



# 2022 Maryland Government Training Academy

Tuesday, July 26, 2022

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# Welcome & Housekeeping

- CPE certificates will be emailed with-in 4 weeks following today's presentation to the email that was used to register. Recommended CPE of 7.5 credits total will be given to those in full attendance of today's CPE session from 8:30-4:30pm.
- All presentations will be available at the [CLAAconnect.com](https://CLAAconnect.com) under the **past events** page at the end of the week.





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# Industry Discussion

Changes in GASB, OMB, GAO and Other





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# Learning Objectives

- At the end of this session, you will be able to:
  - Explain some of the challenges relating to implementation of GASB 87
  - Identify upcoming GASB pronouncements and their potential impact on state and local government financial statements
  - Identify known changes coming in the FY2022 compliance supplement
  - Identify the new auditing standards and their impacts on the audit reports and letters



# State and Local Government Outlook

- Economic growth expected to slow
- Rising Inflation, higher interest rates and pending fiscal cliff
- Labor shortages are beginning to trigger wage pressure for government employees
- Increases in stock market and residential real estate prices and a shift in consumer spending from services to goods subject to sales taxes have lifted state and local revenue
- Increased scrutiny on municipal bond issuers
- Return to normal deadlines



# American Rescue Plan Act

- \$1.9 Trillion Covid Aid Bill
- Signed into law on March 11, 2021
- Final Rule took effect on April 2022
  - Inconsistency in guidance (interim vs final)



## **Support Public Health Response**

Fund COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff



## **Replace Public Sector Revenue Loss**

Use funds to provide government services to the extent of the reduction in revenue experienced due to the pandemic



## **Water and Sewer Infrastructure**

Make necessary investments to improve access to clean drinking water and invest in wastewater and stormwater infrastructure



## **Address Negative Economic Impacts**

Respond to economic harms to workers, families, small businesses, impacted industries, and the public sector



## **Premium Pay for Essential Workers**

Offer additional support to those who have and will bear the greatest health risks because of their service in critical infrastructure sectors



## **Broadband Infrastructure**

Make necessary investments to provide unserved or underserved locations with new or expanded broadband access



# The Infrastructure and Investment & Jobs Act

- Signed into law on November 15, 2021
- \$1.2 trillion in total spending, \$550 billion in new spending over 5 years
- Potential overlap with funding for water, sewer, and broadband
- Funding Allocations





# Impact of Environmental, Social and Governance Factors



- Environmental, social, and governance (ESG) policies are being adopted by state and local governments at a steady pace
  - adopting ESG goals within government operations and services
  - implementing ESG policies and regulations
  - incorporating ESG factors into decisions on government assets and liabilities
- Credit Rating agencies have begun to address ESG factors in their credit ratings.



# Impact of Technology on State and Local Governments

Cybersecurity

Automation

Artificial  
Intelligence

Citizen  
Engagement

Data utilization

Drones, wearable  
technology and  
robots

Data visualization,  
simulation and big  
data



# Job Market and Talent Pool

- Impact of the Great Resignation
  - Employment levels below pre-pandemic levels
  - Employment was 1.9% lower than early 2020 levels
- Reasons for slow recovery?
  - Rigid compensation structures
  - Demographic shifts (retirements.)
- Strategic Changes
  - Recruiting process
  - Changes in compensation
  - Culture and flexibility





# Single Audit Update

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# Time When Federal Compliance Ruled



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# 2022 Compliance Supplement

- Issued May 12, 2022 (earliest it's been issued in 15 years)
- Effective for audits of fiscal years beginning after June 30, 2021
- No Addendums

• **NO EXTENSIONS**



# 2022 Compliance Supplement

- New programs include:
  - Emergency Rental Assistance (ERA)
  - 93.671 Family Violence Prevention and Services Act
  - 21.029 Coronavirus Capital Projects Fund (CPF)
  - 21.026 Homeowners Assistance Fund Program (HAF)
  - 32.009 Emergency Connectivity Fund Program (ECF)
  - 59.075 Shuttered Venue Operators Grant (SVOG)



# Higher Risk Programs per the supplement

Agency	Assistance Listing (CFDA) Number	Title
Education*	84.425	Education Stabilization Fund
FCC*	32.009	Emergency Connectivity Fund Program
HHS*	93.461	Testing for the Uninsured
HHS*	93.498	Provider Relief Fund
HHS**	93.778/93.777/93.775	Medicaid Cluster
Transportation**	20.106	Airport Improvement Program
Transportation**	20.500/20.507/20.525/20.526	Federal Transit Cluster
Transportation**	20.315	National Railroad Passenger Corporation Grants
Treasury*	21.023	Emergency Rental Assistance
Treasury*	21.027	Coronavirus State and Local Fiscal Recovery Funds

*Note:*

\* These programs were created by one of the laws cited at the beginning of this section and are thus considered 100% COVID-19 funding.

\*\* These programs were existing programs that received additional funding from one or more of the laws cited at the beginning of this section.



# Issues Noted

- Part 2 and Part 4 Matrix are inconsistent with regards to some compliance requirements for particular programs
- Federal Funding Accountability and Transparency Act (FFATA) requirements in special reporting which reference Part 3
- Guidance links in the program requirements which are not clear on testing requirement

# Duns is Done

- Effective April 4, 2022 the use of DUNS numbers was replaced with Unique Entity Identifier (UEI)
- SAM.gov has assigned UEI and have issued guidance to getting your UEI

# Subrecipient vs. Beneficiary vs. Contractor – Common Issues with CSLFRF and CRF

- Subawards are silent about whether the entity receiving the funds is a subrecipient, beneficiary, or contractor
- Subaward originally states that the entity is a subrecipient and then the PTE informs the entity (sometimes much later) that it really is a beneficiary (or vice versa)
- Subaward states that the entity is a subrecipient, but the entity believes it is really a beneficiary based on the facts and circumstances



# Tips for Dealing with Subrecipient vs. Beneficiary vs. Contractor Issues

- Auditees should go back to PTE to make the determination if none has been made
- Auditees should get something in writing form from the PTE, especially if the PTE is changing the designation such that the potential exists for the wrong major program to be tested or affect whether a single audit is even required
- If the PTE does not provide the designation or tells the auditee to make designation – review auditee's analysis
- Documentation of the process and conclusion reached is critical for both auditees and auditors





# Revision on the Timing of Reporting on the SEFA for PRF and ARP Rural Distribution

Reporting Portal Period	Payment Received Period (Payments Exceeding \$10,000 in Aggregate Received)	Period of Availability	Deadline to Use Funds	PRF and ARP Rural Portal Reporting Time Period	Fiscal Year Ends (FYE) to Include on the SEFA
<b>Period 1</b>	April 10, 2020, to June 30, 2020	January 1, 2021, to June 30, 2021	June 30, 2021	July 1, 2021, to September 30, 2021	FYEs, of June 30, 2021, through June 29, 2022
<b>Period 2</b>	July 1, 2020, to December 31, 2020	January 1, 2020, to December 21, 2021	December 31, 2021	January 1, 2022, to March 31, 2022	FYEs of December 31, 2021, through December 30, 2022
<b>Period 3</b>	January 1, 2021, to June 30, 2021	January 1, 2020, to June 30, 2022	June 30, 2022	July 1, 2022, to September 30, 2022	FYEs of June 30, 2022, through June 29, 2023
<b>Period 4</b>	July 1, 2021, to December 31, 2021	January 1, 2020, to December 31, 2022	December 31, 2022	January 1, 2023, to March 31, 2023	FYEs of December 31, 2022, through June 29, 2023
<b>Period 5</b>	January 1, 2022, to June 30, 2022	January 1, 2020, to June 30, 2023	June 30, 2023	July 1, 2023, to September 30, 2023	FYEs of June 30, 2023, to be included in the 2023 supplement



## Timing of Reporting on the SEFA for PRF – a more simplistic look

	Applicable portal reports		
SEFA date	Period 1	Period 2	Period 3
6/30/21	X		
9/30/21	X		
12/31/21	X	X	
6/20/22		X	X



# PRF Challenges and Reminders

- PRF linkage of portal reporting to SEFA reporting
- Determining compliance and related findings development
- Although not in the 2022 Supplement, HRSA issued FAQ guidance in 1/2022 confirming that entities may choose a different methodology for calculating lost revenues during subsequent reporting periods; however, this new methodology must then be used to calculate lost revenues for the entire period of availability
  - May impact previously reported and unreimbursed lost revenues
  - Justification for the change will be required



# FEMA Challenges

A nonfederal entity may apply for an award from FEMA under 97.036, Disaster Grants, using expenditures already charged to another federal program. In some cases, those expenses may have been included in the prior year SEFA.

- Facts and circumstances will dictate how it should be treated in the subsequent year
- Timing of SEFA inclusion for disaster grants



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# GASB Update

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# New Standards

- Effective for fiscal year ending June 30, 2022
  - GASB 87 – *Leases*
  - GASB 89 – *Accounting for Interest Cost Incurred before the end of Construction Period*
  - GASB 92—*Omnibus 2020*
  - GASB 93—*Replacement of Interbank Offered Rates*
  - GASB 98 – *The Annual Comprehensive Financial Report*
  - GASB 99 – *Omnibus 2022*
- Effective for fiscal year ending June 30, 2023
  - GASB 91—*Conduit Debt Obligations*
  - GASB 94—*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
  - GASB 96—*Subscription-Based Information Technology Arrangements*
- Effective for fiscal year ending June 30, 2024
  - GASB 100– *Accounting Changes and Corrections*
  - GASB 101– *Compensated Absences*







# GASB 87 – Leases

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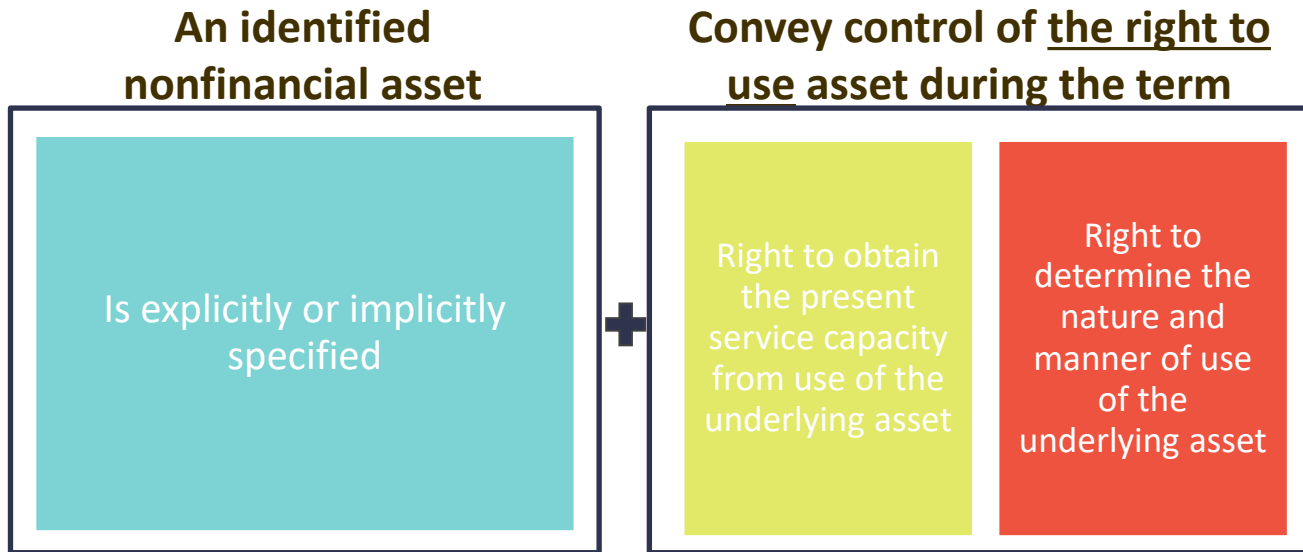
# Effective Date



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

# Definition of a Lease

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



# Exclusions

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



# Examples

- Common

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

- Uncommon

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

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

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



## Example of Lessee



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# Initial Recording - Lessee

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



# Case Study #1 – Copiers (Lessee)

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



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

## Accrual Accounting

### Initial entry to record lease:

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

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

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



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

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

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



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

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

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



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

## LIABILITIES

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

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





## Example of Lessor

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# Initial Recording - Lessor

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



# Case Study #2 – Building (Lessor)

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



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

## Accrual Accounting

### Initial entry to record lease:

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

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

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





# Lease Schedule Completeness

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# Does Completeness Matter?

