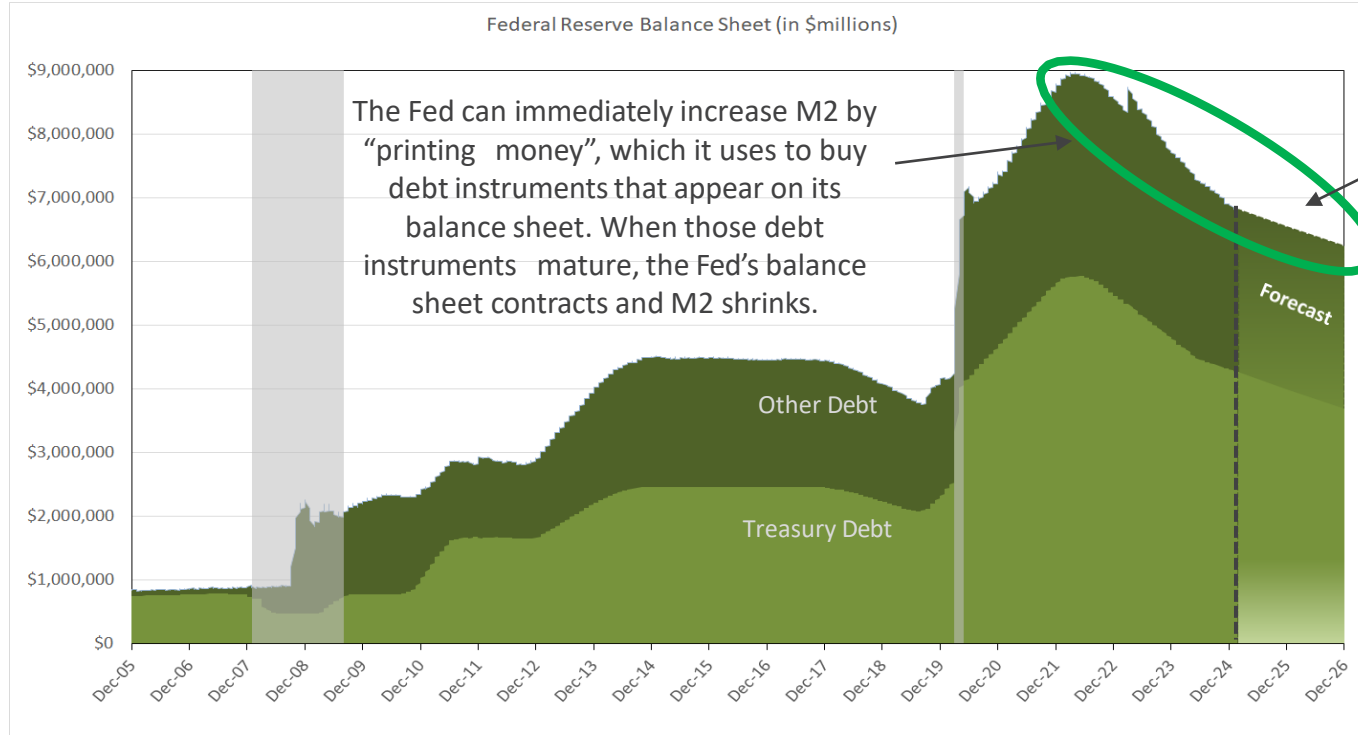
A new Trump administration is likely to cut spending, while the post-election market rally sees tax cuts and fewer regulations.





# Economic Outlook

## The Federal Reserve continues its path toward Quantitative Tightening



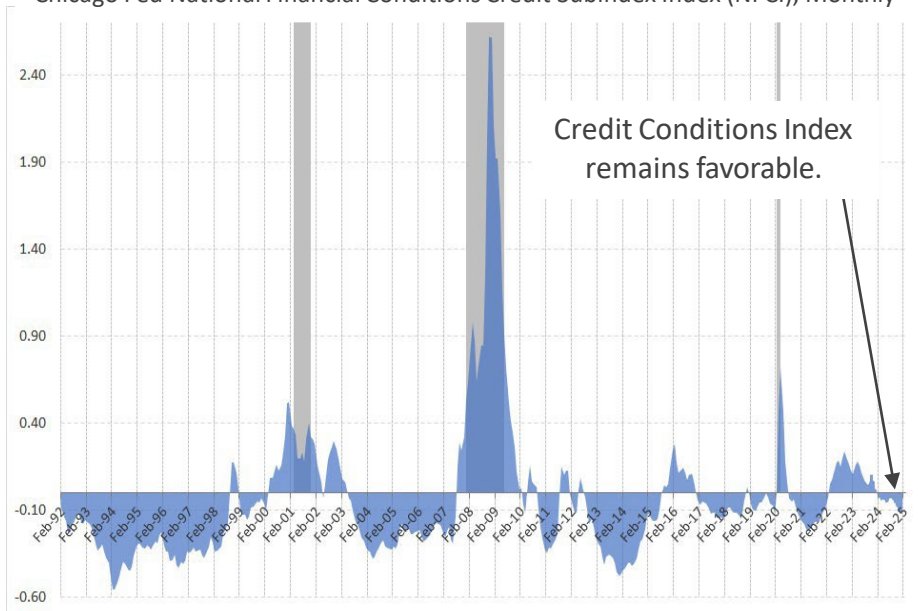
The Fed’s balance sheet continues to shrink, which decreases M2 (withdraws liquidity from the economy).



# Economic Outlook – Credit Spreads

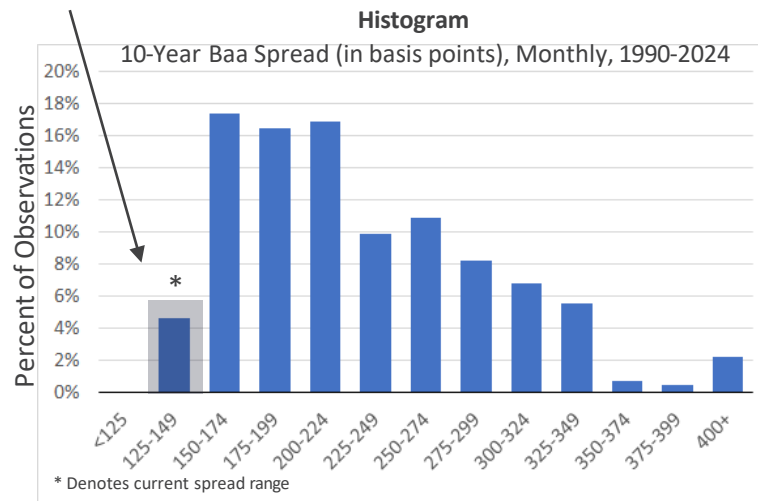
The credit markets are not pricing in a recession.

Chicago Fed National Financial Conditions Credit Subindex Index (NFCI), Monthly



Source: Federal Reserve Bank of St. Louis, CLA Wealth Advisors

Credit spreads remain low.



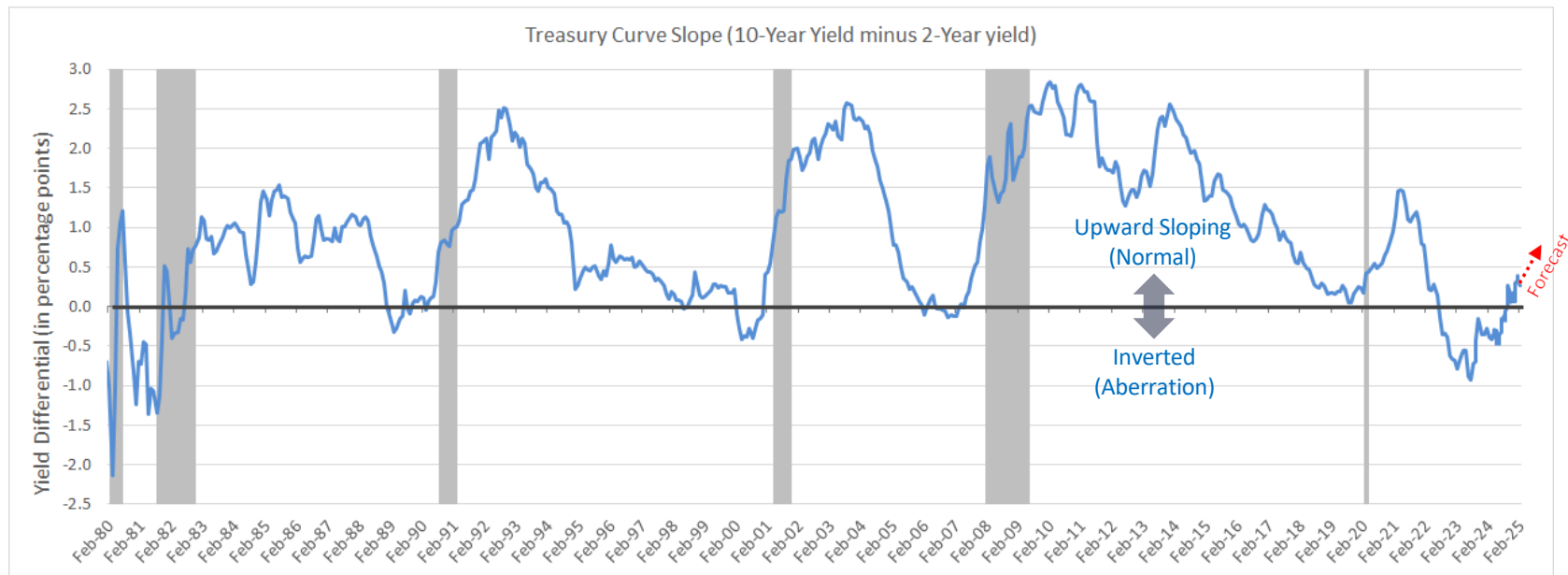
Source: Moody's, Federal Reserve Bank of St. Louis, CLA Wealth Advisors

Data is based upon availability as of 2/7/2025



# Bond Market Outlook — Slope of the Yield Curve

The yield curve should continue “steepening” as the Fed cuts interest rates



Grey areas denote recessions.

