



# Audit Implications of COVID-19 on Florida Governments

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Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

# Learning Objectives

## **At the end of this session you will:**

- Identify challenges facing auditors and auditees during COVID-19
- Identify the changes to the financial environment due to COVID-19
- Identify how those changes affect the entity's risk assessment as well as audit procedures for the financial and single audit.





# Consideration of Audit Logistics

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# Key Interactions on Audit

- **Meetings and discussions with key client personnel to answer questions and explain processes**
- **Nonverbal and organization reading by an auditor**
  - Auditor intuition and feeling
- **Such interactions have moved to teleconference**
  - Are these discussions effective?
  - Do they build rapport?

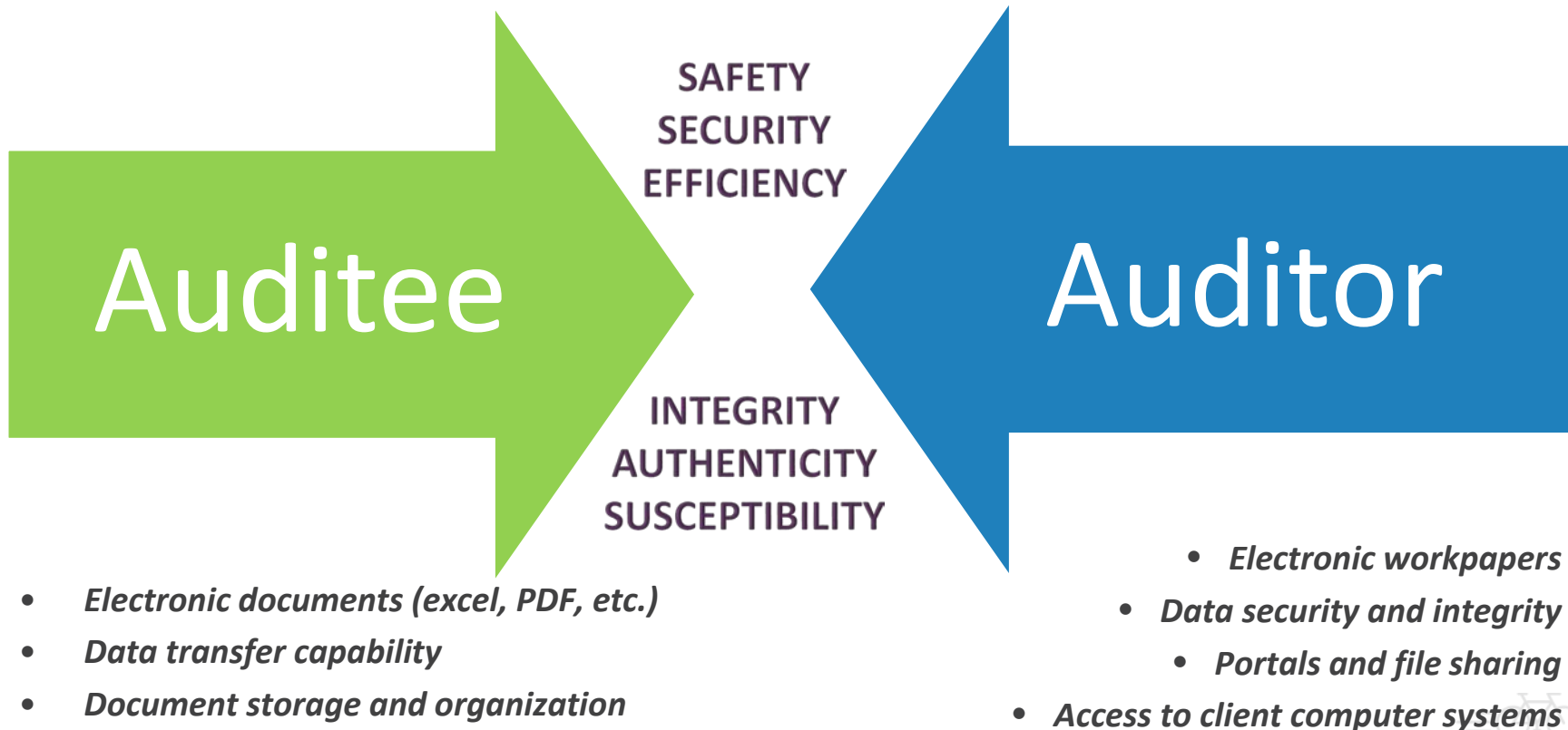


# Key Interactions on Audit –The New Normal

- **Remote auditing (to varying degrees) is here to stay**
- **Virtual meetings will be key to successfully completing audits in 2020-2021**
  - Clients and auditors can meet and collaborate from anywhere
  - Facilitates the sharing of files and data
  - Auditor does not lose the ability to analyze body language and behavioral cues
  - More efficiency for you and your team!
- **Review your team's technology capabilities ahead of the audit**
  - Finance department may be equipped, but consider other departments and program personnel



# Remote Environment



# Access to Books and Records

- **Remote capabilities of audits have increased the use of scanned documents and screenshots significantly.**
- **Auditors are required to consider the authenticity of these documents, and determine if additional procedures should be performed regarding their authenticity.**



# Access to Books and Records

- Many governments are accustomed to providing information remotely; however, both auditors and auditees need to exercise due diligence on both the exchange and the storage of documentation being provided remotely for the audit.