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



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

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



# Evaluation of accounts/contracts

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



# Pitfalls

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



# How to make it smooth during Audit?

- Document, Document, Document

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







# Lease Term Determination



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# Lease Term

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

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

---

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

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

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



# Lease Term... Keep in Mind

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



# Lease Term – Odd Clauses

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



# Lease Term – Best Practices

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



# Lease Term – Examples

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



# Lease Term – Examples

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



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

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





# GASB 91, *Conduit Debt Obligations*

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

# GASB 92, *Omnibus 2020*

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



# GASB 93, *Replacement of Interbank Offered Rates*

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



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

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

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

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



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

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

## GASB 99, *Omnibus 2022*

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



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

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

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

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





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

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# GASB 96 – Subscription-Based Information Technology Arrangements

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



# Exemptions to GASB 96

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



# Identifying a SBITA

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



# Recognition and Measurement of a SBITA

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

# Subscription term of a SBITA

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



# Subscription Liability

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

# Subscription Liability

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



# Subscription Liability

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

# Subscription Asset

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



# Subscription Asset

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

# Other Capitalized Outlays

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



# Example – Case Facts

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

# Example – Stage Costs

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



# Example – Present Value Calculation

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

Function Arguments

PV

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

= 19708.73786

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

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

Formula result = \$19,708.74

[Help on this function](#)

OK Cancel

# Example – Calculation of Subscription Asset

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







# Example – Journal Entries

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

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

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



# Example – Journal Entries

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

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

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

# Example – Journal Entries

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

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

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

- The entry would continue monthly through subscription term.

# Example – Journal Entries

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

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

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



# Subscription Based IT Arrangements

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



# Disclosures

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



# Disclosures

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





# GASB 96 Conclusion

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





# GASB Statement No. 100, Accounting Changes and Error Corrections

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# GASB Statement No. 100, Accounting Changes and Error Corrections

- New requirements and clarifications for:
  - Reporting,
  - Disclosures,
  - Required supplementary information (RSI), including management's discussion and analysis (MD&A), and
  - (Other) supplementary information(SI)
- Eliminates “prior period adjustment(s)”
- Scope excludes first time adoption of the GAAP financial reporting framework as a whole



# GASB Statement No. 100, Accounting Changes and Error Corrections (cont.)

## ○ Accounting changes:

- Changes in accounting principle
  - Includes implementation of a new GASB pronouncement (default implementation guidance)
  - *Reporting* – retroactive, restatement for *all periods presented*, if practicable
- Changes in accounting estimate
  - Changes to the inputs used for an estimate result from a change in circumstance, new information, or more experience
  - Includes changes to measurement methodologies (depreciation, fair value measurement, collectability assessment)
  - General guidance applies in the absence of specific guidance ( e.g., actuarial assumptions)
  - *Reporting* – prospective, recognize in period of change



# GASB Statement No. 100, Accounting Changes and Error Corrections (cont.)

- Accounting changes (cont.):
  - Changes to or *within* the financial reporting entity
    - CU added or removed ( exceptions apply)
    - CU reclassified between blended (BCU) and discreetly presented (DPCU)
    - Fund added or removed (movement of continuing operations within PG & BCUs)
    - Fund reclassified between major and nonmajor
    - *Reporting* – account for changes as of first day of reporting period in which it is made



# GASB Statement No. 100, Accounting Changes and Error Corrections (cont.)

- Corrections of errors in previously issued financial statements
  - Mathematical
  - Misapplication of accounting principles
  - Oversight or misuse of facts
    - That existed at the time the financial statements were issued,
    - That are about conditions that existed as of the financial statement date, and
    - That could reasonably be expected to have been obtained and taken into account
  - *Reporting* – retroactive restatement for all periods presented



# GASB Statement No. 100, Accounting Changes and Error Corrections (cont.)

## ○ Key new requirements

- Display of aggregate amount of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable (“beginning position”), *for each reporting unit*
- Summary disclosure, in a tabular form, of the overall effects on beginning position of the earliest period adjusted or restated for *each*
  - Change in accounting principle (including implementations of new procurements),
  - Change to or within the financial reporting entity, and
  - Error correction



# GASB Statement No. 100, Accounting Changes and Error Corrections (cont.)

- Selected other disclosure provisions
  - Explicit justification of preferability – based on qualitative characteristics of financial reporting (understandability, reliability, relevance, timeliness, consistency or comparability) – required in disclosures for:
    - Changes to accounting principle, and
    - Changes in estimation methodology
    - *Unless* change results from implanting a new GASB pronouncement





# GASB Statement No. 100, Accounting Changes and Error Corrections (cont.)

- Selected other disclosure provisions (cont.)
  - Disclosure of financial statement line items affected by changes in accounting principle and accounting estimates (other than totals and subtotals)
  - Disclosure of reason for change to or within the reporting entity
    - Except for change in fund presentation for meeting/not meeting quantitative threshold for major funds
  - Disclosure requirements for changes in accounting principle and error corrections with no effect on beginning position but that result in reclassification in the financial statements





# Updated Auditor Reporting Standards

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# Overview

Several new standards will affect audits of financial statements for periods ending on or after December 15, 2021. These standards are frequently referred to as the **auditor reporting standards**, but they affect a variety of auditing matters unrelated to the new auditors' report.

SAS No. 134 - Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements

SAS No. 137- The Auditor's Responsibilities Relating to Other Information Included in Annual Reports

SAS No. 138- Amendments to the Description of the Concept of Materiality

SAS No. 139- Amendments to AU C Sections 800, 805, 810 to Incorporate Auditor Reporting Changes from SAS No. 134

SAS No. 140-Amendments to AU C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes from SAS Nos. 134 and 137

SAS No. 141-Amendments to the Effective Dates of SAS Nos. 134 137



# Big Picture



Present opinion section first, followed by the basis for the auditors' opinion.



Enhance reporting related to going concern.



Expand description of the auditors' responsibilities



Reporting and communication with governance will change significantly.



The phrase “significant unusual transactions” was introduced to audit literature which may require further consideration.



Additional procedures may be performed for related-party transactions



# Report Structure Changes – Old vs New

Report Structure – Current	Report Structure – SAS No. 134
1. Introduction	1. Opinion
2. Management's Responsibilities for the Financial Statements	2. Basis for Opinion (*New)
3. Auditor's Responsibility	3. Key Audit Matters (*New) – if engaged to communicate
4. Opinion	4. Responsibilities of Management for the Financial Statements
5. Report on Other Legal and Regulatory Requirements	5. Auditor's Responsibilities for the Audit of the Financial Statements
	6. Report on Other Legal and Regulatory Requirements





# Key Audit Matters

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# SAS 134 – Section 701 Communicating Key Audit Matters in the Independent Auditor's Report

- Key Audit Matters are defined as those matters that, in the auditor's judgement, were of the most significance in the audit of the financial statements
- SAS No. 134 does NOT require the communication of KAMs.
- When engaged to include key audit matters(KAMs), section 701 addresses both the auditor's judgement about what to communicate in the auditor's report and the form and content of such communication.
  - Disclose definition and matter





# SAS No. 135, Omnibus Statement on Auditing Standards

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# SAS No. 135, *Omnibus Statement on Auditing Standards*

## Purpose

- SAS No. 135 is intended to more closely align AICPA auditing guidance with that of the Public Company Accounting Oversight Board (PCAOB).
- Impact

Auditor's  
communication  
with Governance

Audit procedures  
over significant  
unusual  
transactions

Audit procedures  
over related party  
transactions



# SAS No. 135 – Section 240

The term “significant unusual transactions” is introduced and defined.

Requirements are established for basic procedures for obtaining information and evaluating significant unusual transactions. Guidance and conforming changes related to significant unusual transactions also are included.

- New required inquiries for significant unusual transactions of:
  - Internal Audit
  - Those Charged with Governance
  - Management



# SAS No. 135 – Section 260

Section 260, *Communications With Those Charged With Governance*.

Additional communications are required on the auditors' views relating to:

- Significant unusual transactions
- Difficult or contentious matters for which the auditor consulted outside the engagement team *and* that the auditor believes are significant and relevant
- Potential effects of uncorrected misstatements on future-period financial statements



# SAS No. 135 – Section 550

## Section 550, *Related Parties*.

Requirements are enhanced for identifying previously unidentified or undisclosed related parties or significant related-party transactions. Also, enhanced is the auditors' response to the risks of material misstatement associated with related-party relationships and transactions.

- New audit procedures for related party transactions
  - Test the accuracy and completeness of the related-party relationships and transactions identified by the entity, taking into account the information gathered during the audit



# New Related Party Communications

- Identification of related parties that appear to lack a business purpose
- If management included a disclosure in the financial statements that a transaction with a related party was conducted as an arm's-length transaction



# *AU-C 720, The Auditor's Responsibilities Related to Other Information Included in Annual Reports*

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# SAS 137 – Section 720 *The Auditor's Responsibilities Related to Other Information Included in Annual Reports*

## Purpose

- Enhance transparency and consistency relating to the auditor's responsibilities for other information included in annual reports.

## Impact

- Management must provide written acknowledgment regarding which documents are considered annual reports (engagement letter).
- Auditors will review for material inconsistencies with the financial statements.
- Opinion modification when the auditor has performed these procedures at the date of the auditor's report.



# What is an Annual Report?

- Popular Report
- Annual reports of organizations for charitable or philanthropic purposes that are available to the public.
- Other factors may need to be considered to determine whether a document comprises the annual report. For example, annual reports are generally:
  - Prepared by management or those charged with governance
  - Issued only once a year
  - Delivered to owners (or similar stakeholders)
  - Prepared in accordance with law, regulation, or custom
  - Provide information on an entity's operations, results, and financial position, as set out in the financial statements







# GASB Proposed Projects

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

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



# Management's Discussion and Analysis Considerations:

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



# Governmental Fund Financial Statement Considerations:

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



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

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



# Budgetary Comparison Considerations:

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



## Other Issues Considerations:

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



# Revenue and Expense Recognition

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







# AICPA Professional Ethics Executive Committee (PEEC) Update

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# Recent Changes to the AICPA Code

ET Section	Effective Date
Staff Augmentation Arrangements	November 30,2021
State and local Government Client Affiliates (ET 1.224.020)	Fiscal years beginning after December 15, 2021
Information Systems Services	January 1, 2022



# Staff Augmentation Arrangements

- Will be effective November 30, 2021.
- For assurance clients, greatly restricts engagements categorized as staff augmentation. Assurance engagements will be impacted if the outsourcing engagements are not in compliance.
- Raises possible self-review and management participation threats to independence.

# What is Different in the Revised Interpretation?

- Current guidance only requires the auditor to be independent of the entity being audited.
- New guidance requires evaluation of all entities that are required to be included in the audited entity's financial statements (even if an entity has been excluded).
- New guidance requires evaluation of investments held by the audited entity and investments held by certain affiliates of the audited entity.
- New guidance requires the use of the Conceptual Framework for Independence to evaluate other entities related to the audited entity (such as “upstream” related entities).



# Information System Services (ET 1.295.145)

- ISS Includes both financial and non-financial systems
- Raises possible self-review and management participation threats to independence.
- Member needs to apply the “General Requirements for Performing Non-attest Services” interpretation (1.295.040)



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# 15 Minute Break

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# IT Cybersecurity: Insights to Cybersecurity, Ransomware, and Incident Response In Government

July 26, 2022

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# During this session, we will discuss the evolving risks associated with technologies and cybersecurity.

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

- Discuss the latest risks associated with cybersecurity
- Identify how to implement cybersecurity countermeasures to help protect against cyber criminals



# Current Cybersecurity Landscape

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# Cybersecurity Landscape

- As a result of the pandemic, we have seen both traditional, and more commonly, nontraditional forms of hacking targeting all Industry sectors.
- COVID and the remote working transition continues to present challenges with most organization's cyber security strategy.
- Hackers (both individuals and nation state) recognize computer systems as the banks of the 21st century.