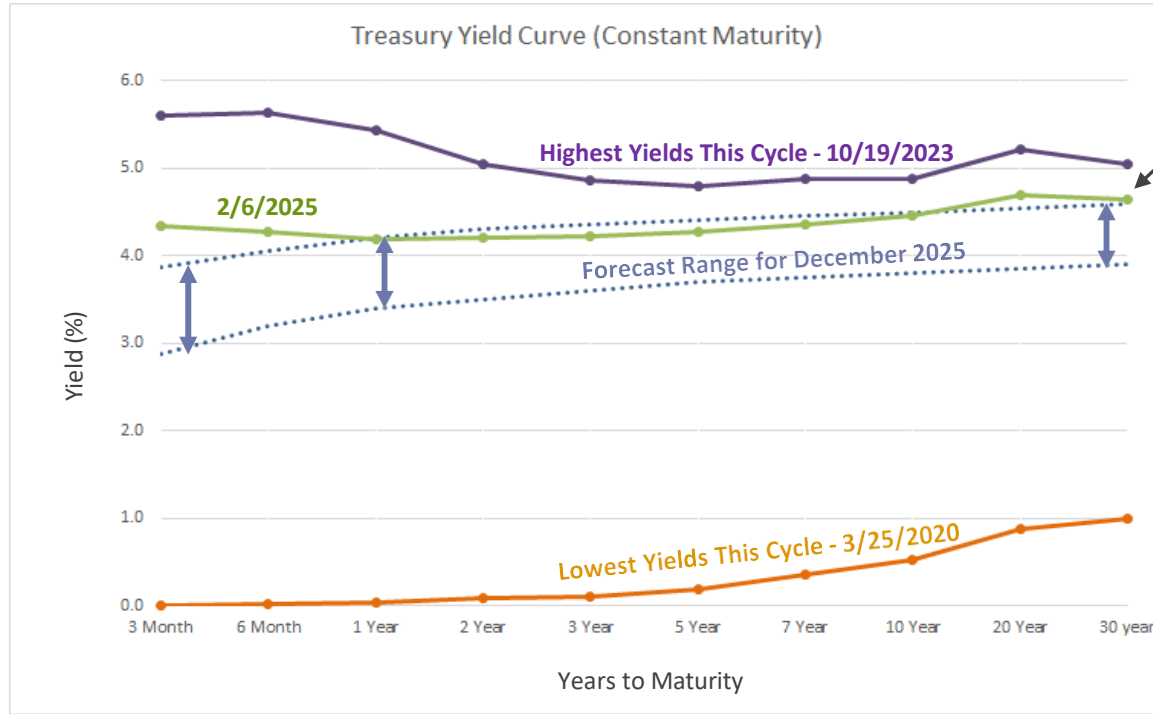
Data is based upon availability as of 2/7/2025

Source: Federal Reserve Bank of St. Louis, NBER, CLA Wealth Advisors



# Bond Market Outlook – Capital Market Assumptions

Short-term interest rates are expected to fall while long-term rates remain rangebound.



Bond yields are now generating a real return much higher than the inflation rate. We particularly like the after-tax returns of municipal bonds at these levels.

## 5-7 Year Return Estimates

Asset Class	2025 Return Estimates	2024 Return Estimates	Change
Cash	3.30	3.40	↓ -0.10
Inflation Protected	4.19	4.25	↓ -0.06
Municipal Bonds	3.85	3.70	↑ 0.15
High Yield Municipals	4.69	5.20	↓ -0.51
US Bonds – Short	4.08	3.60	↑ 0.47
US Bonds – Total	4.65	4.20	↑ 0.45
US Bonds – Long	4.92	5.20	↓ -0.28
US High Yield Bonds	5.98	6.85	↓ -0.87

Source: Board of Governors of the Federal Reserve System, St Louis Federal Reserve, CLA Wealth Advisors

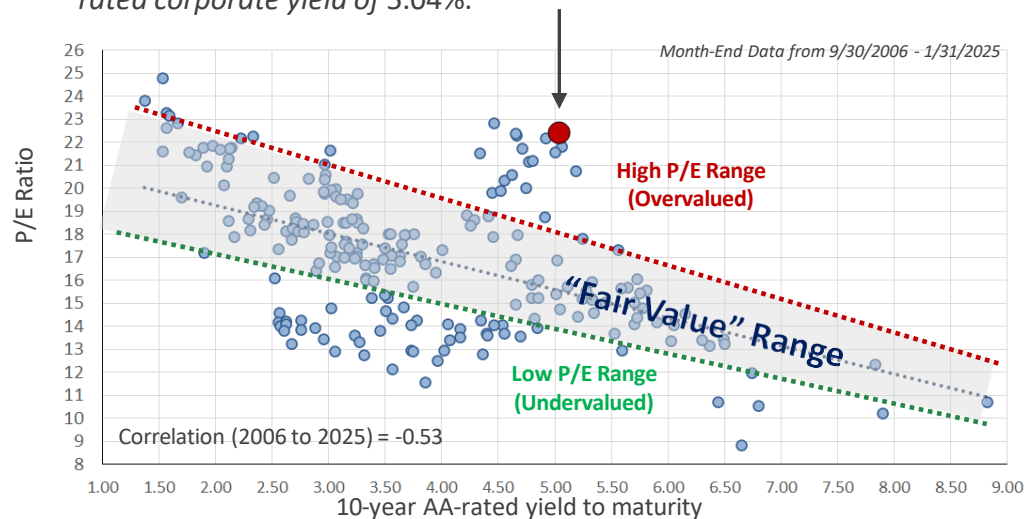
Data is based upon availability as of 2/7/2025



# Stock Market Outlook – Capital Market Assumptions

High valuations indicate muted future equity returns.

On 1/31/2025, the S&P500 P/E ratio hit 22.4x forward consensus earnings, which lies above the “fair value” range, given the 10-year AA-rated corporate yield of 5.04%.



Source: St Louis Federal Reserve, Morningstar, Barclays, CLA Wealth Advisors

Stock valuations remain elevated, although REITs are now more attractive

## 5-7 Year Return Estimates

Asset Class	2025 Return Estimates	2024 Return Estimates	Change
US Large Cap Stocks	6.50	7.95	↓ -1.45
US Small Cap Stocks	6.86	8.70	↓ -1.84
US REITs	7.53	5.95	↑ 1.58
Int’l Developed Stocks	8.07	9.15	↓ -1.08
Emerging Market Stocks	7.85	9.70	↓ -1.85



# Stock Market Outlook - Equity Market Style Factors

**P/E Ratios** (where P = Price, E = 5-year consensus EPS forecast)

Most P/E ratios remain elevated.

## Current, Median, Prior Year-End and Historical Range

Data runs from 3/31/2008 to 12/31/24, unless noted by \*.



\* Data from  
5/31/2011

Source: Morningstar, CLA Wealth Advisors

Note: the most recent measurement is denoted by "◆", the median value by "—", and the prior year-end value (12/31/23) by "○".



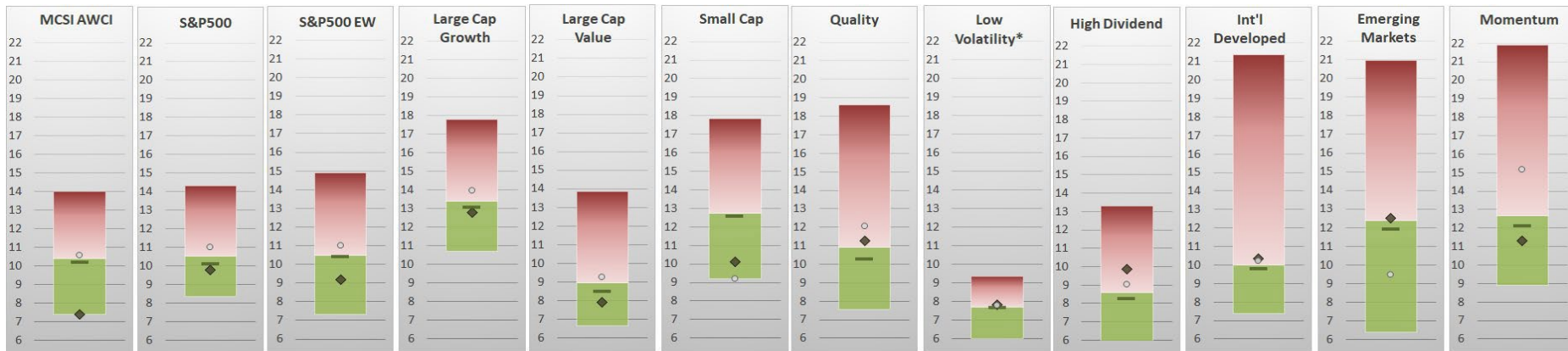
# Stock Market Outlook - Equity Market Style Factors

## 5-Year EPS Growth Rate Forecast

The EPS growth rate forecast for most Style Factors are at or below mean.