**AIE Client Weekly Due Date Summary**

You have been designated as the Client Lead or Client Assignee for the following items CLA has requested from your organization in the Assurance Information Exchange (AIE) tool. These items will be due in two weeks or less (or are already past due). If you are unable to meet these due dates, log into AIE to request a due date extension.

Customer Request Type	Request Reference	Summary	Status	Stage	Client Assignee	Engagement Name	Due	Area	Entity ID
Agreed Upon Procedures	AIW-4136	File Maintenance Reports	CLIENT	Interim	Steve Stevens	Toledo Test Engagement	10/07/18	Internal Controls	Ent-01
Agreed	AIW-4133	Teller sheets	CLIENT	Final	Steve Stevens	Toledo Test Engagement	10/07/18	Cash	Ent-01





# Things to Consider



Auditee conference room vs. auditor offices



Teams (or other system) meetings vs. auditee office or other conference room



Portals and data exchange vs. email vs. printer/paper



# Loss Contingencies

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# Loss Contingencies – Claims and Judgments

- **GASB has specific requirements for recognizing contingencies and claims and judgments which may arise more frequently due to the pandemic**
- **Examples**
  - Health Claims
  - Workers' Compensation Claims
  - Accounts Receivable
  - Debt Guarantees
  - Tax Refunds and Appeals



# Loss Contingencies – Claims and Judgments

- **Considerations**

- GASB codification requires certain disclosures of the government's exposure to contingencies and risks of loss that could significantly impact financial statement totals
- Disclosures for subsequent events must also be considered for losses incurred after September 30th



# Loss Contingencies – Claims and Judgments

- **Example – estimate of self-insurance claims incurred but not reported (IBNR liability) – Health, Dental and Workers' Comp**
  - COVID-19 impacts will require a robust experience study as well as appropriate auditor scrutiny





# Capital Asset Impairment

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# Capital Asset Impairment

- **Governments need to implement sound internal controls to identify potential impairments and, in such circumstances where impairments are identified, to properly calculate and report the impairments.**
- **Auditors will obtain an understanding of the internal controls to determine if they are suitably designed and properly implemented.**



# Capital Asset Impairment

- **Testing for impairment – determine if:**
  - Decline in service utility of the asset is significant
  - Decline in service utility of the asset is unexpected
    - ◇ Not part of the normal life cycle of the capital asset
- **If both tests met, government should measure the carrying value of assets to be written off:**
  - Restoration Cost, Service Units, Deflated Depreciation Replacement Approach, or Lower of Carrying Amount or Fair Value





# Capital Asset Impairment

- **GASB describes several common indicators of capital asset impairment; many of which may be relevant during the pandemic:**
  - Enactment or approval of laws or other changes in environment
  - Change in the manner or expected duration of use of capital asset
  - Construction or development stoppage
- **Impairment should be tested when one of these indicators is present.**
  - If impaired, reduce the carrying value of the asset





# Inventory

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# Inventory

- **Auditing standards do not prohibit the use of technology, such as cameras with live video feeds, when performing inventory observations.**
- **Extent of procedures may be more limited in a remote environment; especially in circumstances where inventories are stored in multiple locations.**
- **Auditors will need to obtain satisfaction that remote capabilities will provide sufficient appropriate evidence.**



# Inventory

- **In cases where inventories are material to the financial statements, auditors are required to attend physical counts unless such counts are impracticable.**
  - The AICPA has clarified COVID-19 may be considered an impracticable circumstance
- **When inventory counts occur later than originally scheduled, auditors will observe rescheduled counts and perform additional procedures on subsequent transactions**
  - Process may be simplified due to decreased volume during pandemic
  - Inventory would need to be “rolled-back” to year end



# Inventory

- **But what if we can't perform any procedures?**
  - In cases where inventory counts cannot be performed at year-end, these issues will likely result in scope limitations in the auditors reports and qualified opinions on the financial statements.
  - Roll forward/rollback procedures could be performed or separate reports could be issued



# Inventory

- **Perishable Inventory**

- Consider impairment of inventory for perishable products that are unable to be used during a pandemic
  - ◇ States, counties, and municipalities
    - Medical supplies
  - ◇ School districts and charter schools
    - Food and commodities



# Employee Benefit Plans – Pension and OPEB

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# Employee Benefit Plans – Fair Value Declines

- The investment market volatility has caused concern over adjustments to the financial statements for declines in asset values subsequent to the end of the reporting period.
- The AICPA reiterated such conditions would not result in an adjustment to the financial statements, but may be significant enough to warrant a subsequent event disclosure.