# Cybersecurity – What we learned

- As organizations continue to digitize and connect, they created an ecosystem that requires a security architecture adequate to protect beyond its physical buildings.
- A robust Information Governance Strategy is a key imperative – identify and protect your Crown Jewels and purge unneeded information.
- Leadership needs to be aware of and manage its supply chain and vendors (Vendor Risk Management). A proactive Vendor Risk Management strategy is critical to minimizing the disruption of an organization's supply chain.
- Organizations must educate and inform leadership. They will be an important advocate in funding your cybersecurity strategy.

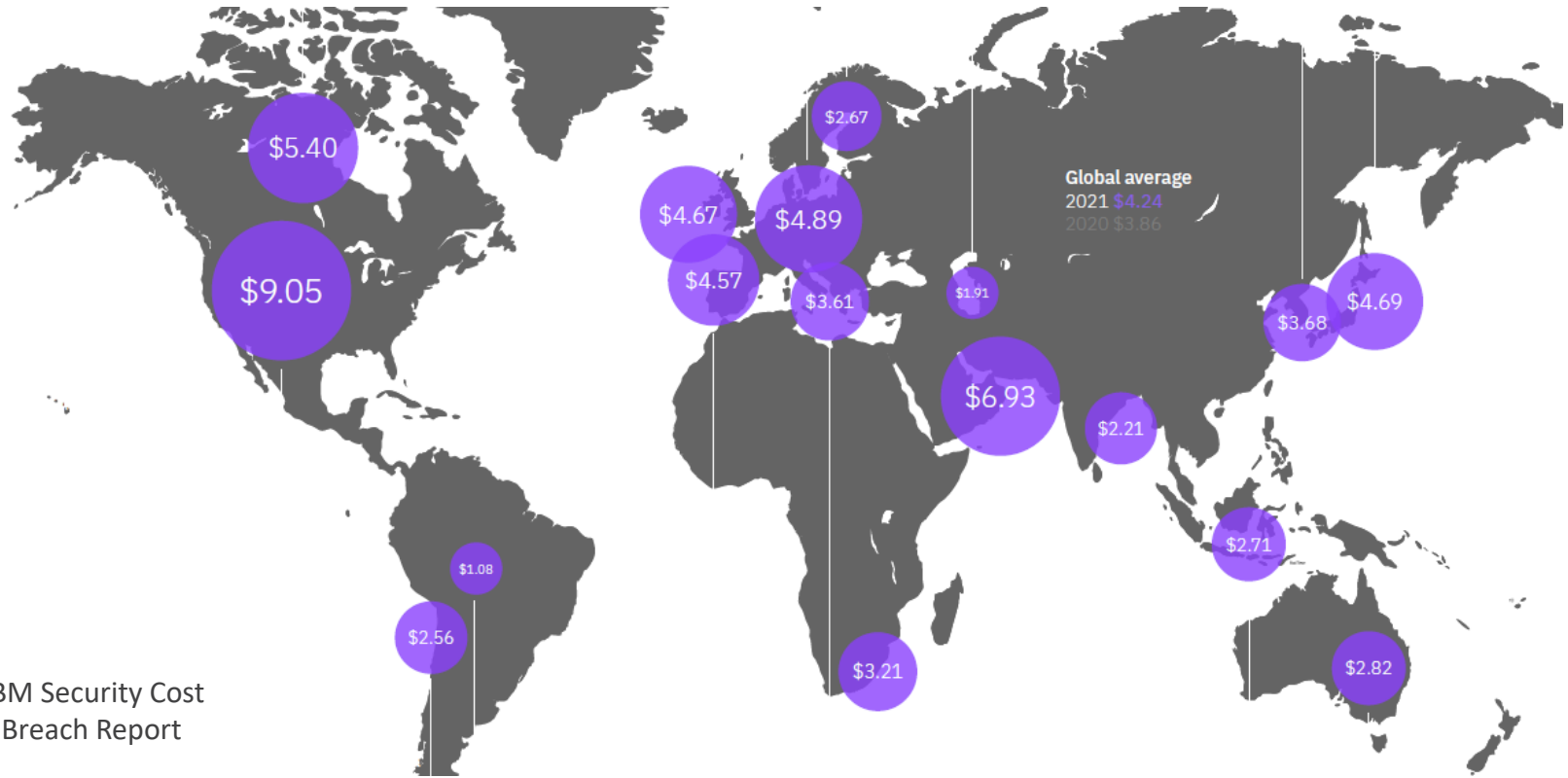


# Cybersecurity Data Breach- Cost by the numbers

- IBM's 2021 Cost of a Data Breach study conducted by the Ponemon Institute noted:
  - \$9.05m      Average cost of a data breach in the United States
  - \$5.33m      Global average cost of breach enterprises > 25,000 employees
  - \$2.98m      Global average cost of breach organizations < 500 employees
  - +\$1.07m      Cost where remote workforce was a factor in causing the breach
  - 44%          Breaches that included records containing Customer PII.  
Average cost of \$180 per record
  - 38%          Portion of breach costs due to lost business



# Cybersecurity Data Breach- Cost by the numbers



Source: IBM Security Cost  
of a Data Breach Report  
2021



# Cybersecurity Data Breach- Cost by the numbers

- IBM's 2021 Cost of a Data Breach study conducted by the Ponemon Institute noted:
  - \$4.24m Global average cost of a data breach
  - \$5.33m Global average cost of breach enterprises > 25,000 employees
  - \$2.98m Global average cost of breach organizations < 500 employees
  - +\$1.07m Cost where remote workforce was a factor in causing the breach
  - 44% Breaches that included records containing Customer PII.  
Average cost of \$180 per record
  - 38% Portion of breach costs due to lost business

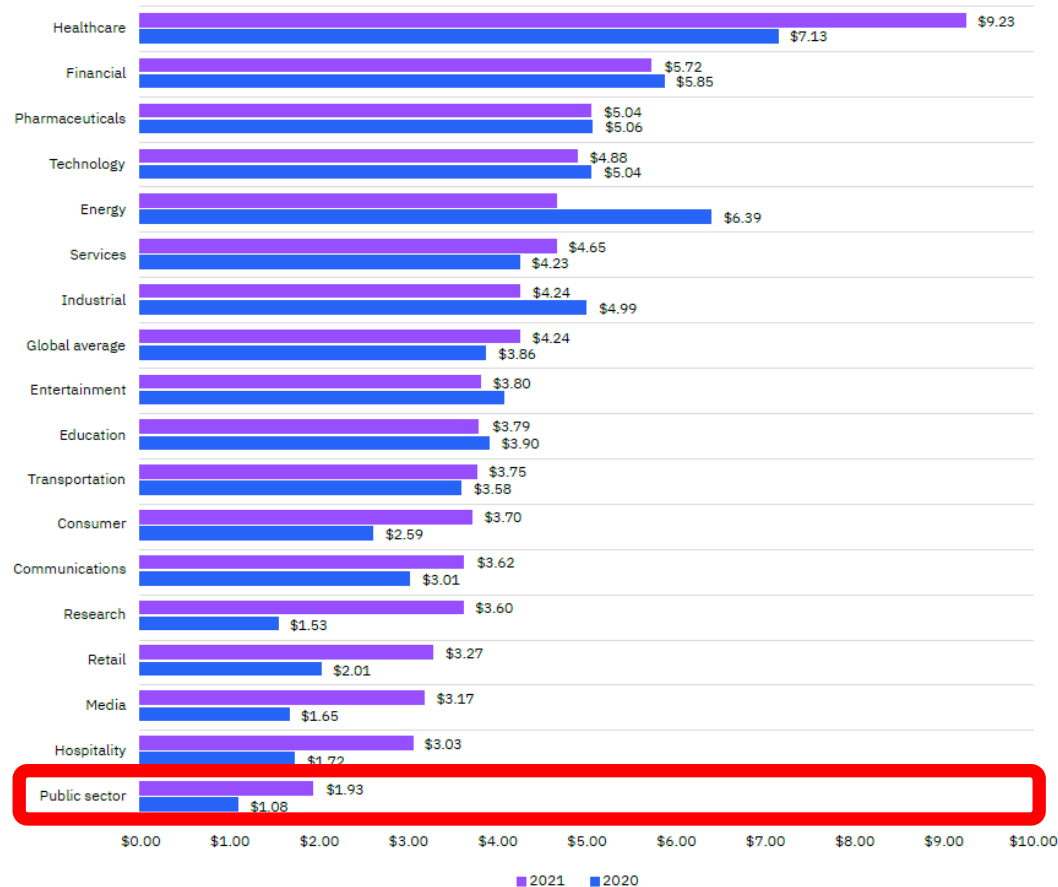




# Data Breach Cost by Industry

## Average total cost of a data breach by industry

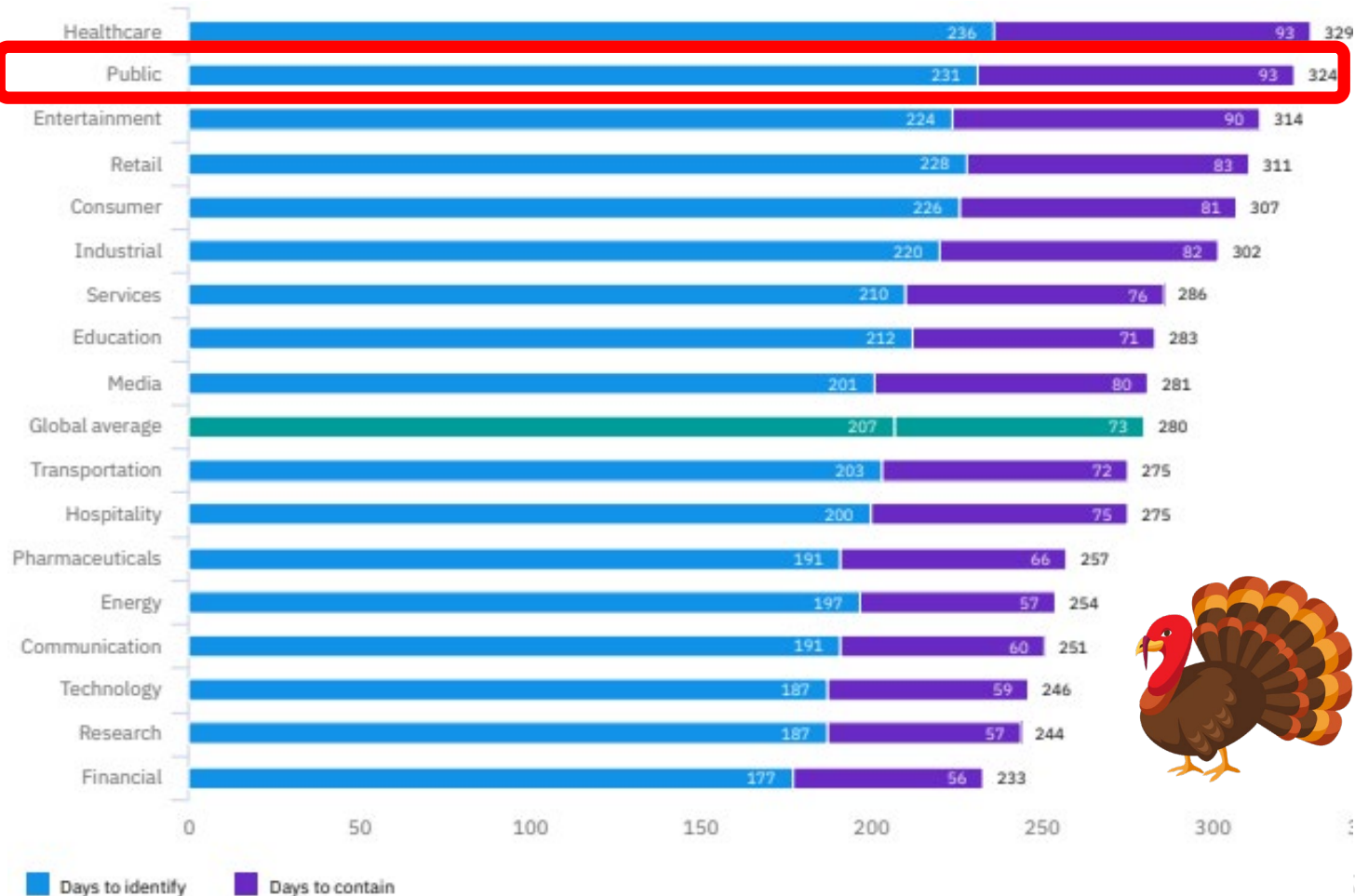
Measured in US\$ millions



Source: IBM Security Cost  
of a Data Breach Report  
2021



# How Long Does it Take to Identify and Contain?



Source: IBM Security  
Cost of a Data Breach  
Report 2020

2021 global average  
increased by 7 days



# Behind the statistics

- Hackers can do a lot in and to your network in 231 days
  - Learn everything about your organization
  - Find your most sensitive data and take them
  - Disable backups, security systems and countermeasures
  - Create numerous back doors
- Public portrayal of ransomware creates a **false sense of security**
  - Ransomware is usually coupled with other acts and just the most visible part of the attack
  - These days, ransomware coupled with data exfiltration
  - Resuming operations is just the first step
  - Legal and operational ramifications of a data breach can persist