### Current, Median, Prior Year-End and Historical Range

Data runs from 3/31/2008 to 12/31/24, unless noted by \*.



\* Data from  
5/31/2011

Source: Morningstar, CLA Wealth Advisors

Note: the most recent measurement is denoted by “◆”, the median value by “—”, and the prior year-end value (12/31/23) by “○”.



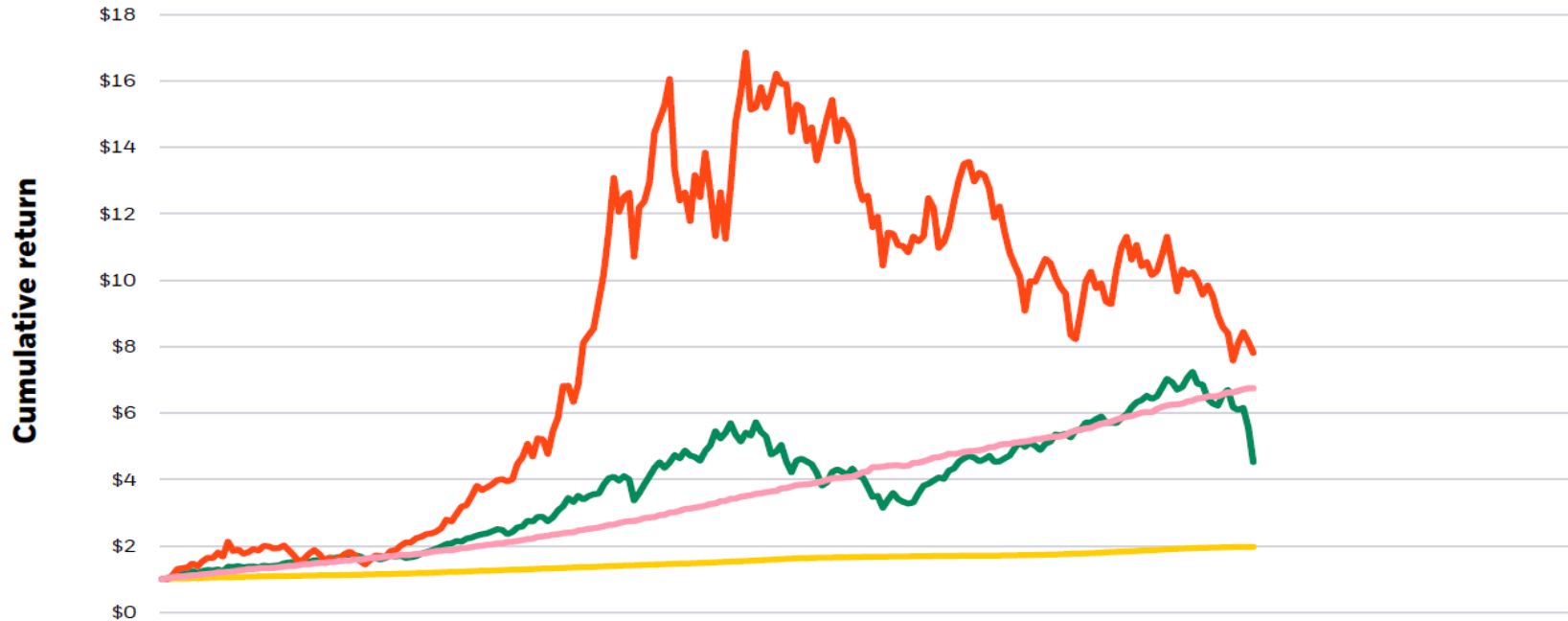


# Timing and Diversification





# Which would you choose?



Source: Lo, Andrew, 2017, *Adaptive Markets: Financial Evolution at the Speed of Thought* (Figure 10.3). Princeton University Press. For illustrative purposes only. Not meant to represent a specific recommendation for any security listed. Past performance is no guarantee of future results.



# Which did you pick?



Source: Lo, Andrew, 2017, *Adaptive Markets: Financial Evolution at the Speed of Thought* (Figure 10.3). Princeton University Press. For illustrative purposes only. Not meant to represent a specific recommendation for any security listed. Past performance is no guarantee of future results.



# Asset class returns

2010–2024		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Ann.	Vol.															
Large Cap	Small Cap	REITs	REITs	REITs	Small Cap	REITs	REITs	Small Cap	EM Equity	Cash	Large Cap	Small Cap	REITs	Comdty.	Large Cap	Large Cap
13.9%	20.6%	27.9%	8.3%	19.7%	38.8%	28.0%	2.8%	21.3%	37.8%	1.8%	31.5%	20.0%	41.3%	16.1%	26.3%	25.0%
Small Cap	EM Equity	Small Cap	Fixed Income	High Yield	Large Cap	Large Cap	Large Cap	High Yield	DM Equity	Fixed Income	REITs	EM Equity	Large Cap	Cash	DM Equity	Small Cap
10.3%	17.9%	26.9%	7.8%	19.6%	32.4%	13.7%	1.4%	14.3%	25.6%	0.0%	28.7%	18.7%	28.7%	1.5%	18.9%	11.5%
REITs	REITs	EM Equity	High Yield	EM Equity	DM Equity	Fixed Income	Fixed Income	Large Cap	Large Cap	REITs	Small Cap	Large Cap	Comdty.	High Yield	Small Cap	Asset Alloc.
9.4%	16.8%	19.2%	3.1%	18.6%	23.3%	6.0%	0.5%	12.0%	21.8%	-4.0%	25.5%	18.4%	27.1%	-12.7%	16.9%	10.0%
Asset Alloc.	DM Equity	Comdty.	Large Cap	DM Equity	Asset Alloc.	Asset Alloc.	Cash	Comdty.	Small Cap	High Yield	DM Equity	Asset Alloc.	Small Cap	Fixed Income	Asset Alloc.	High Yield
7.2%	16.5%	16.8%	2.1%	17.9%	14.9%	5.2%	0.0%	11.8%	14.6%	-4.1%	22.7%	10.6%	14.8%	-13.0%	14.1%	9.2%
High Yield	Comdty.	Large Cap	Cash	Small Cap	High Yield	Small Cap	DM Equity	EM Equity	Asset Alloc.	Large Cap	Asset Alloc.	DM Equity	Asset Alloc.	Asset Alloc.	High Yield	EM Equity
5.9%	16.1%	15.1%	0.1%	16.3%	7.3%	4.9%	-0.4%	11.6%	14.6%	-4.4%	19.5%	8.3%	13.5%	-13.9%	14.0%	8.1%
DM Equity	Large Cap	High Yield	Asset Alloc.	Large Cap	REITs	Cash	Asset Alloc.	REITs	High Yield	Asset Alloc.	EM Equity	Fixed Income	DM Equity	DM Equity	REITs	Comdty.
5.7%	15.1%	14.8%	-0.7%	16.0%	2.9%	0.0%	-2.0%	8.6%	10.4%	-5.8%	18.9%	7.5%	11.8%	-14.0%	11.4%	5.4%
EM Equity	Asset Alloc.	Asset Alloc.	Small Cap	Asset Alloc.	Cash	High Yield	High Yield	Asset Alloc.	REITs	Small Cap	High Yield	High Yield	High Yield	Large Cap	EM Equity	Cash
3.4%	10.4%	13.3%	-4.2%	12.2%	0.0%	0.0%	-2.7%	8.3%	8.7%	-11.0%	12.6%	7.0%	1.0%	-18.1%	10.3%	5.3%
Fixed Income	High Yield	DM Equity	DM Equity	Fixed Income	Fixed Income	EM Equity	Small Cap	Fixed Income	Fixed Income	Comdty.	Fixed Income	Cash	Cash	EM Equity	Fixed Income	REITs
2.4%	9.4%	8.2%	-11.7%	4.2%	-2.0%	-1.8%	-4.4%	2.6%	3.5%	-11.2%	8.7%	0.5%	0.0%	-19.7%	5.5%	4.9%
Cash	Fixed Income	Fixed Income	Comdty.	Cash	EM Equity	DM Equity	EM Equity	DM Equity	Comdty.	DM Equity	Comdty.	Comdty.	Fixed Income	Small Cap	Cash	DM Equity
1.2%	4.7%	6.5%	-13.3%	0.1%	-2.3%	-4.5%	-14.6%	1.5%	1.7%	-13.4%	7.7%	-3.1%	-1.5%	-20.4%	5.1%	4.3%
Comdty.	Cash	Cash	EM Equity	Comdty.	Comdty.	Comdty.	Comdty.	Cash	Cash	EM Equity	Cash	REITs	EM Equity	REITs	Comdty.	Fixed Income
-1.0%	0.9%	0.1%	-18.2%	-1.1%	-9.5%	-17.0%	-24.7%	0.3%	0.8%	-14.2%	2.2%	-5.1%	-2.2%	-24.9%	-7.9%	1.3%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.

Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg U.S. Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg U.S. Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2009 to 12/31/2024. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.

Guide to the Markets – U.S. Data are as of December 31, 2024.



# S&P Envy

24% U.S. large stocks, 24% U.S. mid cap stocks, 5% international stocks, 2% U.S. small cap stocks,  
5% emerging market stocks, 20% U.S. bonds, 20% high yield bonds

Years	S&P 500	Diversified portfolio
2000-2002*	-40.1%	-15.7%
2003-2007	+82.9%	+91.5%
2008	-37.0%	-28.5%
2009-2019	+351.0%	+237.2%
Q1 2020†	-30.4%	-24.2%
Q2 2020-2021*	+119.0%	+69.8%
2022	-18.1%	-15.3%
2023	+26.3%	+15.9%
<b>Total return</b>	<b>+390.8%</b>	<b>+391.4%</b>
<b>Growth of \$100,000</b>	<b>\$490,770</b>	<b>\$491,430</b>

"I lost money"

"Diversification worked"

"I lost money"

"I didn't make as much"

"I lost money"

"I didn't make as much"

"I lost money"

"I didn't make as much"

"Diversification can work even when it feels like its losing"

Source: Morningstar as of 12/31/23. \*Performance is from 9/1/00 to 12/31/02. †Performance is from 1/1/20 to 3/23/20. \*Performance is from 3/24/20 to 12/31/21. Diversified Portfolio is represented by 24% S&P 500 Index, 24% Russell Mid Cap Index, 5% MSCI EAFE Index, 2% Russell 2000 Index, 5% FTSE Emerging Stock Index, 20% Bloomberg U.S. Aggregate Bond Index, and 20% Bloomberg U.S. Corporate High Yield Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index. Diversification does not guarantee a profit or protect against a loss in a declining market.



# So goes the year?

History shows that 2025's modest start could provide momentum for markets to continue trending upwards

## A positive return for stocks to start 2025

January returns and returns for remainder of calendar year, since 2009

	January return	Return for rest of year (11 months)
2025	2.8%	?
2024	1.7%	23.0%
2023	6.3%	18.8%
2022	-5.2%	-13.6%
2021	-1.0%	30.0%
2020	-0.0%	18.5%
2019	8.0%	21.7%
2018	5.7%	-9.6%
2017	1.9%	19.6%
2016	-5.0%	17.8%
2015	-3.1%	4.5%
2014	-3.5%	17.8%
2013	5.2%	25.9%
2012	4.5%	11.0%
2011	2.4%	-0.3%
2010	-3.6%	19.4%
2009	-8.4%	38.1%

## Positive returns have tended to carry through

Average return for remainder of calendar years following positive or negative first-month returns, 1/1/1926 – 1/31/2025

12.8%

In calendar years with a **positive** January, stocks finished the year **higher** 80% of the time (49 of 61 years)

**POSITIVE** January

7.6%

In calendar years with a **negative** January, stocks finished the year **lower** 39% of the time (15 of 38 years)

**NEGATIVE** January

Source: Morningstar as of 1/31/25. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 1/31/25 and the IASBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.



# Timing the Market

## Even bad market timing trumps inertia



Buys at lowest  
price every year

Buys  
Jan. 1

Buys 1<sup>st</sup>  
of every  
month

Buys at highest  
price every year

Stays in money  
market (cash)

**\$2,000 invested annually** in a hypothetical portfolio that tracks the S&P 500® Index from 2001-2020. The individual who never bought stocks in the example invested in a hypothetical portfolio that tracks the Ibbotson U.S. 30-day Treasury Bill Index. **Past performance is no guarantee of future results.**

Source: [Does Market Timing Work?](#) | Charles Schwab



# Investing at all time highs

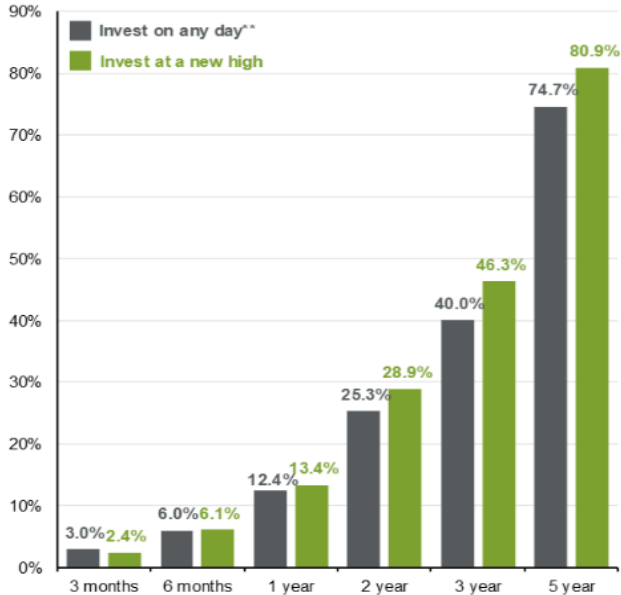
## All-time highs and market floors

S&P 500 price index, daily, 1950–today



## Average cumulative S&P 500 total returns

Jan. 1, 1988–Dec. 31, 2024



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

(Left) \*Market floor is defined as an all-time high from which the market never fell more than 5%. (Right) \*\*"Invest on any day" represents average of forward returns for the entire time period whereas "Invest at a new high" represents average of rolling forward returns calculated from each new S&P 500 high for the subsequent 3-months, 6-months, 1-year, 2-year and 3-year intervals, with data starting 1/1/1988 through 12/31/2024.

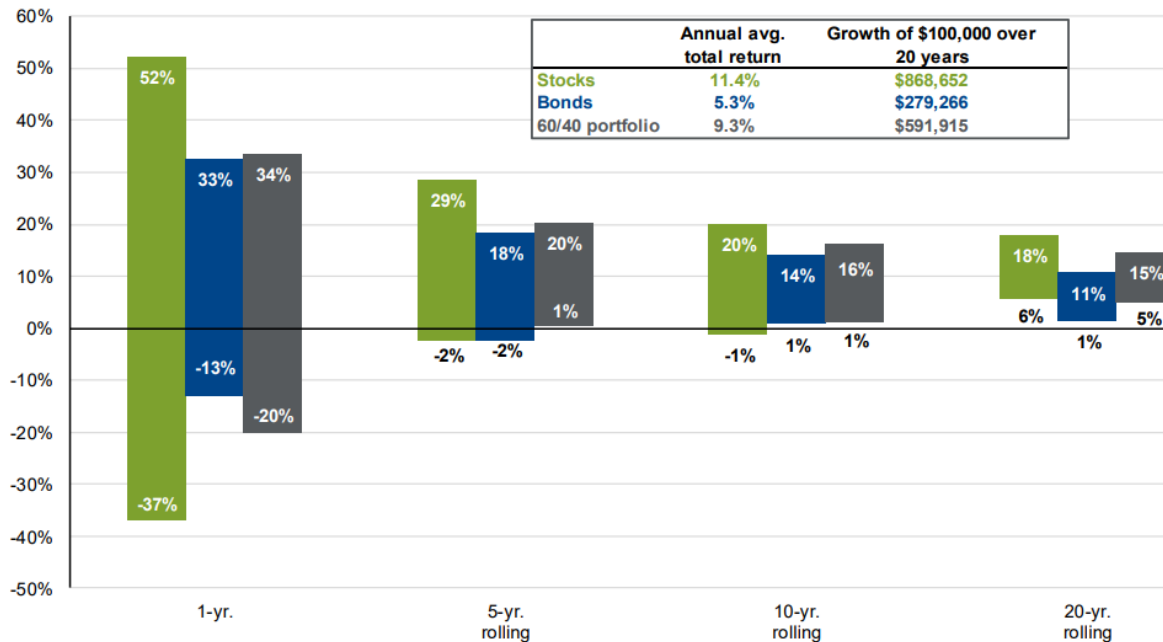
Guide to the Markets – U.S. Data are as of December 31, 2024.



# Time and Volatility of Returns

## Range of stock, bond and blended total returns

Annual total returns, 1950-2023



Diversified portfolios  
can navigate  
elevated volatility.