# Employee Benefit Plans – Fair Value Declines

- **Audit Objectives:**
  - Obtain sufficient appropriate audit evidence as to whether subsequent events are appropriately recognized and disclosed in the financial statements
  - Respond appropriately to facts that become known after the audit report date that, had they been known to the auditor as of the report date, may have caused the auditor to revise the report.
- **Auditors will have to work with clients to ensure any subsequent events are properly identified and reflected in the notes to the financial statements.**



# Employee Benefit Plans – Other Concerns

- Are investment returns sufficient to fund retirement benefits?
- Are revenue projections sufficient to cover required contributions?
- Are cash reserves sufficient to fund shortfalls?





# Revenue

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# CARES Revenues

## GASB Technical Bulletin 2020-1 Question 1:

- Are resources received from the CRF, established under Section 5001 of the CARES Act, subject to eligibility requirements or to purpose restrictions? When should those resources be recognized as revenue?

## Answer:

- The CRF funds represent a voluntary non-exchange transaction, subject to eligibility restrictions.
- The conditions of the CARES Act represent eligibility requirements, such as incurrence of expenditures.
- The recipient government should recognize resources received from the CRF as liabilities until the applicable eligibility requirements are met, including the incurrence of eligible expenditures



# Internal Controls



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# Internal Controls: The New Normal

- **COVID-19 has raised many questions concerning an Government's ability to effectively maintain internal controls when the environment has suddenly and dramatically changed.**
- **Yellow Book and Uniform Guidance requires the entity to establish and maintain effective internal controls on a consistent basis.**



# Internal Controls: The New Normal

- **AICPA emphasizes the importance of the tone at the top and general control environment.**
  - The infrastructure: communication and technology are adequate and consistent (control environment, risk assessment)
  - Instruction to staff regarding remote work environment and safeguarding of information. (communication)
  - If remote work environment was not capable, how were operations continued? (risk assessment)



# Internal Controls: The New Normal

- **Are employee's work activities are monitored and adequately supervised?**
- **How is financial information determined reliable for reporting ?**
- **Is technology secure and accessible to all employees requiring access?**
- **Technology needs to provide an audit trail of approvals and other changes that may have been supported by paper documentation.**





# Document Internal Control Changes

- Possibility for three internal control environments
  - Pre-Pandemic
  - During Pandemic
  - Post Pandemic
- Consider:
  - Length of time new controls were in place
  - Level of business activity
  - Message from leadership
  - Training on remote working

January 00, 1900 COVID-19 Related Risk Assessment		Preparer (if client prepared): _____
Purpose:	This form is designed to assist the auditor in gathering information related to changes in the clients processes, control procedures and use of technology related to the COVID-19 pandemic of 2020. During the fiscal year, because of the global pandemic, most States in the United States of America were under some version of a "stay-at-home" order and employers, including governments, were advised if employees could work from home they should. This form will assist in documenting how the client responded to the orders and what changes were made, in order to assess whether further or separate risk assessment procedures during to be performed for the audit.	
<b>General Overview of the Affect of Operations Related to COVID-19</b> Briefly describe the changes in the working environment and operations during and after the COVID-19 pandemic (beginning approximate March 15, 2020). Were employees fully remote, fully in the office, or some combination of remote and in the office?		
<b>Changes or Modifications to Internal Controls as a Result of the Pandemic</b> Describe the changes made to internal controls as a result of the pandemic and employees working remotely. (Please add any additional areas, as needed.)		
Cash and Investments		
Nonexchange Revenue / Receivables - Grants		
Nonexchange Revenue / Receivables - Property Taxes		
Exchange Revenue / Receivables		
Capital Expenditures		
General Disbursements and Accounts Payable		
Compensation and Benefits		
Long-term Debt and Financing		
Financial Close and Reporting		
<b>Technology Modifications</b> Describe any changes in technology (additional programs purchased or increased capabilities) that occurred as a result of the pandemic and employees working remotely.		
<b>Accounting for Relief Funds Received related to COVID-19</b> List the types of funding you have received and how much has been received through year end.		