# Why Cybersecurity is an Issue for Leadership

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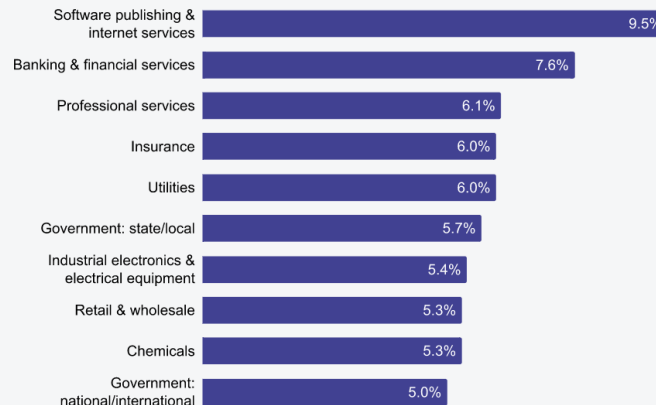
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# Poor Leadership Examples on Cybersecurity

- Implementing appropriate cybersecurity measures is costly and inconvenient.
- Organizations want to avoid reputational damage from a data breach leading them to keep things quiet.
- Individuals are kept in the dark that their data has been compromised.

## Technology creators investing most in security

% of overall IT spending reserved for security



*Samantha Ann Schwartz/Cybersecurity Dive, data from Gartner*



# The Result

- Various state and industry cyber regulations have been passed to force organizations to act
- Two general objectives:
  - Pre-Breach: Force organizations to spend money to implement protocols to reduce the likelihood of a breach
  - Post-Breach: Require organizations to notify impacted individuals of potential damages as a result of a breach
- Some regulations focus on pre-breach, some on post-breach and others cover both
- Regulations can apply based on geography or industry



# Pre-Breach Cyber Regulation Examples

- Depending on an organization's industry, there are various "standards" to implement.
- Health Insurance Portability and Accountability Act ("HIPAA")
- Department of Defense- Cybersecurity Maturity Model Certification ("CMMC")
- Cybersecurity Requirements for New York Financial Services Companies ("23 CRR-NY 500.0")



# Post-Breach Cyber Regulation Examples

- All 50 states, the District of Columbia, Guam, Puerto Rico and the Virgin Islands have enacted legislation requiring notification
- Security breach laws typically have provisions regarding
  - Who must comply with the law
  - Definitions of “personal information”
  - What constitutes a breach
  - Requirements for notice
  - Exemptions





# Post-Breach Cyber Regulation Examples

- The most common trends in legislation this year include proposals that would:
  - Establish or shorten the time frame within which an entity must report a breach.
  - Require state or local government entities to report data breaches.
  - Provide an affirmative defense for entities that had reasonable security practices in place at the time of a breach.
  - Expand definitions of "personal information"
  - Require private sector entities to report breaches to the state attorney general or other state entity.



# Post Breach Cyber Regulation Penalties

- Equifax: (At least) \$575 Million
- Home Depot: ~\$200 million
- Uber: \$148 million- (also- Executive Under Federal Indictment)
- Yahoo: \$85 million
- Capital One: \$80 million
- Morgan Stanley: \$60 million
- British Airways: \$26.2 million
- Marriott International: \$23.7 million
- Target: \$18.5 million



# Beyond Regulators- Supply Chain Requirements

- In a connected world, hackers are compromising organizations through their vendors (Supply Chain Attacks)
- As a result, clients are placing cybersecurity requirements on their vendors
  - Intellectual Property Protection
  - Brand Protection
  - Customer Protection
  - Regulatory Compliance
  - Legal Liability



# Final Thoughts on Compliance

- 2 types of compliance: Regulatory & Contractual
- Lack of cybersecurity program means lack of compliance
- Cybersecurity program is AS important as ERP, HR, Financials
- Resist desire to “Do it All” in-house
- Expensive tools != program or process





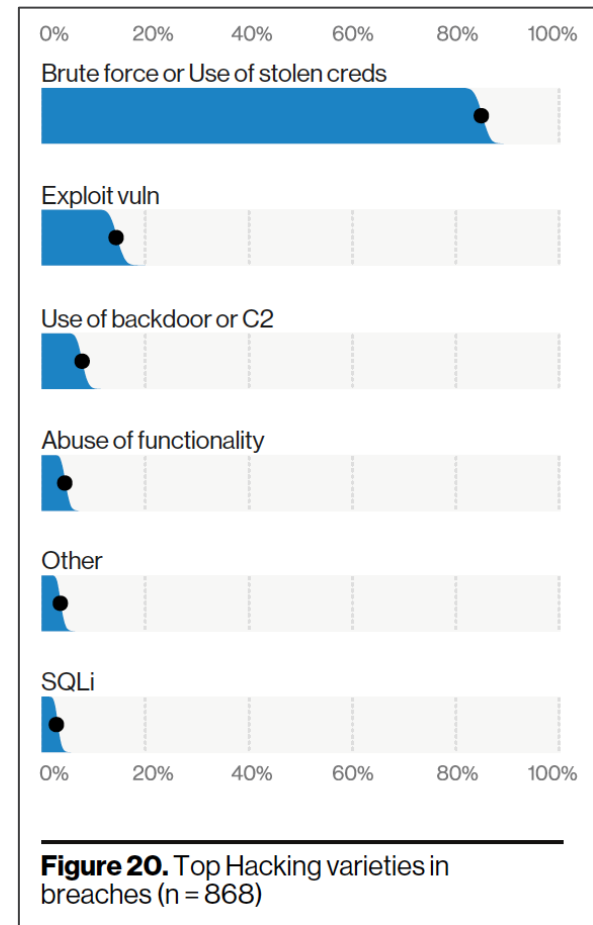
# Update on Cyber Attacks

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# Top Causes of Data Breaches

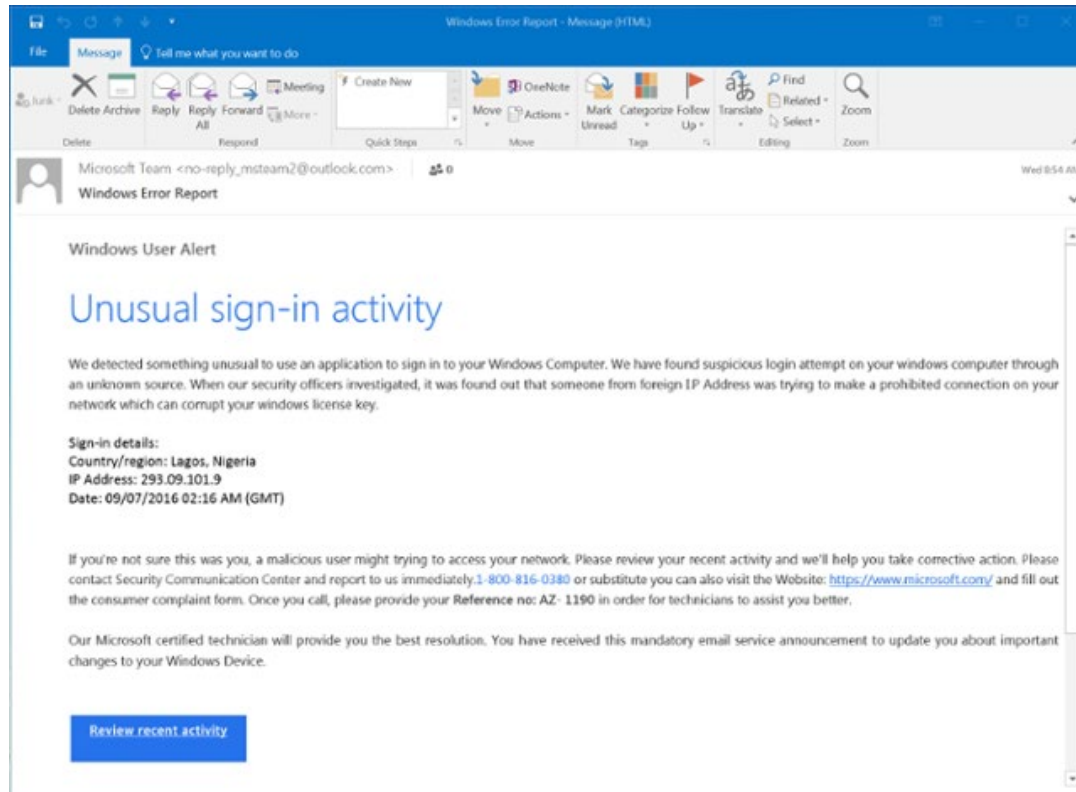
- So much easier to steal passwords than hack into a system
- 91% attacks start with phishing!