Data is based upon availability as of 10/17/2024

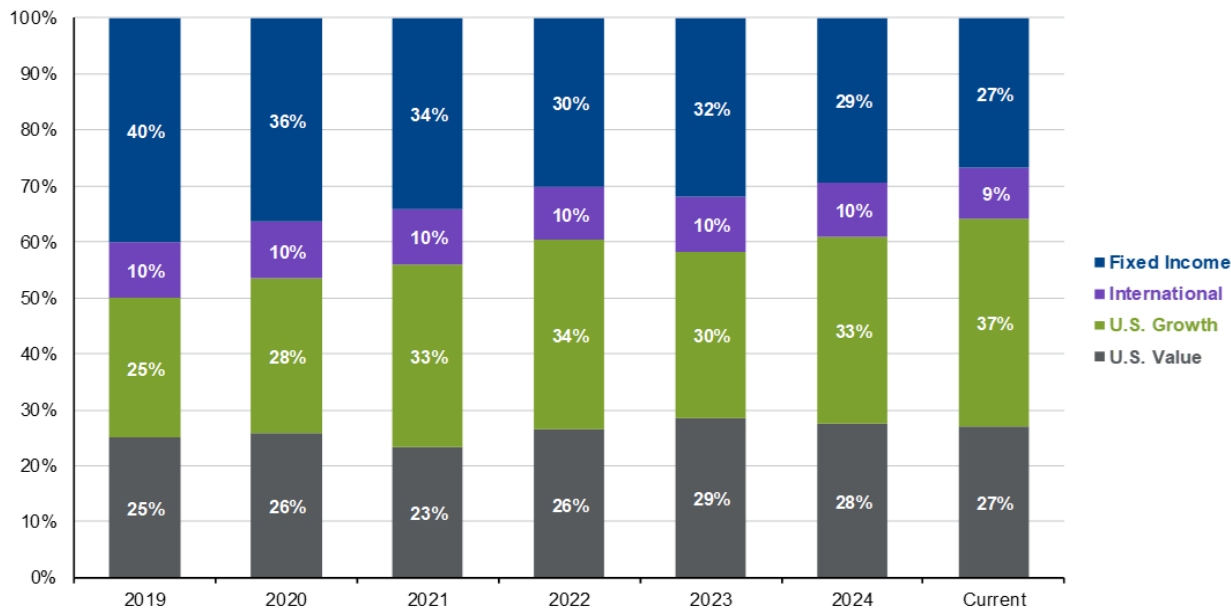




# Importance of Rebalancing

## 60/40 portfolio composition by asset class

Start of 2019 to current, no rebalancing



Source: Bloomberg, FactSet, MSCI, Russell, Standard & Poor's, J.P. Morgan Asset Management.

Standard asset allocation at the start of 2019 assumes 60% weight to global equities and 40% to U.S. fixed Income. U.S. Value: Equal-weighted Russell 1000 Value and Russell 2000 Value, U.S. Growth: Equal-weighted Russell 2000 Value and Russell 2000 Growth, International: MSCI ACWI ex-US, Fixed Income: 10% Bloomberg Global HY Index and 30% Bloomberg U.S. Aggregate. Past performance is not indicative of future returns.

Guide to the Markets – U.S. Data are as of December 31, 2024.



U.S. economy  
growth moderation

Lower inflation

Key  
Takeaways  
for 2025

Weaker labor market

Difficult to time  
the market – stay  
invested and diversified



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# Strategies for Identifying and Mitigating Risks

June 3, 2025



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# Learning Objectives



Identify tools to conduct effective fraud risk assessments



Identify elements of effective risk management plans



Recognize need for ongoing risk monitoring and communication

# Presenting Today



**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.





# Fraud Risk Assessments





# What Is a Fraud Risk Assessment?

Process to identify, analyze and mitigating potential fraud risks

## Risk identification

- Identify areas where there is a potential fraud risk

## Risk evaluation

- Assess the likelihood and potential impact of the fraud risk

## Risk prioritization

- Prioritize the identified risks based on significance to organization

## Control environment

- Evaluate the design and effectiveness of internal controls related to identified risks

## Fraud factors

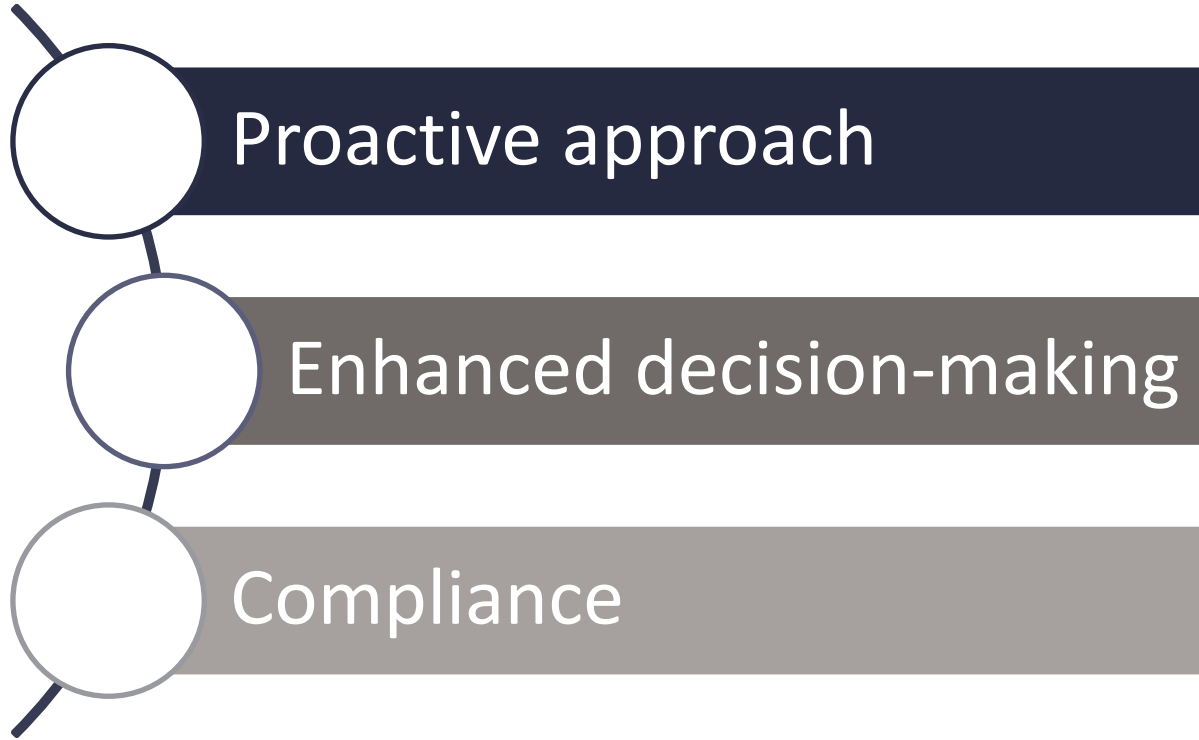
- Consider probability that fraud could occur, previous instances of fraud, etc.

## Internal factors

- Assess organizational culture, communication, employee morale or pressures



# Importance of Fraud Risk Assessments



# Mitigating Fraud Risks

Strengthen internal controls

Implement whistleblower or reporting mechanisms

Provide annual fraud awareness training

Continuous monitoring

Perform annual fraud risk assessments





# Tools to Conduct Effective Fraud Risk Assessments



# Identify Fraud Risks

## Internal resources

- Interviews with personnel across departments
- Brainstorming sessions about fraud scenarios
- Review of past incidents and complaints

## Consider fraud triangle and behavioral indicators

- Pressure
- Opportunity
- Rationalization

## Data analytics and continuous monitoring

- Transactions
- Vendor payments
- Payroll and procurement cycles



# Risk Evaluation – Assess the Likelihood

Likelihood				
Rating	Based on Annual Frequency		Based on Annual Probability of Occurrence	
	Descriptor	Definition	Descriptor	Definition
5	Very frequent	More than twenty times per year	Almost certain	>90% chance of occurrence
4	Frequent	Six to twenty times per year	Likely	65% to 90% chance of occurrence
3	Reasonably frequent	Two to five times per year	Reasonably possible	35% to 65% chance of occurrence
2	Occasional	Once per year	Unlikely	10% to 35% chance of occurrence
1	Rare	Less than once per year	Remote	< 10% chance of occurrence

# Risk Evaluation – Assess the Impact/Significance

Significance		
Rating	Descriptor	Definition
5	Catastrophic	<ul style="list-style-type: none"> <li>Financial loss to company in excess of \$10 million</li> <li>International, long-term media coverage</li> <li>Widespread employee morale issues and loss of multiple senior leaders</li> <li>Required to report incident to authorities, resulting in significant sanctions and financial</li> </ul>
4	Major	<ul style="list-style-type: none"> <li>Financial loss to company between \$100,000 and \$10 million</li> <li>National, long-term media coverage</li> <li>Widespread employee morale problems and turnover</li> <li>Required to report incident to authorities, resulting in sanctions against company</li> </ul>
3	Moderate	<ul style="list-style-type: none"> <li>Financial loss to company between \$10,000 and \$100,000</li> <li>Short-term, regional or national media coverage</li> <li>Widespread employee morale problems</li> <li>Required to report incident to authorities and take immediate corrective action</li> </ul>
2	Minor	<ul style="list-style-type: none"> <li>Financial loss to company between \$1,000 and \$10,000</li> <li>Limited, local media coverage</li> <li>General employee morale problems</li> <li>Incident is reportable to authorities, but no follow-up</li> </ul>
1	Incidental	<ul style="list-style-type: none"> <li>Financial loss to company less than \$1,000</li> <li>No media coverage</li> <li>Isolated employee dissatisfaction</li> <li>Event does not need to be reported to authorities</li> </ul>

# Risk Prioritization – Inherent Fraud Risk Calculation





# People and/or Department

Accounting/finance  
personnel

High exposure to  
asset  
misappropriation,  
financial  
statement fraud,  
expense  
manipulation