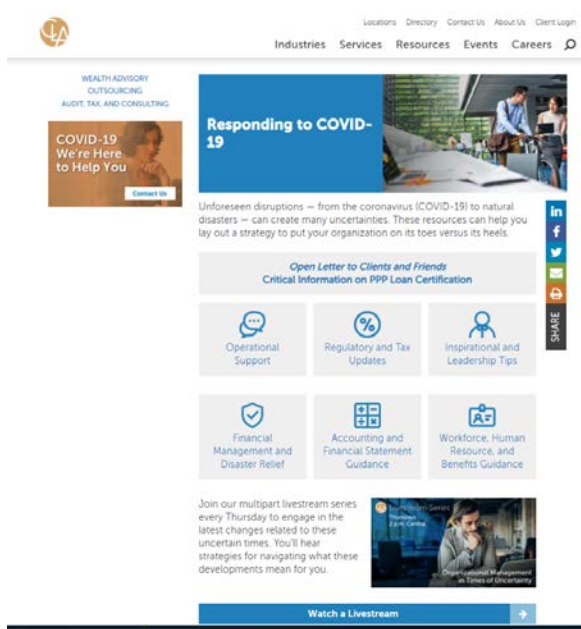
# Single Audit Internal Control Best Practices

- **Understand the program requirements and allowable costs**
- **Identify, record and monitor COVID-19 funding and related expenditures separately in the general ledger**
- **Journal entries to transfer allowable costs to the COVID program should include supporting documentation supporting the transfer**
  - Maintain all electronic approvals in accordance with the retention policy



# Visit our COVID-19 Response Page

- <https://www.claconnect.com/campaign/covid-19>



The screenshot shows the CLA website's COVID-19 response page. At the top, there's a navigation bar with links like 'Locations', 'Directory', 'Contact Us', 'About Us', and 'Client Login'. Below this, a header section includes 'Industries', 'Services', 'Resources', 'Events', 'Careers', and a 'D' icon. The main content area features a 'Responding to COVID-19' section with a video thumbnail and text about unforeseen disruptions. Below this is a section titled 'Open Letter to Clients and Friends: Critical Information on PPP Loan Certification'. Further down, there are three columns of service icons: 'Operational Support', 'Regulatory and Tax Updates', 'Inspirational and Leadership Tips', 'Financial Management and Disaster Relief', 'Accounting and Financial Statement Guidance', and 'Workforce, Human Resource, and Benefits Guidance'. At the bottom, there's a 'Watch a Livestream' button and a small video thumbnail of a man speaking.

## Stimulus Bill, DC Environment, and Market Update

10/15/2020  
Virtual  
Hosting

Omar Nashashibi of the Franklin Partnership discusses the status of stimulus bills, DC environment and impact on stimulus post election, and extenders status. We will also be joined by CLA Chief Wealth Advisory Officer, Clayton Bland and CLA principal, Brian Ream, as we host a discussion around the market and economic outlook and wealth advisory strategies.

### Speakers:

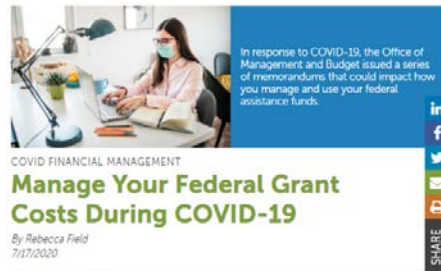
- Brian Ream, Principal, CLA
- Omar Nashashibi, The Franklin Partnership
- Clayton Bland, Chief Wealth Advisory Officer, CLA

In case you missed our recent webinar: CLA Wealth Advisory Connection — Market and Economic Update, you can watch the recording here. Also, be sure to check out our upcoming webinar: Prepare to Serve Your Clients for Year-End. Space is limited - Register today.

### In case you missed it:



The material presented here is intended to be educational in nature and



This image shows a section of the CLA website titled 'COVID FINANCIAL MANAGEMENT'. It features a video thumbnail of a woman wearing a face mask working at a desk. The main heading is 'Manage Your Federal Grant Costs During COVID-19' by Rebecca Field, dated 7/17/2020. Below this, there's a 'Key insights' section with three bullet points. To the right, there's a 'Have COVID-19 funding questions? Talk to Our Team' button. Social media sharing icons for LinkedIn, Facebook, Twitter, and YouTube are also present.

### Key insights

- In response to the pandemic, the OMB has issued a series of memorandums that could affect your grant compliance program.
- OMB memos give fund recipients the flexibility to charge salaries, benefits, and other eligible costs to the federal award.
- CLA can help you navigate the complexities of COVID-19 funding opportunities.

Federal financial assistance can help keep your organization up and running during COVID-19. Whether it's a loan, grant, or other assistance, these funds allow you to continue working toward your mission and serve your clients. However,

understanding the impact that COVID-19 has on managing federal grants is essential for proper compliance during this time. Develop an effective grant compliance program per the latest guidance issued by the Office of Management and Budget (OMB) for proper management and use of federal funds.

Have COVID-19 funding questions?

[Talk to Our Team](#)



Create Opportunities

# Thank you – Let's Create Opportunities!

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