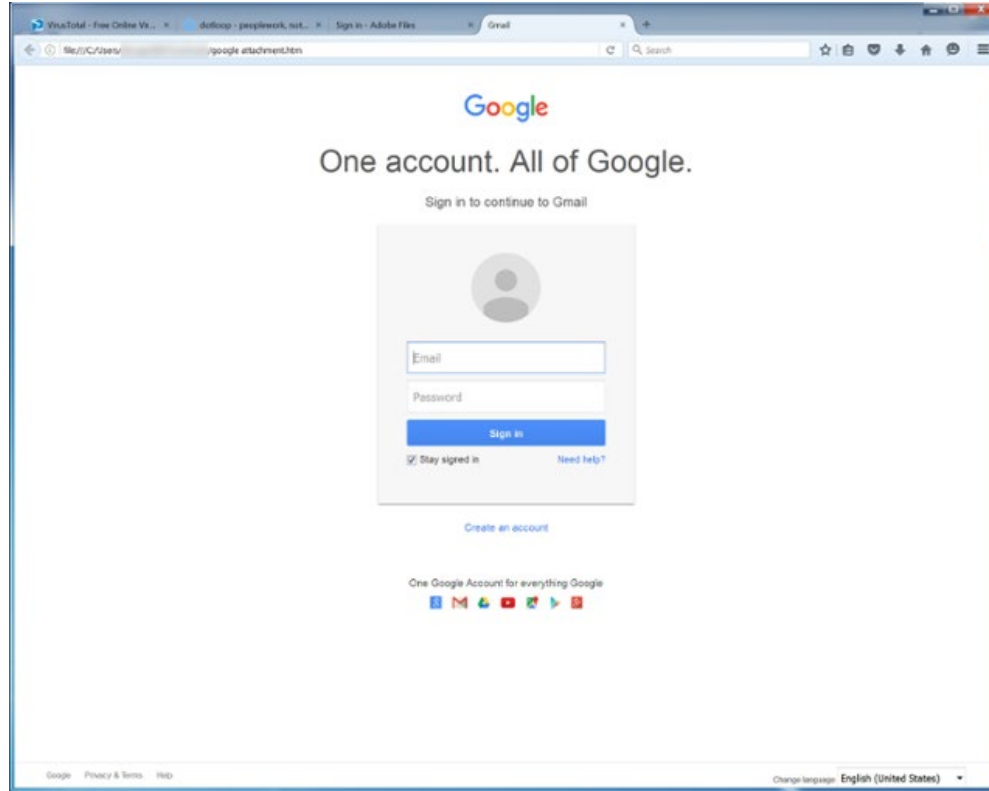
Source: 2020 Verizon DBIR



# Phishing Examples

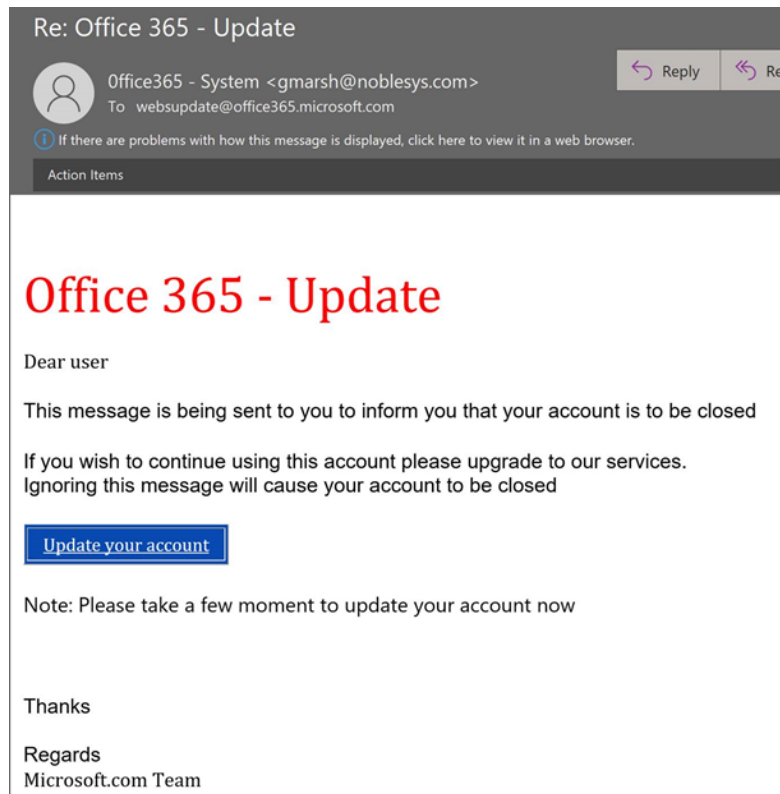


# Phishing Examples



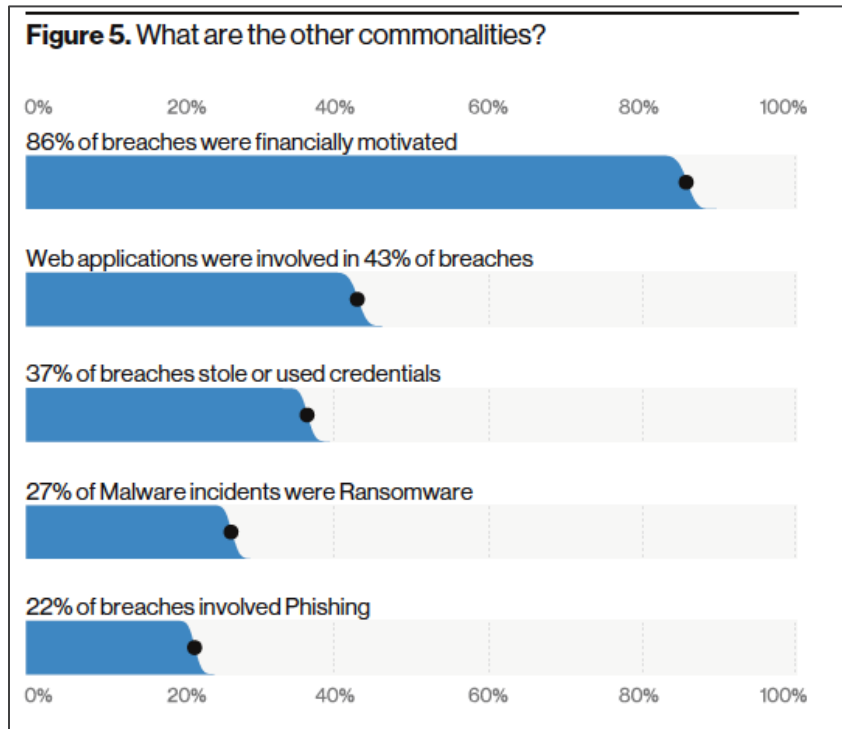


# Phishing Examples



# What Do They Do with the Credentials?

- Malware launched by user opens the door to the attackers
- Phished credentials used for VPN and other access
- Remote control software (e.g Teamviewer, Logmein)
- Majority of activity is financially motivated



# Ransomware



# Ransomware (old fashioned)

- Caused by a computer “malware” introduced into the environment
- Encrypts all files accessible by computer
  - Computer internal hard drive
  - Network drives
- Ransomware options
  - Pay ransom for decryption key
  - Restore files from backup to state prior to encryption



**It's ransomware time, do you know where your backups are?**



# Ransomware Evolved

- As companies did a better job with backups, ransomware evolved
- Double extortion
  - Encrypting files is not the only activity
  - Data exfiltration
  - Demand payment not to release data
- Triple extortion (newer)
  - Calling clients to increase pressure
- Ransom Amounts

The screenshot shows the MAZE ransomware website. At the top, there is a navigation bar with links: MAZE, Main, Archive, Press Release, Tor, and Mirror. A search bar is located in the top right corner. The main content area is divided into several sections:

- New Clients:** A list of victims with their status, such as "FKG Oil / MotoMart - 1% published", "APEM Inc. - 1% published", "WPT Nonwovens Corp Sands Fridge Lines - 1% published", "Platinum Pools - 1% published", "Humco - 1% published", "Vinnemeier Textil- und Schuhimport GmbH - 1% published", "Active Recycling Co", and "Jekyll Island - 1% published".
- Represented here companies do not wish to cooperate with us, and trying to hide our successful attack on their resources. Wait for their databases and private papers here. Follow the news! P.S. We have the second domain: newsmaze.top. To contact us use the feedback form of our news website.**
- Victim Details:** Three specific victim entries are shown, each with a "NEW" tag, a URL, a description of the attack, and a "Cryptoransomware" logo. The entries are:
  - Fairfax County Public Schools:** URL: <https://www.fcps.edu/>. Article about Fairfax County Public Schools have been locked. Admin: admin, 1718 views.
  - FKG Oil / MotoMart:** URL: <http://mymotomart.com/>. Article about FKG Oil / MotoMart have been locked. Admin: admin, 880 views.
  - APEM Inc.:** URL: <https://www.apem.com/>. Article about APEM Inc. have been locked.
- Full dump:** A list of victims with their status, such as "METROPOLITAN HEALTH CORPORATE (PTY) LTD - Full dump (100%)", "Ventura Orthopedics Inc. - Full dump (100%)", "Haldiram Snacks Pvt. Ltd. - Full dump (100%)", "Thai Beverage Public Company Limited - Full dump (100%)", "Egypt Yellow Pages Online - Full dump (100%)", "Bayley Construction - Full dump (100%)", "Florsheim Homes - Full dump (100%)", "NAPA TRANSPORTATION INC - Full dump (100%)", "Jacitara - Full dump (100%)", and "Bazinet Taylor - Full dump (100%)".



# Business Email Compromise

- Using the compromised (or guessed) credentials, they connect to your email server and download the contents.
  - What do you have in your email?
  - This by itself is a data breach
- Leverage the information learned from the emails
  - Email connections (CC vs. BCC)
  - Specific names of friends/family
  - Travel schedule
- Send out very convincing emails for other fraud schemes



# Gift Card Scams

## Expense



Tuesday, November 27, 2018 at 11:15 AM

[Show Details](#)

Good Morning,

I need you to perform a task for me. I need Apple iTunes gift card of \$100 face value. I need 20 of Each card. that's \$100 X 20. \$2000, Can you take care of this now?

Thanks



# CEO Fraud / Wire Fraud

- Victim legitimately wires funds from account
  - Very prevalent
  - Rarely recoverable
  - No wrongdoing from sender's bank
  - Friday afternoon before long weekend

From: Robert Smith <rsmith@yourdomain.com>  
To: Sue Brown  
Cc:  
Subject: Please get back to me asap.

Sue,

Please do you have a moment? Am tied up in a meeting and there is something I need you to take care of.  
We have a pending invoice from our Vendor. I have asked them to email me a copy of the invoice. I will be highly appreciative if you can handle it before the close of banking transactions for today. I can't take calls now so an email will be fine.

Robert

From: "Robert Smith" <rsmith@yourdomain.com>  
To: "Sue Brown" <sbrown@yourdomain.com>  
Subject: Please get back to me asap.  
Reply-To: [rsmith@attackerdomain.com](mailto:rsmith@attackerdomain.com)  
User-Agent: Roundcube Webmail/1.0.6







Wed 2/12/2014 9:58 AM

Steinkopf, Timothy <timothy.steinkopf@centrifly.com>

Fwd: Wiring Instruction

To [REDACTED]

You forwarded this message on 2/12/2014 10:47 AM.

Message INDEVA WIRING INSTRUCTIONS.pdf (105 KB)



Process a wire of \$357,493.41 to the attached account information. Let it be coded admin expense. Send me the confirmation when completed.

Thanks  
Tim

----- Forwarded message -----  
From: **Kemp, Tom** <[tom.kemp@centrifly.com](mailto:tom.kemp@centrifly.com)>  
Date: Feb 12, 2014  
Subject: Wiring Instruction  
To: [Timothy.Steinkopf@centrifly.com](mailto:Timothy.Steinkopf@centrifly.com)

Tim,

Per our conversation, attached is the wiring instructions for the wire. I'll send the documentation later on. Let me know when done.

Thanks  
Tom



Wire Transfer - Message (HTML) (Read-Only)

FILE MESSAGE

Ignore Delete Reply Reply All Forward Meeting IM More Quick Steps Move Rules OneNote Actions Assign Policy Mark Unread Categorize Follow Up Translate Find Related Select Zoom

Wed 5/6/2015 1:00 PM

**Wire Transfer**

To [Redacted], Peter

**i** This message was sent with High importance.

Hi [Redacted]

Can we have a wire transfer sent out today? I'm expecting to receive the account information for an out going wire transfer shortly and I'll need you to see to it that the payment goes out today.

Kindly get back to me ASAP to let me know when to forward the wire instruction to you.

Regards,

[Redacted]





[REDACTED] via mxsvr.net

12/22/15 ☆



to me ▾

RESEND PLEASE NOTE AND CONFIRM BACK URGENT!!!

Dear Dave,

Please take note our bank account below to make both payments tomorrow like you promised. We are auditing our main account since its the end of the year so no transfer will be able to go in until its over. Kindly remit both payments to our secondary company account info below and send confirmation.

Bank name: HSBC BANK

Bank Address: 1 Queen's Road Central, Hong kong

Beneficiary Name : KINGRUI GARMENTS CO., LIMITED

Swift code : HSBCHKHHHKH

Account Number : 801-266743-838

Our Account department will send you an official letter of authorization to change account.  
Please send bank copy when you make payment.

Best Regards,



# Lookalike Domains

RE: [EXTERNAL] missing invoices > Spam x



kate@[REDACTED]esInc.com  
to bcc: me ▾

Mon, Aug 9, 9:33 AM (3 days ago) ☆ ↶ ⋮

Hello

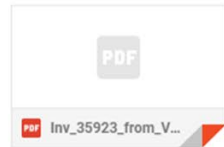
Please see attached updated statement. Can you please provide an update on payment. some invoices are showing unpaid on these statement. Please open onedrive portal to have a look at it.

Please treat as urgent.