Procurement and  
vendor  
management

Risk of kickbacks,  
bid rigging,  
invoice fraud

Human resources

Risk of payroll  
fraud, ghost  
employees,  
falsified  
credentials

IT and  
cybersecurity

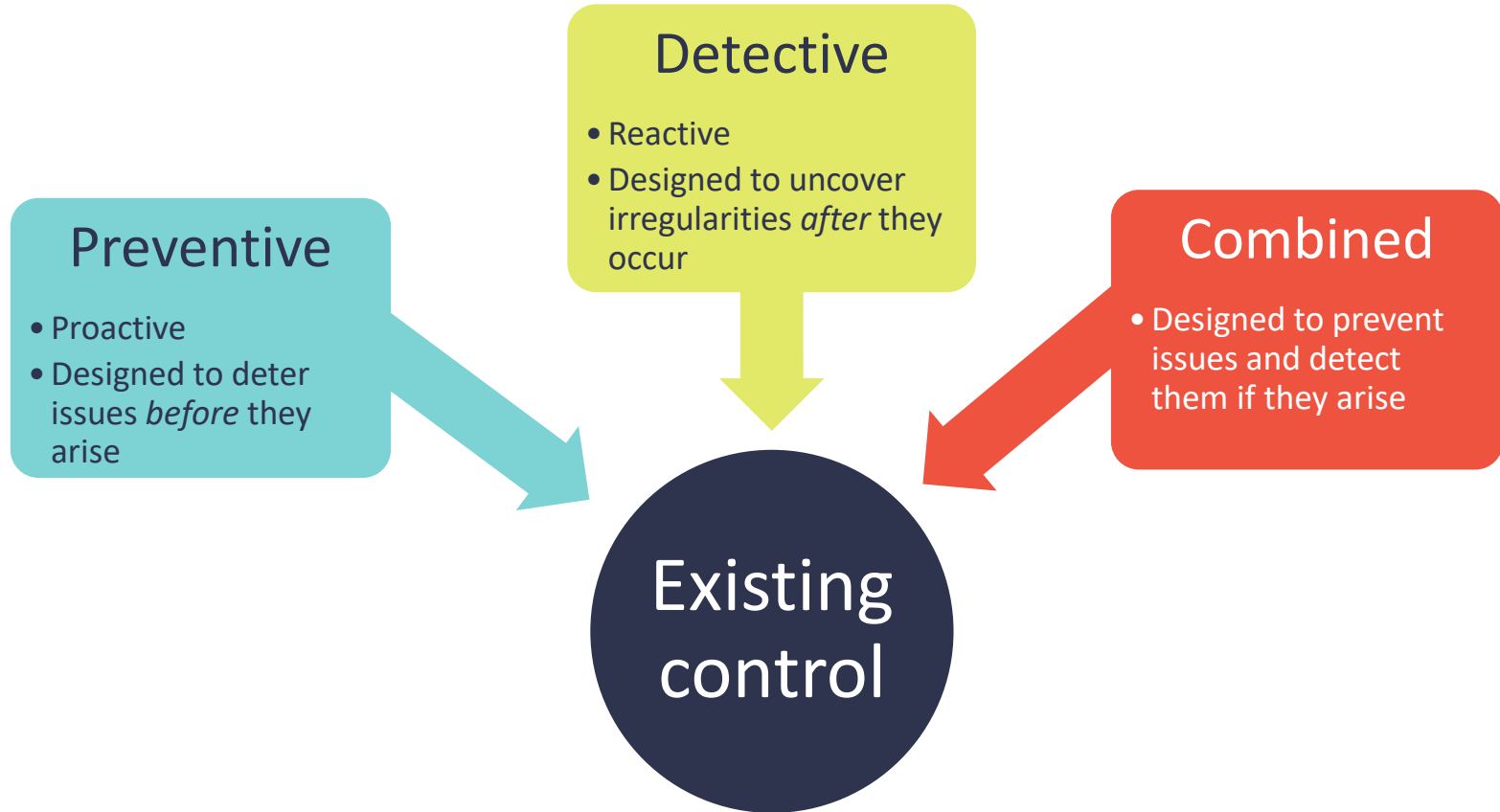
Susceptible to  
data breaches,  
phishing,  
unauthorized  
access

Operations and  
field services

Risk of inventory  
theft, falsified  
reporting, misuse  
of company  
assets



# Assess Existing Controls



# Assess Control Effectiveness

Control effectiveness	
Control risk rating	Description
5	Very effective (reduces 81-100% of the risk)
4	Effective (reduces 61-80% of the risk)
3	Moderately effective (reduces 41-60% of the risk)
2	Marginally effective (reduces 21-40% of the risk)
1	Not effective (reduces 0-20% of the risk)



# Calculate Residual Risk (High, Medium, Low)

$$\text{Residual Risk} = \text{Inherent Risk} \times (1 - \text{Control Effectiveness})$$

Residual risk score	Risk rating
1.0 – 3.0	Low
3.1 – 6.0	Medium
31. – 9.0	High

## ***Example:***

Fraud Risk Rating is 10 (2 likelihood x 5 impact) and controls are 70% effective

$$\text{Residual Risk} = 10 \times (1 - 0.70) = \mathbf{3}$$



# Develop a Fraud Response Plan

Component	Description
Detection protocols	Define how fraud will be identified (e.g., tips, monitoring, audits)
Investigation procedures	Outline steps for internal or external investigations, including evidence handling and documentation
Reporting channels	Establish confidential reporting mechanisms (e.g., hotlines, secure email)
Response team	Identify roles (legal, HR, compliance, forensics) and escalation paths
Communication plan	Define how and when to communicate with stakeholders, regulators, and law enforcement
Remediation actions	Include disciplinary measures, control enhancements, and restitution efforts



# Example Risk Assessment Worksheet

Fraud Risk Assessment as of [DATE]										
ID Number	Identified Fraud Risks and Schemes	Likelihood [1-5]	Significance [1-5]	Fraud Risk Rating	People and/or Department	Existing Anti-Fraud Controls	Preventive [P], Detective [D], or Combined [C]	Controls Effectiveness Assessment [1-5]	Residual Risks (High, Medium, Low)	Fraud Risk Response
AM4	Fraudulent Disbursements - Check Tampering & Expense Reimbursement Schemes	5	5	25	Check tampering: Accounting & Finance staff ( <i>including Treasury</i> ) Contracting Purchasing Operations managers Senior executives ( <i>e.g. Sales, Marketing, IT, Legal, General managers of remote locations, CEO, COO</i> )  Expense Reimbursement: All staff ( <i>especially sales personnel and management at remote locations</i> )	Physical access controls, dual signatures on checks, support for expenses, review by supervisor and requirement that any false statement made on any expense report could be grounds for dismissal  Awareness of pressures/incentives at all levels that might drive inappropriate financial behavior as well as observation, inquiry, and other information that focus on lifestyle.	D	1	Medium (if by senior mgmt)  Low (if by other employees)	Rotation of responsibilities in Accounting & Finance function, ( <i>e.g. mandatory vacations</i> )  Awareness of lifestyle and other personal issues such as divorce, illness, bankruptcies, and disgruntled employees who might want to get back at the organization
IAC 2	Conflicts of Interest - Undisclosed relationships or related-party transactions that negatively impact an organization's reputation and may cause financial harm while benefiting the person with the relationship	5	5	25	Owners Directors Senior executives ( <i>e.g. CEO, COO</i> ) Managers of operating units Managers at remote locations Purchasing Sales Legal	Policy requires all employees including senior management to disclose any personal relationships, business transactions and related parties in a timely manner for approval by the Board or other governing body  Background checks are performed on all key personnel looking for undisclosed interests in businesses, real estate, or other relationships  IA routinely uses data analysis tools to compare vendor and customer master files with employee payroll files looking for matching addresses, names, tax identification or social security numbers and telephone numbers	D	1	Medium - Risk of management override of internal controls to conceal relationships and related party transactions	Use background check specialists to re-evaluate the organization's background check procedures and to test-check the results on selected individuals
AM2	Fraudulent Disbursements - Billing Schemes - Use of phony vendors	3	5	15	Contracting Purchasing Operations managers Senior executives ( <i>e.g. Sales, Marketing, IT, Legal, General managers of remote locations, CEO, COO</i> ) Accounting & Finance staff	Purchases can only be made from approved vendors  Vendors are approved by the contracting department	D	1	Medium - Employee could set up and get approved a phony vendor either through collusion or by fooling the contracts department, but it would be extremely difficult for this to be material to the organization	Establish a data analytic test that looks for any matching fields in the vendor and employee databases





# Monitoring and Communication



# Ongoing Risk Monitoring

Continuously assess potential risks

Identifying  
new threats

Enhance risk  
management

Maintain  
operational  
resilience





# Role of Communication in Risk Management

**Make  
stakeholders  
aware of risks**

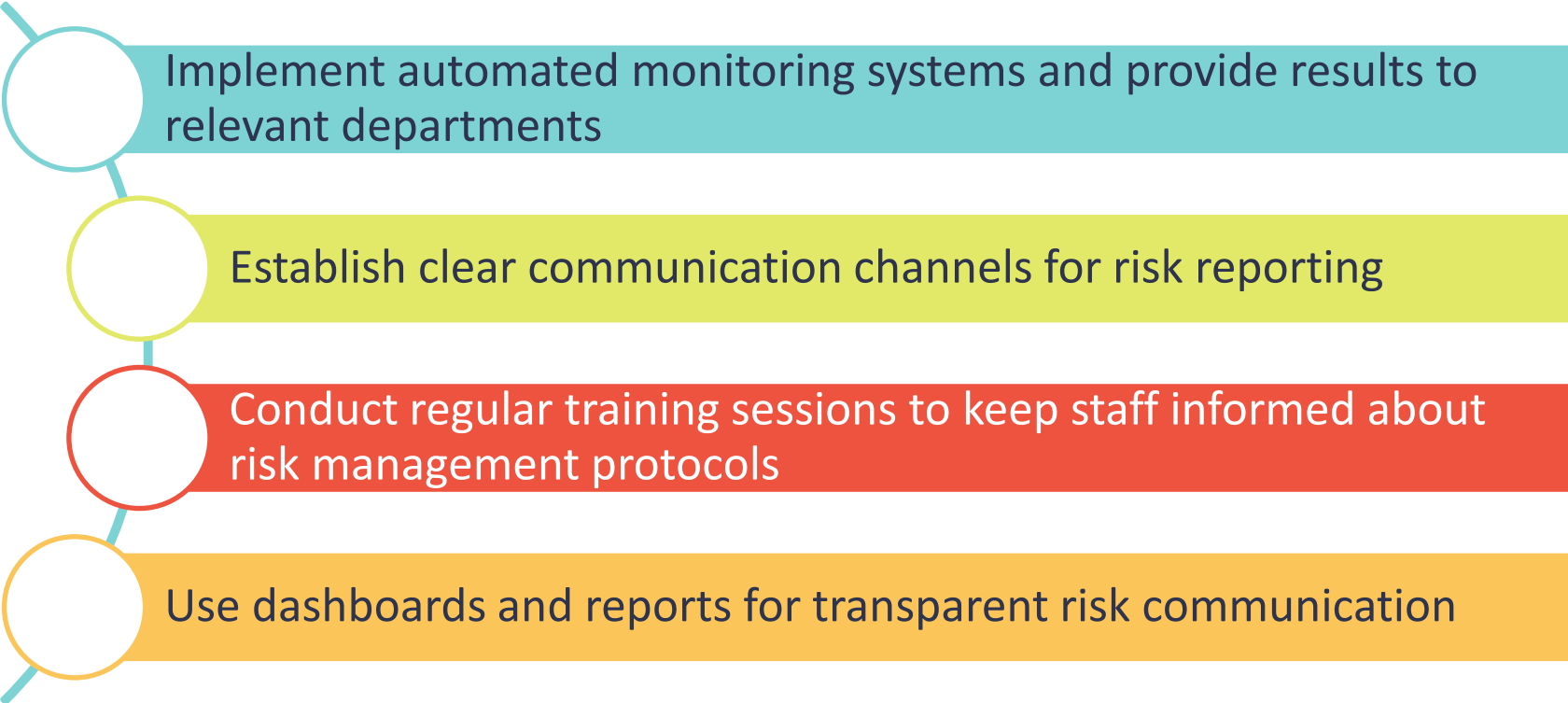
- They should understand mitigation strategies and their role in managing risks

**Regular updates  
and transparent  
reporting**

- Fosters a culture of accountability and proactive risk management



# Recommended Practices and Tools for Communication



Implement automated monitoring systems and provide results to relevant departments

Establish clear communication channels for risk reporting

Conduct regular training sessions to keep staff informed about risk management protocols

Use dashboards and reports for transparent risk communication



*Questions?*

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# Significant Changes to OMB's Uniform Guidance

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# Learning Objectives



Identify recent changes to the Uniform Guidance



Recall the changes to the Office of Management and Budget (OMB) updated and revised guidance for federal financial assistance



Recognize how to update grants management policies and procedures in response to the changes



# Background and Implementation





# Background



Every 5 years OMB reviews the Guidance for Federal Financial Assistance, located in title 2 of the Code of Federal Regulations (CFR)



Part 1, 25, 170, 180 182, 183, 184



Part 200 (Uniform Guidance)

# 2024 Revisions

- On April 22, 2024, the Office of Management and Budget (OMB) published revisions to Title 2 of the CFR (2024 Revisions), including 2 CFR part 200 in the Federal Register. This revised OMB Guidance for Grants and Agreements, is now called the “OMB Guidance for Federal Financial Assistance”.
  - [www.federalregister.gov/documents/2024/04/22/2024-07496/guidance-for-federal-financial-assistance](https://www.federalregister.gov/documents/2024/04/22/2024-07496/guidance-for-federal-financial-assistance)
- OMB also issued guidance in OMB Memorandum M-24-11, Reducing Burden in the Administration of Federal Financial Assistance, which included a section on implementation of Title 2 of the CFR discussed below.
  - [www.cfo.gov/assets/files/M-24-11-Revisions-to-2-CFR.pdf](https://www.cfo.gov/assets/files/M-24-11-Revisions-to-2-CFR.pdf)
- Resource to answer questions of why the changes, see below.
  - “Final 2 CFR Guidance - 4.3.2024 - Pre-Publication Version” file on [www.cfo.gov](https://www.cfo.gov)



# 2024 Revisions

In this update, there were significant changes made to 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, commonly known as the “Uniform Guidance”.

[www.ecfr.gov](http://www.ecfr.gov)

Noted as the most significant update to the Uniform Guidance since it was released in 2013.

# OMB's Revision Objectives

1

Incorporate statutory requirements and administrative priorities

2

Reduce agency and recipient burden

3

Clarify sections that have been interpreted differently

4

Use plain language, improving flow, and addressing inconsistent use of terms



# Revised Guidance Effective For:



Subpart A – E: New awards issued on or after October 1, 2024.



Subpart F: – Fiscal years beginning after October 1, 2024

Subpart A - Acronyms and Definitions

Subpart B - General Provisions

Subpart C - Pre-Federal Award Requirements and Contents of Federal Awards

Subpart D - Post Federal Award Requirements

Subpart E - Cost Principles

Subpart F - Audit Requirements

# Federal Agency Adoption and Implementation

Federal agencies must implement the changes in their own agency regulations in the Code of Federal Regulations.

Federal agencies must take appropriate steps to ensure the 2024 Revisions are effective for all Federal awards entered into on or after October 1, 2024.



# New Awards

Federal agencies should ensure that award templates, terms and conditions, NOFO templates, policies and procedures, and other program documents and policies, including those that support Federal financial assistance oversight, are updated to reflect the 2024 Revisions for all Federal awards.



# Existing Awards

For existing awards entered into before October 1, 2024, Federal agencies are strongly encouraged to apply the 2024 Revisions to any amendment's agencies enter into on or after October 1, 2024

**2024**

**2025**

OMB also encourages agencies to amend existing awards for this purpose if the awards will extend into FY 2025 or beyond.





# Amended Existing Awards



2024 Revisions will generally apply prospectively to activities on or after the date of the amendment.



Agencies may never retroactively apply the 2024 Revisions to past activities that preceded the effective date of the amendment if doing so would impose additional substantive requirements on recipients (such as requirements increasing burden).

# Amended Existing Awards

- An agency may provide written approval to recipients allowing them to apply specific provisions of the 2024 Revisions that reduce burden on recipients to activities that preceded the amendment.
- This flexibility to provide written approval reducing burden for past activities does not apply to revisions of indirect cost rates or de minimis rates.



# Full Application of Revision



- After October 1, 2024 unless different provisions are required by statute or approved by OMB, when the 2024 Revisions are applied to new or existing awards, the revisions must be applied in full to activities following the effective date of the new award or amendment.
- Federal agencies cannot selectively apply some revisions but not others to such activities

# Exception to Full Application

If the federal agency and recipient seek to apply only one or more, but not all, provisions of the 2024 Revisions to an existing award, the federal agency may consider using its case-by-case exception authority under 2 CFR 200.102(c) as an alternative to formally amending the award.

Example: Through a properly documented case-by-case exception, a federal agency may allow a recipient to use the new de minimis indirect cost rate for an existing award, which is now available under the 2024 Revisions. This would also include using the new definition of modified total direct cost (MTDC).



# Subawards

If a Federal agency amends an existing award issued prior to October 1, 2024 to apply the 2024 Revisions, then the 2024 Revisions must apply to subawards issued under that award as well.

Thus, when a Federal agency amends an award to apply the 2024 Revisions, the pass-through entity must also amend any subawards already issued under that award.



# Subawards



If a Federal agency has not applied the 2024 Revisions to an existing award, the pass-through entity must not apply the 2024 Revisions to a subaward issued under that Federal award—even if the subaward itself was executed on or after October 1, 2024.



Application of the 2024 Revisions to subawards does not prevent pass-through entities from applying more stringent requirements to their subrecipients as permitted by the 2024 Revisions and the prior version of the guidance.

# Implementation

In certain circumstances, especially during the transition period, recipients may simultaneously be implementing multiple Federal awards some of which were issued under the previous guidance in 2 CFR and other Federal awards that were issued under the 2024 Revisions.



# Implementation – Federal Agencies

Federal agencies should work closely with recipients during this transition period to clearly communicate the requirements applicable to a given federal award.

Federal agencies may also engage with recipients to address questions on whether systematic changes made by a recipient (e.g., internal controls, mandatory disclosure procedures, etc.) could impact compliance with the terms and conditions of existing federal awards.







# Revisions



# Terminology Update

Throughout Subparts A – E, the use of non-federal entity was replaced with recipient and/or subrecipient.

Subpart F retained the use of a non-federal entity to maintain alignment with the statutory provisions of the Single Audit Act.



# Notice of Funding Opportunity (NOFO)

Updates within Subpart B contained several changes to align with OMB's objective of reducing administrative burden on recipients.