Thank you

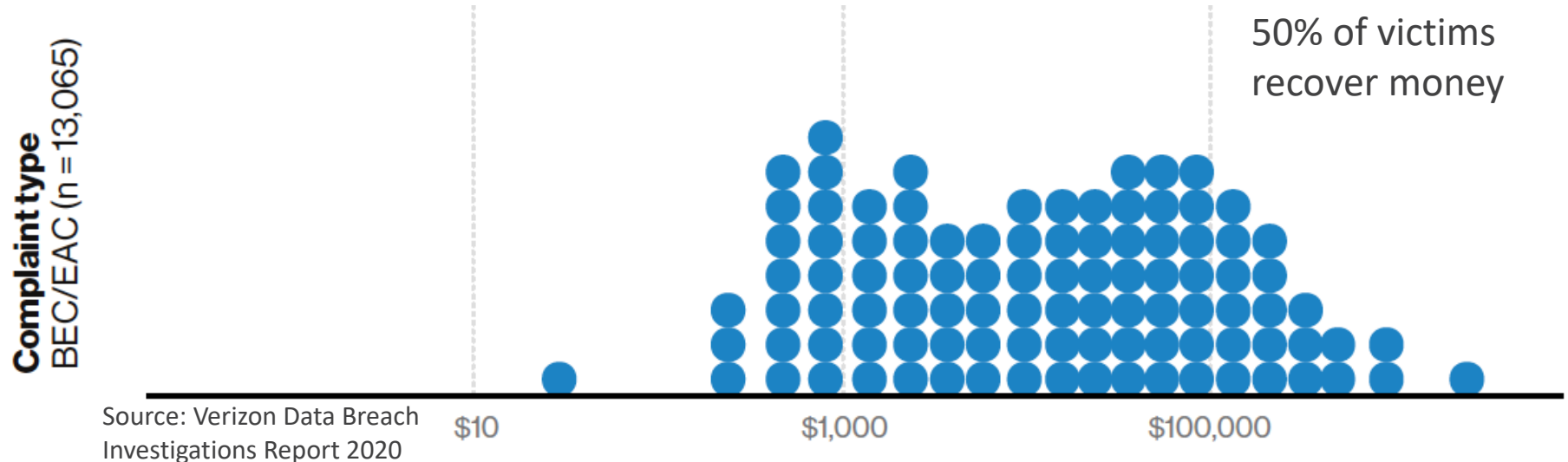
Kate [REDACTED]

[REDACTED]es Inc



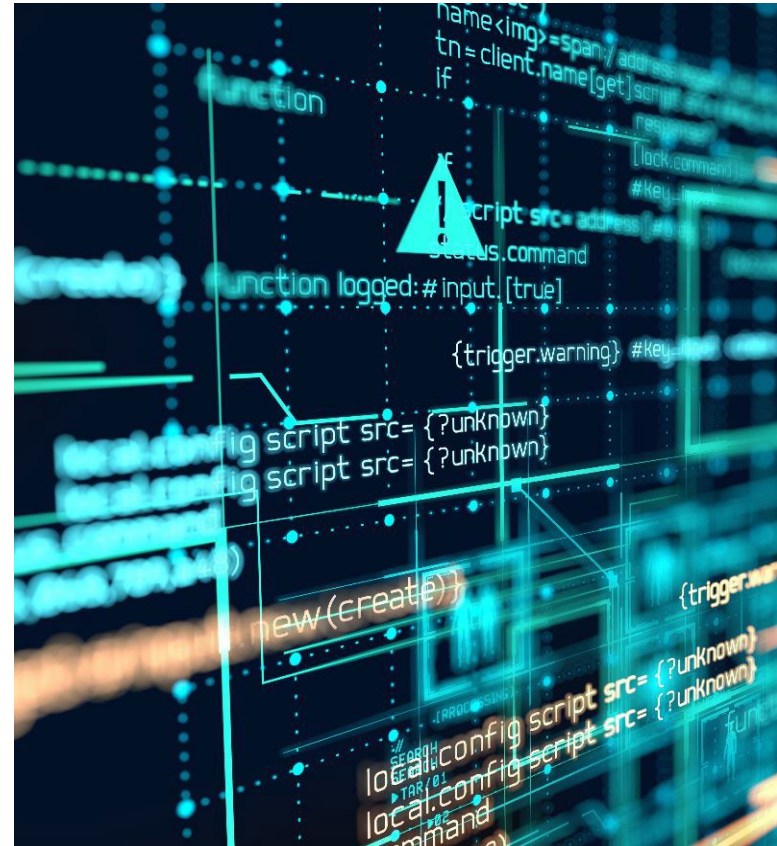
# Cost of BEC

- Exploitation of cloud-based email has cost US businesses over 2 billion



# Data Leakage Helps the Hackers

- Social media
  - Posting photos while on vacation
  - All posts contain geolocation
- Organizational structure
  - LinkedIn
  - Corporate web sites
- Password compromises at 3rd party systems
  - Never use the same password for work elsewhere





# Managing Cyber Risks

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# Managing the risk

- As always, prevention is the first step
- Cyber threats evolve rapidly so organizations need to anticipate successful attacks
- Have a comprehensive cybersecurity plan
  - Identify risks
  - Remediate and prevent
  - Incident response planning
  - Test your plans
- Cybersecurity has become a specialization separate from IT





# Identify Your Risks

- Risk assess, classify, and inventory systems
  - Determine if industry standards are required (NIST, CMMC, CIS Critical Controls)
  - If not required, are they desired?
- Conduct a Cyber Security Risk Assessment to determine how you measure against a standard



# Remediate and Prevent

- Develop an immediate, short and long-term strategy for remediating findings identified as part of the review.
- Security awareness training
- Consider penetration testing as part of your verification strategy
- **Review security configuration of Microsoft 365**



# Incident Response Planning

- Unfortunately, data breach can still occur despite implementing all the best security precautions
- When that occurs, organizations need to ensure they are ready to respond to a data breach.

Have a plan, practice the plan, prove the plan



# Have a Plan

- Develop an incident response plan
  - Include the appropriate procedures
  - Ensure points of contact are included
  - Keep the plan update to date
- Establish relationships with key incident responders
  - Breach Counsel
  - Forensic provider
  - Public relations



# Practice the Plan

- Like all emergency procedures, they need to be practiced
- Tabletop exercises- simulations where participants walk through the incident and response procedures
- Two types of tabletop exercises
  - Technical
  - Management
  - Both types should be conducted annually
- Spear phishing tests
- Red Team penetration testing



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# Cyber Security as a Specialty

- An entire army of hackers results in rapidly changing threat landscape
- Cyber security is rapidly evolving
- Cyber security has become its own area of specialization, separate than IT operations and administration
- Most IT departments are staffed to keep systems operational leaving little time for staff to
  - Stay up to date on threats
  - Implementing proactive measures



# Knowledge and Independence

- Important to have someone focused full time on cyber security. Doesn't need to be dedicated to you.
- Should be independent of operations and report to leadership independently from operations
- Accountant vs. Auditor



# Adequate Insurance

- Cyber insurance is as important as E&O and General Liability these days.
  - Covers cost of response and damages
  - Provides privacy attorneys, forensic responders and communications experts
  - Covers ransom payment
- Verify coverage is adequate every year







# Federal Assistance

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# American Rescue Plan Act (ARPA)

- ARPA provides for \$200 billion to states and \$125 billion to local governments for “cybersecurity modernization”
- Allows reimbursement of lost revenue due to pandemic if spent toward cybersecurity



# How to use the Money

- 3.8. Government services can include, but are not limited to, maintenance of infrastructure or pay-go spending for building new infrastructure, including roads; modernization of cybersecurity, including hardware, software, and protection of critical infrastructure;
- 6. Eligible Uses –Water, Sewer, and Broadband Infrastructure
  - 6.1. cybersecurity needs to protect water and sewer infrastructure.
  - 6.6. Recipients may also use funds for modernization of cybersecurity, including hardware, software, and protection of critical infrastructure, as part of provision of government services up to the amount of revenue lost due to the public health emergency.



# Infrastructure Bill

- The Infrastructure Investment and Jobs Act passed in 2021 includes \$1 billion in funding for the State and Local Cybersecurity Grant Program.
- This grant program provides \$1 billion, spread over FY 2022 through FY 2025, for state governments to develop, revise, and implement Cybersecurity Plans or to address imminent cybersecurity threats.
- Requires some matching funds from State and Local governments (starts at 10% in 2022).



# How to use the Money

- Funds can be used to
  - (1) implement the Cybersecurity Plan of the eligible entity;
  - (2) develop or revise the Cybersecurity Plan of the eligible entity;
  - (3) pay expenses directly relating to the administration of the grant, which shall not exceed 5 percent of the amount of the grant;
  - (4) assist with activities that address imminent cybersecurity threats...to the information systems owned or operated by, or on behalf of, the eligible entity or a local government within the jurisdiction of the eligible entity; or
  - (5) fund any other appropriate activity determined by the Secretary, acting through the Director.





# Managing Cyber Security can make a Difference

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# Funding Concerns

- Funding for Cybersecurity is always a challenge
- Difficult to correlate cost with benefit
- New federal programs aid with
  - Creating and implement a cybersecurity plan
  - Implementing/Modernizing cybersecurity infrastructure

# Properly Managing Cyber Risks makes a Difference

Impact of 25 key factors on the average total cost of a data breach

Change in US\$ from average total cost of \$3.86 million



Source: IBM Security Cost of a Data Breach Report 2020





# Properly Managing Cyber Risks makes a Difference

Source: IBM Security Cost of a Data Breach Report 2021

## Impact of compliance failures on the average cost of a data breach

Measured in US\$ millions





# Questions

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Thank you!

**David Sun** CISSP, CCE, EnCE  
David.Sun@CLAconnect.com



CLAconnect.com



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# Engaging Leadership

Featured Speaker: Guylaine Saint Juste

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# Learning Objectives

This session discusses leadership and how bringing people together to lift each other to higher achievement can better the whole organization.

- Discuss “complete” leadership and the process needed to bring all the organization’s talent into leadership
- Recognize business processes that engage people and lift each other to higher achievement





ENGAGING LEADERSHIP



## ABOUT GUYLAINE

- PERSONAL VALUES: TRUTH. LOVE. HARMONY.

MOTIVATORS: IMPACT. EXCELLENCE. INNOVATION. PERFORMANCE

PRIORITIES: FAITH. FAMILY. WORK (ALIGNED TO PURPOSE AND INTENTION).

INTERESTS: TRAVEL. READING. GARDENING

NABA, INC. "WHY": ACCESS. OPPORTUNITY. MOBILITY. ADVANCEMENT. REPRESENTATION.



## EDUCATION & CAREER BACKGROUND





## WHAT IS LEADERSHIP?

*“At NABA it is about becoming someone others want to follow willingly, and less about position or title.”*





## LEADERSHIP MOTTO

*“Leadership is not about the doing-  
it is the business of BEING.”*





THEN IT IS FAMILY & COMMUNITY:  
HOW DO YOU PRIORITIZE?

*Work life balance or a well  
integrated life of purpose?*



THEN IT IS ORGANIZATION...

*“I am less impressed with people's knowledge and more about how they treat people who can never do anything for them.”*







THEN IT IS SOCIETY:  
LIFTING AS WE CLIMB

*What impact do you want  
to make on this world?*





THEN IT IS THE WORLD

*“At NABA, Inc. our vision and purpose is to path and pave a more just world... we do so by unleashing endless opportunities so Black Business Leaders achieve the best version of themselves at every step of the journey.”*





OPEN Q&A

Thank you!

Guylaine Saint Juste,  
President and Chief Executive Officer  
NABA, Inc.

[gsaintjuste@nabainc.org](mailto:gsaintjuste@nabainc.org)



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Lunch 12:30-1:30

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# Great Resignation

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# Learning Objectives

- At the end of this session, you will be able to:
  - Describe the “great resignation,” including contribution factors, risks, and opportunities created by this time in history
  - Explain the next steps to clarify what government finance departments can do to improve effectiveness and efficiency without ideal resources





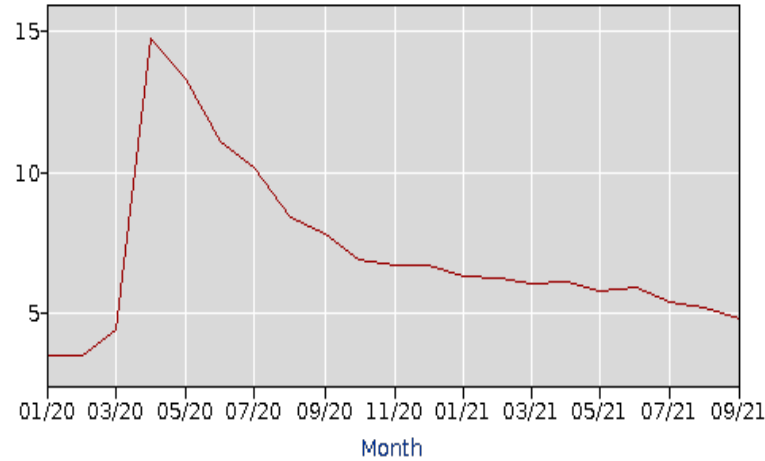
# Trends in the Finance Labor Market & how to Navigate Finding New Talent