For example, the Notice of Funding Opportunity (NOFO) must:

- Include an executive summary
- A limit on the length of the published NOFO

# Modified Total Direct Costs

Updated definition of MTDC to include up to \$50,000  
(previously \$25,000) of each subaward



# Negotiated Indirect Cost Rate Agreements

Negotiated Indirect Cost Rate Agreements (NICRA) negotiated prior to October 1, 2024 must continue to be honored by both Federal agencies and recipients.

Cognizant agencies for indirect costs may—but are not required to—renegotiate existing NICRAs (i.e., issue revised or amended agreements) to reflect the new MTDC base.

Still some unresolved questions on how that will coincide when an award is not updated for 2024 Revisions



# Negotiated Indirect Cost Rate Agreements

## Provisional Rates:

- Recipients with provisional rates in effect prior to October 1, 2024 must finalize those rates using the provisional rate's approved MTDC base.

## Predetermined and Fixed Rates:

- Recipients with predetermined or fixed rates must use the new MTDC base beginning with the first proposal that is required on or after October 1, 2024.

## Negotiating New Rates:

- Recipients preparing indirect cost rate proposals must apply the new MTDC base for proposals that are submitted to the cognizant agency for indirect costs on or after October 1, 2024.





# De Minimis Rate

- Recipients and subrecipients that do not have a current Federal negotiated indirect cost rate (including provisional rate) may elect to charge a de minimis rate of up to 15% of modified total direct costs (MTDC).
  - The recipient or subrecipient is authorized to determine the appropriate rate up to this limit.
- Federal agencies and pass-through entities may not require recipients and subrecipients to use a de minimis rate lower than the negotiated indirect cost rate or the rate elected pursuant to this subsection (15%) unless required by Federal statute or regulation.

# De Minimis Rate – New Awards



Recipients may elect to use the new 15% de minimis indirect cost rate for any award executed on or after October 1, 2024.



All Federal agencies must honor the new de minimis rate after this date unless a different rate is required by law (such as Federal statute or regulation) or otherwise allowed by 2 CFR part 200.



Recipients submitting applications to Federal agencies before October 1, 2024 for programs with an anticipated award date that occurs on or after October 1, 2024 may use the 15% de minimis rate in calculating the budget in that application even if the NOFO does not yet indicate that the 2024 Revisions will apply.



# De Minimis Rate – Existing Awards



Federal agencies may allow a recipient to apply the 15% de minimis rate to an existing award if the agency determines that there are sufficient funds to support the 15% de minimis rate.



In these instances, the recipient must charge the 15% de minimis rate only to costs incurred after the effective date of the amendment to implement the 15% de minimis rate.



Recipients may not retroactively apply the de minimis rate to costs incurred prior to the effective date of the amendment.

# Mandatory Disclosure

Modifications were made to the mandatory disclosure requirements to more closely align with Federal Acquisition Regulation (FAR) 48 CFR 52.203-13.

Previously, an entity was required to report violations of Federal criminal law involving fraud, bribery or gratuity violations.

As revised, the requirement now reads that an applicant, recipient or sub-recipient of a federal award must promptly disclose whenever it has **credible evidence** of a commission of a violation of Federal criminal law involving fraud, conflict of interest, bribery, or gratuity violations under the false claims act.



# Fixed Amount Awards and Subawards

A type of grant or cooperative agreement under which the Federal agency or pass-through entity provides a specific amount of support without regard to actual costs incurred under the Federal award.

This type of Federal award reduces some of the administrative burden and record-keeping requirements for both the recipient and Federal agency or pass-through entity.

Accountability is based primarily on performance and results.



# Fixed Amount Subawards Updates

Increased the threshold for when fixed amount subawards can be made from \$250,000 to \$500,000



Expanded guidance to clarify certain requirements for fixed amount subawards including that unexpended funds may be retained if the program objectives and milestones have been achieved



# Internal Controls – PII



200.303(e) added a requirement that a recipient/subrecipient take “reasonable cybersecurity and other measures to safeguard information including protected personally identifiable information (PII) and other types of information”.



OMB did not provide a relevant framework for “cybersecurity and other measures”



OMB indicated that they would consider the need to implement a government-wide specific framework in the future but in the interim, will leave it to the Federal agencies to consider providing more specific guidance on the topic, as appropriate.

# Equipment and Unused Supplies Thresholds

Increased capitalization threshold from \$5,000 to \$10,000 minimum for Federally funded equipment.

Increased threshold from \$5,000 to \$10,000 regarding the requirement in 200.314(a) to remit unused supplies

The OMB is granting an except allowing recipients and subrecipients to use the revised equipment thresholds of \$10,000, even for federal awards otherwise operating under previous OMB guidance, if permitted by the federal agency.



# Procurement Updates

- Include “veteran-owned businesses” to the types of businesses that are encouraged to be considered
- Updated “affirmative steps must be taken” to “when possible, the recipient or subrecipient should ensure” in relation to using small businesses, minority businesses, women’s business enterprises, veteran-owned businesses, and labor surplus area firms (§ 200.321).
- Change “small purchases” terminology to “simplified acquisitions” (§ 200.320(2)).
- Remove restrictions related to geographic preference requirements and allow for scoring mechanisms to evaluate bidders committing to U.S. jobs and certain compensation and benefits (§ 200.319).
- Prioritize environmentally sustainable products and services (§ 200.323(b)). This includes consideration of reused, refurbished, and recycled products; biobased or energy and water efficient acquisitions; and purchasing compostable items.



# Subrecipient Monitoring



Clarification was added to clarify that no single factor or combination of factors contained in subrecipient vs. contractor is necessarily determinative.

Emphasis was noted on the need for the pass-through entity to exercise judgment in classifying each agreement as a subaward or a procurement contract.





# Subrecipient Monitoring

Added language to specifically require pass-through entities to verify subrecipients are not excluded or disqualified (suspended or debarred) in accordance with 2 CFR § 180.300.



# Subrecipient Required Certifications

- 200.415(b) added requirements for subrecipients to certify to the pass-through entity whenever applying for funds, requesting payment, and submitting reports:
  - “I certify to the best of my knowledge and belief that the information provided herein is true, complete, and accurate. I am aware that the provision of false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil, or administrative consequences including, but not limited to violations of U.S. Code Title 18, Sections 2, 1001, 1343 and Title 31, Sections 3729-3730 and 3801-3812.” Applies to all tiers of subrecipients.



# Closeout – Final Indirect Cost Rate

Updated to include that when the recipient does not have a final indirect cost rate covering the period of performance, a final financial report must still be submitted to fulfill the requirements of this section.

The recipient must submit a revised final financial report when all applicable indirect cost rates have been finalized.

# Administrative Closeout Costs

Updated to state that administrative closeout costs may be incurred until the final report due dates but must be liquidated prior to the due date and charged to the final budget period.



# Prior Approval

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OMB removed the following areas as requiring prior written approval:

---

(a) § 200.201 — Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5)

---

(e) § 200.311 — Real property

---

(f) § 200.313 — Equipment

---

(h) § 200.413 — Direct costs, paragraph (c)

---

(k) § 200.438 — Entertainment costs

---

(r) § 200.454 — Memberships, subscriptions, and professional activity costs, paragraph (c)

---

(t) § 200.456 — Participant support costs

---

(w) § 200.467 — Selling and marketing costs

---

(x) § 200.470 — Taxes (including value added tax)

---



# Fringe Benefits – Unfunded Pension Costs

- 200.431(g)(6)(v) (new) requires :
  - “Payments for unfunded pension costs must be charged in accordance with the allocation principles of this subpart. Specifically, the recipient or subrecipient may not charge unfunded pension costs directly to a federal award if those unfunded costs are not allocable to that award.”
- This requirement was scaled back from initial FR notice that garnered much feedback. As revised, this should not create a significant burden. OMB only sought to clarify that payments for unfunded pension costs must be charged in accordance with the allocation principles of subpart E.
- Specifically, the recipient or subrecipient may not charge unfunded pension costs directly to a Federal award if they are not allocable to that award (e.g., for employees that did not devote time/effort to the grant).



# Audit Related Changes



Effective for FY **beginning** after 10/1/2024 (first ones being 9/30/2025)



Increase single audit threshold from \$750,000 to \$1,000,000



Increased the Type A threshold to \$1,000,000 while also increasing the amount of awards expended for which it applies (from \$25 million up to \$34 million).

# Audit Related Changes

## Modified the definition of questioned costs

Amount, expended or received from a Federal award that in the auditor's judgement 1) is noncompliant or suspected noncompliant with federal statutes, regulations, or the terms and conditions of the federal award 2) at the time of the audit lacked adequate documentation to support compliance or 3) appeared unreasonable and did not reflect the actuations a prudent person would take in the circumstances



When the amount of known questioned costs is “not determinable” or unknown, a description of why the dollar amount was undetermined must be reported.





# Audit Report Submission

200.512 updated to include:

“The cognizant agency for audit or oversight agency for audit (in the absence of a cognizant agency for audit) may authorize an extension when the nine-month timeframe would place an undue burden on the auditee.”





## Conclusions



# What can recipients do now?

Review internal controls  
and policies

Understand effective  
dates and impact on your  
organization's grants

Communicate revisions  
within your organizations  
as appropriate

Assign responsibilities

Connect with your  
auditor



*Thank you!*

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