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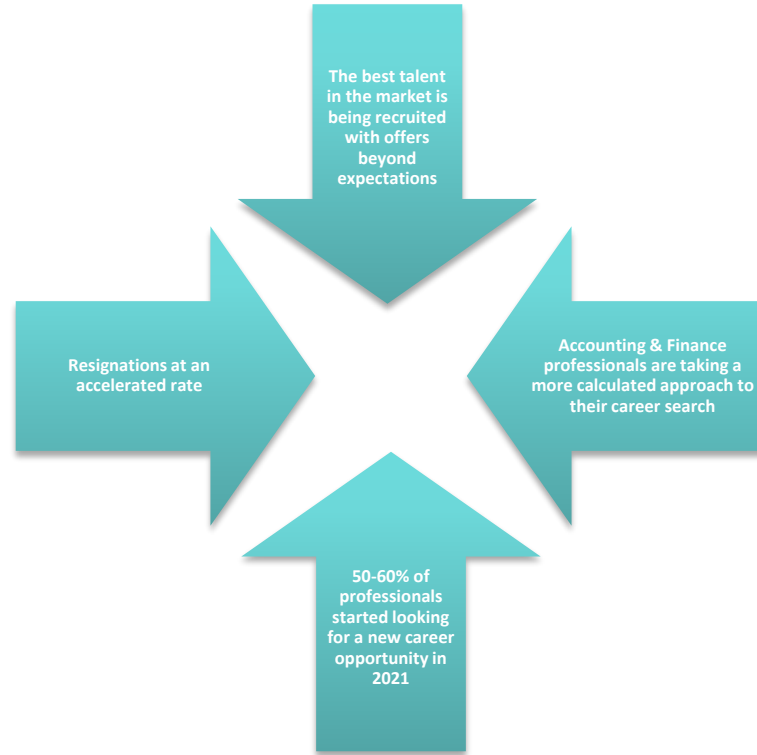
# Workforce statistics



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



# Accounting & Finance | “The Great Resignation”



# Navigating current market trends & futures

WORKFORCE

remote | hybrid | in-office

Virtual Hiring

DE&I





# Planning for success



Direct  
recruiting



Current hiring  
practices



Systems and  
flexibility



Competitive  
advantage





# Assessing your Finance Department

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# Financial Operations: Common Challenges Today



# Do you have these questions?

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



# What remedies have you tried?

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



# What we have learned...

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



# Example of Issues Versus Deeper Dysfunction

## Initial Issue Raised

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

## Symptom

Regular reconciliations are not being completed timely or at all.

## Symptom

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

## Symptom

Current staffing levels are inadequate to perform necessary functions.

## Root Cause

Technology and software systems are inefficient or underutilized.



# CLA's approach to a Finance Department Assessment

## Structure

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

## Process

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

## Systems

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





# CLA's approach to a Finance Department Assessment

## Discover

- Documentation Review
- Interviews and Walkthroughs
- Identify Systems Requirements

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

## Assess

- Evaluation
- Observations
- Recommendations

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

## Optimize

- Prioritize
- Implementation Roadmap
- System Selection and Optimization

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

**Structure • Process • Systems**



# Important things to consider

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





# Lessons Learned Case Study

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# Background and Situation

- \$150M national nonprofit organization
- Audit findings
- High turnover in the finance function
- Question as to whether the right people were in the right seats

# Known Challenges

- Initial conversation about pain points highlighted:
  - 20-30% vacancy in the finance function
  - Lack of confidence in remaining roles / responsibilities
  - Lack of transparency in financial reporting
  - Unclear processes
  - Delays in month-end and year-end closes and compliance reporting



# What we learned

- Lack of strategic financial leadership
- Mistrust of financial leadership
- Outdated and underutilized financial software
- Duplicate and triplicate manual processes of data entry
- Top finance lead involved in the weeds instead of leading
- Poor interdepartmental communication and collaboration
- Front line staff feeling burnout, under-appreciated, and under-utilized



# Recommendations

- Multiple senior level finance hires, with interim consulting support
- New cloud-based general ledger system with updated chart of accounts
- Integrations from the customer management, payroll, and AP systems to reduce manual data entry
- Automation of manual approval workflows (less email!)
- Realign staff by skill set, experience, and interest





# Questions?

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# 15 Minute Break

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## Post-Award and Monitoring

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# Learning Objectives

- At the end of this session, you will be able to:
  - Explain what management needs to accomplish in the post-award grant management process
  - Identify how to design policies and procedures and executable action plan to respond to the need for post-award evaluation



# Definitions

- Subrecipient – non-Federal entity that receives a subaward from a pass-through entity.
- Subaward – an award provided by a pass-through entity to a subrecipient.





## Subrecipient Monitoring and Management

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# Subrecipient or Contractor

- Grant by grant, case by case determination
- Characteristics which support a classification of subrecipient –
  - Determines eligibility
  - Performance is measured against Federal objectives
  - Is responsible for programmatic decision making
  - Is responsible for adherence to applicable Federal program requirements
  - Carries out the Federal program for a public purpose as opposed to providing goods and services for the benefit of the pass-through entity





# Subrecipient or Contractor

- Characteristics which support a classification of contractor –
  - Provides the goods and service within a normal business
  - Provides similar goods or services to many purchasers
  - Normally operates in a competitive environment
  - Provides goods and services that are ancillary to the operation of the Federal program
  - Is not subject to compliance requirements of the Federal program



# Subrecipient or Contractor

- The substance of the relationship is more important than the form of the agreement.
- All of the characteristics discussed may not be presented and the pass-through entity must use judgement in classifying each agreement as a subaward or procurement contract.





## Required Communication with Subaward

200.331 (a)

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## All pass-through entities must:

- Ensure that every subaward is clearly identified to the subrecipient as a subaward.
- Includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification.
- When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward.



# Subaward

- “Required” information at time of Subaward:
  - Subrecipient Name
  - Subrecipient’s Unique ID Number
  - Federal Award Identification Number (FAIN)
  - Federal Award Date
  - Subaward Period of Performance Start and End Date
  - Amount of Federal Funds Obligated by this action
  - Total Amount of Federal Funds Obligated to the subrecipient
  - Total Amount of the Federal Award



## Subaward (cont.)

- Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act
- Name of Federal awarding agency, pass-through entity, and contact information for awarding official
- ALN Number and Name
- Identification of whether the award is R&D; and
- Indirect cost rate for the Federal Award



## Subaward (cont.)

- All requirements imposed by the pass-through entity on the subrecipient.
- Any additional requirements that the pass-through entity imposes on the subrecipient.
- A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this part; and
- Appropriate terms and conditions concerning closeout of the subaward.





# Risk Assessment

200.331(b)

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# Grantor's Responsibility – Risk Assessment

- Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring procedures.
- In other words –
  - Perform a risk assessment on the likelihood the subrecipient may be noncompliant with regulations.
- Evaluations should be documented!



# Grantor's Responsibility – Risk Assessment Factors

- Consider such factors as:
  - The subrecipient's prior experience with the same or similar subawards;
  - The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F—Audit Requirements of this part, and the extent to which the same or similar subaward has been audited as a major program.
  - Whether the subrecipient has new personnel or new or substantially changed systems; and
  - The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).





# Techniques for Monitoring

200.331(c) – 200.331(h)

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# Grantor's Responsibility - Monitoring

- Consider imposing specific subaward conditions upon a subrecipient, if appropriate.
- Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.



# Grantor's Responsibility - Monitoring (cont.)

- Pass-through entity monitoring of the subrecipient must include:
  - Reviewing financial and performance reports
  - Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.
  - Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by §200.521 Management decision.



# Grantor's Responsibility – Monitoring (cont.)

- Depending upon the pass-through entity's assessment of risk posed by the subrecipient the following monitoring tools may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals:
  - Providing subrecipients with training and technical assistance on program-related matters; and
  - Performing on-site reviews of the subrecipient's program operations
  - Arranging for agreed-upon-procedures engagements as described in §200.425 Audit services.
- Consider taking enforcement action against noncompliant subrecipients as described in §200.338 Remedies for noncompliance of this part and in program regulations.





# Program Performance

200.328

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# Subrecipient's Responsibility for Monitoring Performance

- The non-Federal entity is responsible for oversight of the operations of the Federal award supported activities. The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved.





# Program Performance Basics

- The non-Federal entity must submit performance reports at the interval required pass-through entity to best inform improvements in program outcomes and productivity.
- Intervals must be no less frequent than annually nor more frequent than quarterly except in unusual circumstances.
- Annual reports must be due 90 calendar days after the reporting period; quarterly or semiannual reports must be due 30 calendar days after the reporting period.



## Program Performance Basics (cont.)

- The non-Federal entity must submit performance reports using OMB-approved government-wide standard information collections when providing performance information.



# Program Performance Basics (cont.)

- As appropriate in accordance with above mentioned information collections, these reports will contain, for each Federal award, brief information on the following unless other collections are approved by OMB:
  - (i) A comparison of actual accomplishments to the objectives of the Federal award established for the period. Where the accomplishments of the Federal award can be quantified, a computation of the cost (for example, related to units of accomplishment) may be required if that information will be useful. Where performance trend data and analysis would be informative to the Federal awarding agency program, the Federal awarding agency should include this as a performance reporting requirement.
  - (ii) The reasons why established goals were not met, if appropriate.
  - (iii) Additional pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.



## Program Performance Basics (cont.)

- Construction performance reports. For the most part, onsite technical inspections and certified percentage of completion data are relied on heavily by Federal awarding agencies and pass-through entities to monitor progress under Federal awards and subawards for construction.



# Program Performance Basics (cont.)

- Significant developments. Events may occur between the scheduled performance reporting dates that have significant impact upon the supported activity. In such cases, the non-Federal entity must inform the Federal awarding agency or pass-through entity as soon as the following types of conditions become known:
  - Problems, delays, or adverse conditions
  - Favorable



# Monitoring Procedures: General

- Perform and document an annual risk assessment of noncompliance.
- Ensure subcontracts contain all required information.
- Compliance with Federal awards needs to be thoroughly understood, communicated and continuously monitored.
- Obtain and review the single audit report (if applicable) for each subrecipient.
- Establish what enforcement actions will be needed in the event of subrecipient noncompliance. Failure to comply can result in a penalty as severe as not being able to receive funding government-wide.





# Internal Controls

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# Grantor and Subrecipient's Responsibility

- In General: The entity is responsible for oversight of the operations of the Federal award supported activities. The entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved. Monitoring by the entity must cover each program, function or activity.
- Internal control is a process for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.





# Internal Controls

- Section 200.303 continues to require non-Federal entities to do the following:  
Entity “MUST” not should or may
  - Establish and maintain effective internal controls over federal awards to provide reasonable assurance that awards are being managed in compliance with laws and regulations.
  - Exercise judgment in determining the most appropriate and cost effective internal control in a given circumstance.
  - Comply with Federal Statutes, regulations, and the terms and conditions of the Federal award
  - Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
- Additional requirement added
  - Take reasonable measures to safeguard protected personally identifiable information, as well as any information deemed sensitive by the awarding agency.



# Internal Controls

- Best practices can be found at the following:
  - “Standards for Internal Control in the Federal Government” issued by the Comptroller General (Green Book)
  - “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- Failure to establish and maintain a effective internal control environment will result in an audit finding.





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## Single Audit Reports

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# Components of the Single Audit Report

- Independent Auditor's Report on the Financial Statements
- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (GAS or GASAS report)
- Independent Auditor's Report on Compliance With Requirements That Could Have A Direct and Material Effect on Each Major Program, on Internal Control Over Compliance, and on the Schedule of Expenditures of Federal Awards in Accordance with Uniform Guidance (Opinion on Federal programs)
- Schedule of Expenditures of Federal Awards (SEFA)
  - List all federal programs and related federal expenditures for the entity.
  - List all funds pass-through to a subrecipient
- COVID-19 notation



# Components of the Single Audit Report

- Notes to the Schedule of Expenditures of Federal Awards
  - Describes the basis of accounting for the SEFA
  - Provides detail for loan programs
  - Identifies any special program funding
  - Identifies if the 10% indirect cost rate is used
- Schedule of Findings and Questioned Costs (SFQC)
  - Opinion on the Financial Statements (summary of the GAS letter)
  - Opinion on Major Programs (summary of the single audit letter)
  - List of Major Programs Tested
  - Financial Statement Findings (detail of the findings)
  - Federal Award Findings (detail of the findings)
- Schedule of Prior Year Findings
  - Resolution of prior year findings



# GAS Report: Internal Control Over Financial Reporting: What Does it Report?

- Internal Control Over Financial Reporting
  - No opinion on effectiveness of IC over financial reporting
  - Report financial reporting significant deficiencies and material weaknesses
- Compliance and Other Matters
  - Report any material non-compliance



# OMB Report on Major Program Compliance and Internal Control: What does it report?

- Compliance
  - Non- Compliance Each Major Program
  - Key consideration: Opinion is at each program's direct and material compliance requirement
- Internal Control Over Financial Reporting
  - No opinion on effectiveness of IC over compliance
  - Report compliance significant deficiencies and material weaknesses



# OMB Report on Major Program Compliance and Internal Control: What does it report?

- Summary of the Independent Auditor's Results
  - Financial Statements
    - Type of auditor's report issued
    - Internal control over financial reporting
    - Noncompliance material to financial statements noted
- Federal Awards
  - Type of auditor's report issued on compliance for major programs
  - Internal control over major programs
- Identification of Major Programs
  - Name of the program
  - ALN number





# Schedule of Findings and Questioned Cost

- Dollar threshold used to distinguish Type A programs.
- Any audit findings disclosed that are required to be reported
- Auditee qualified as low-risk auditee



# Opinions

- Unmodified opinion — The unmodified opinion has no reservations concerning the financial statements. This is also known as a clean opinion meaning that the financial statements appear to be presented fairly or the major program was in compliance with federal requirements.
- Qualified opinion — This means that the auditor has taken exception to certain accounting/programmatic applications or is unable to establish the potential outcome of a material uncertainty.
- Disclaimer opinion — This is a special type of audit report issued when the auditor is unable to perform the required audit procedures due to the lack of auditee documentation.
- Adverse opinion — This is a type of audit opinion which states that the financial statements do not fairly present the financial position, results of operations, and changes in financial position, in conformity with generally accepted accounting principles. The worst type of opinion.





# Audit Findings

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# Audit Finding: What is it?

- An audit finding is defined as an area of potential control weakness, policy violation, non-compliance with the terms and conditions of the award or other issue identified during the audit.
- A finding is reported as either a significant deficiency or material weakness over internal control and/or compliance.



# Types of Audit Finding: Significant Deficiency vs Material Weakness

- **Significant Deficiency:** is a deficiency, or a combination of deficiencies, in internal control over financial reporting or major programs, that is less severe than a material weakness yet important enough to merit attention by those responsible for oversight of the entity.
- **Material Weakness:** is a deficiency, or a combination of deficiencies, in internal control over financial reporting or major programs, such that there is a reasonable possibility that a material misstatement of the financial statements or material non-compliance with a program requirement will not be prevented or detected on a timely basis.



# Audit Findings: Components

- Information on Federal Program
  - Also states the severity of the finding: Significant Deficiency or Material Weakness
- Criteria
  - The requirement to be met
- Condition
  - Identify the finding. What was not in accordance with the program requirement. May be non compliance or lack of an internal control.
- Questioned Costs
  - Did the finding result in unallowable program costs? Questioned for the funding agency to determine allowability.
- Cause
  - Why the finding occurred.



# Audit Findings: Components

- Effect
  - How does the finding effect the program if uncorrected.
- Recommendation
  - The auditor's suggestion for correcting the finding.
- Management Response
  - What management proposes to do to remedy the finding.



# Grantor's Responsibilities: Finding Follow-up Management's Response

- Subrecipient's Corrective Action Plan. At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons. Section 200.511.
- Grantor is required to assess the adequacy of the response and follow-up to ensure implementation was performed.





# Grantor Audit Finding Follow-up: Best Practices

- Establish a process for identifying and monitoring subrecipient's audit findings.
- Notify the subrecipient of the issue and establish a time frame for implementing corrective action.
  - Document rationale for time frame. May be 30 days to 12 months depending on the required corrective action.
- Was the corrective action fully implemented to prevent the recurrence of the finding?
  - Document if the finding was resolved, partially resolved or not resolved.
  - Follow-up letter on the status of the findings should be provided to the subrecipient. State if the finding was closed or remains open. If not closed, what are the next steps?



# Grantor Audit Finding Follow-up: Best Practices (cont.)

- What is the next course of action if corrective action has not occurred?
  - Have standardized noncompliance remedies.
  - Know the subrecipient and their capacity to remedy the finding.
- Were questioned costs repaid?
  - Were funds withheld to repay the funding agency?
  - Do you need to invoice the subrecipient for the funds?



# Grantor Audit Finding Follow-up: Best Practices (cont.)

- Single Audit Requirement:
  - Audit Threshold \$750k
  - The threshold change may affect whether or not a subrecipient receives a single audit.
  - If the subrecipient is no longer required to obtain a single audit, the grantor should implement monitoring procedures to compensate for the lack of the single audit.



# Grantor's Responsibilities:

## Remedies for Noncompliance §200.338

- If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions, the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:
  - Establishing additional prior approvals.
  - Requiring the non-Federal entity to obtain technical or management assistance; or
  - Requiring additional project monitoring;
  - Requiring additional, more detailed financial reports;
  - Requiring payments as reimbursements rather than advance payments
  - Temporarily withhold cash payments pending correction of deficiency;



# Grantor's Responsibilities:

## Remedies for Noncompliance §200.338

- Disallow all or part of the cost of the activity or action not in compliance;
- Wholly or partly suspend or terminate the Federal award;
- Initiate suspension or debarment proceedings;
- Withhold further Federal awards for the project or program;
- Any other remedies legally available.



# Resources

- US Government Printing Office
- Electronic Code of Federal Regulations
- 2 CFR Chapter II, Part 200
- [www.ecfr.gov](http://www.ecfr.gov)
  
- AICPA – Government Audit Quality Center (GAQC)
- [www.aicpa.org](http://www.aicpa.org)



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# Going Digital

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# Agenda

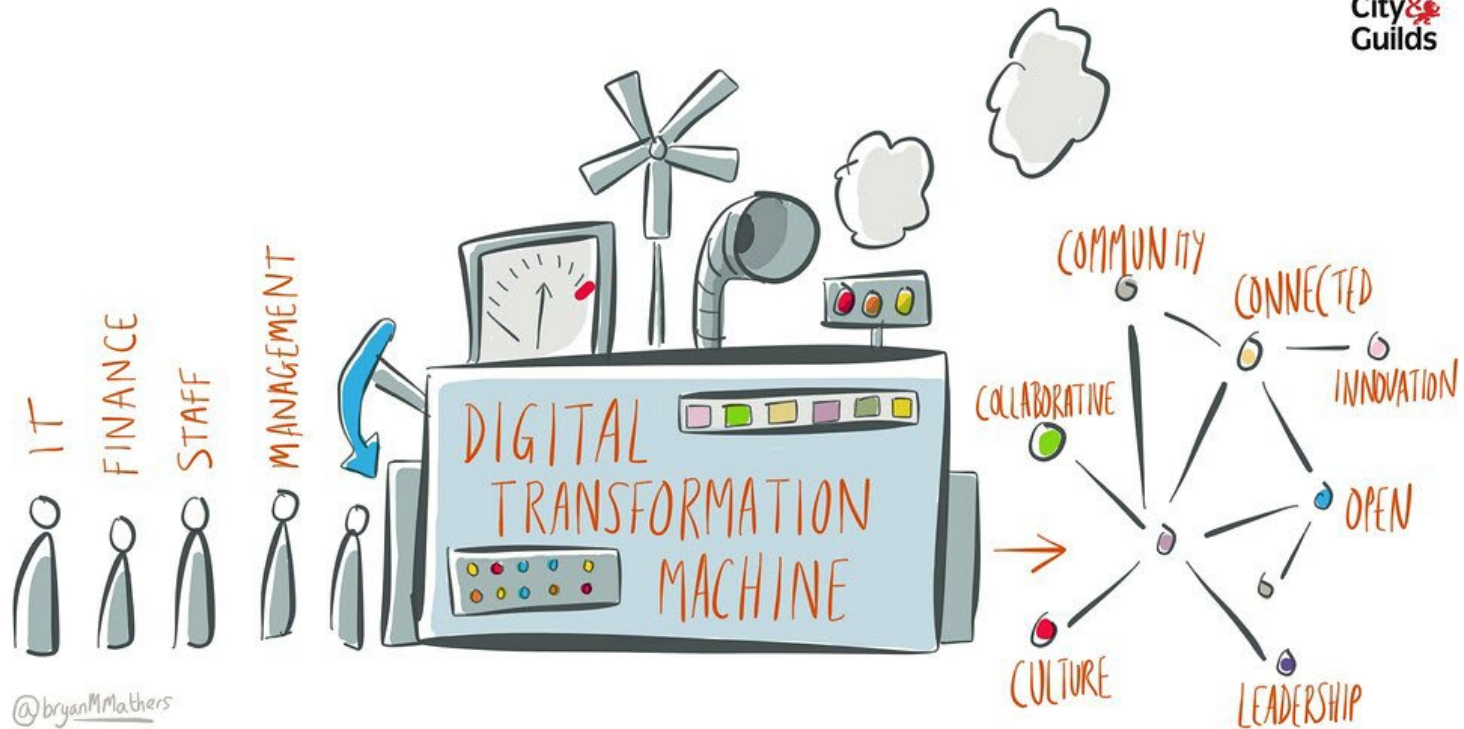
- What & Why Digital?
- Problem / Opportunity Identification
- Digital Government Examples
- Q&A

# Learning Objectives

- Discuss the meaning of going digital and the benefits seen by government organizations
- Recognize existing business processes and identify those needing digital solutions



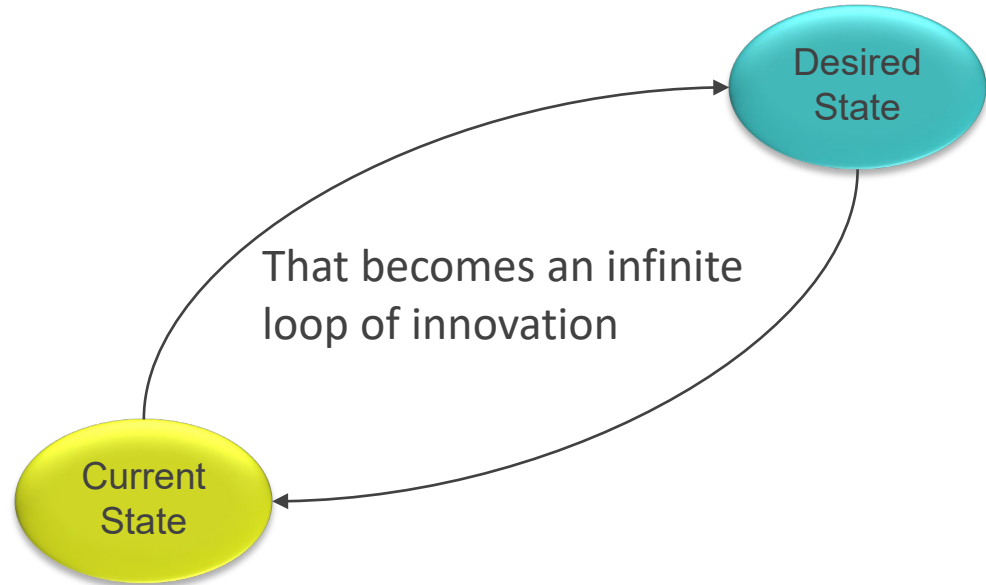
# Digital Transformation

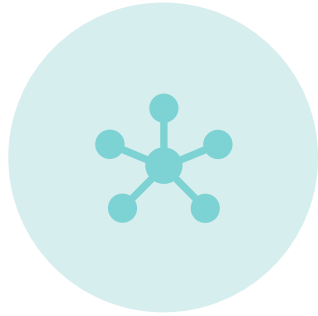


<https://www.flickr.com/photos/122135325@N06/14194296290>

# What is Digital Transformation?

- It often begins with a question or problem.
- And then develops into a transformation roadmap.





**DATA**



**AUTOMATION**



**SOFTWARE  
SOLUTIONS**

# Problem/Opportunity Identification

- What's the number one concern?
- Why is it your number one?
- What is the impact of the number one?
- How do you visualize the solution?
- What would it be worth to you to fix it?



# Digital Government Examples

- Data Transparency
  - Use of Force Dashboard
  - Financial Transparency
- Digital Modernization
  - Approval Workflow
  - Document Management
  - Interdepartmental Data Sharing
  - Board Reporting







# Questions



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# Closing Remarks and Q&A

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