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2022 Denver Government & Nonprofit Training Academy

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Cybersecurity Threats for 2022: Ransomware, Spear Phishing and Service Provider Risks

March 29, 2022

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Learning Objectives

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

- Identify the latest threat developments
- Recognize critical dependencies and risks in outsourced service provider relationships
- Indicate where organizations can focus valuable risk mitigation resources
- Identify how to develop and refine a framework of knowledge to plan future security efforts

Cyber Security Services

Information Security offered as specialized service offering for over 25 years

- Penetration Testing and Vulnerability Assessment
 - Black Box, Red Team, and Collaborative Assessments
- IT/Cyber security risk assessments
- IT audit and compliance (HIPPA, CIS, NIST, CMMC, DOL, GLBA/FFIEC, etc....)
- PCI-DSS Readiness and Compliance Assessments
- Incident response and forensics
- Independent security consulting
- Internal audit support



C:\whoami
> moth_man

- “Professional Student”
- Science Teacher / Self Taught Computer Guy
- IT Consultant - Project Manager → IT Staff/Help Desk → Hacker
- Assistant Scout Master (Boy Scouts)
- Boys Scouts Motto: Be Prepared – [Are you prepared?](#)





Sun Tzu:

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

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Cybercrime and Black-Market Economies

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

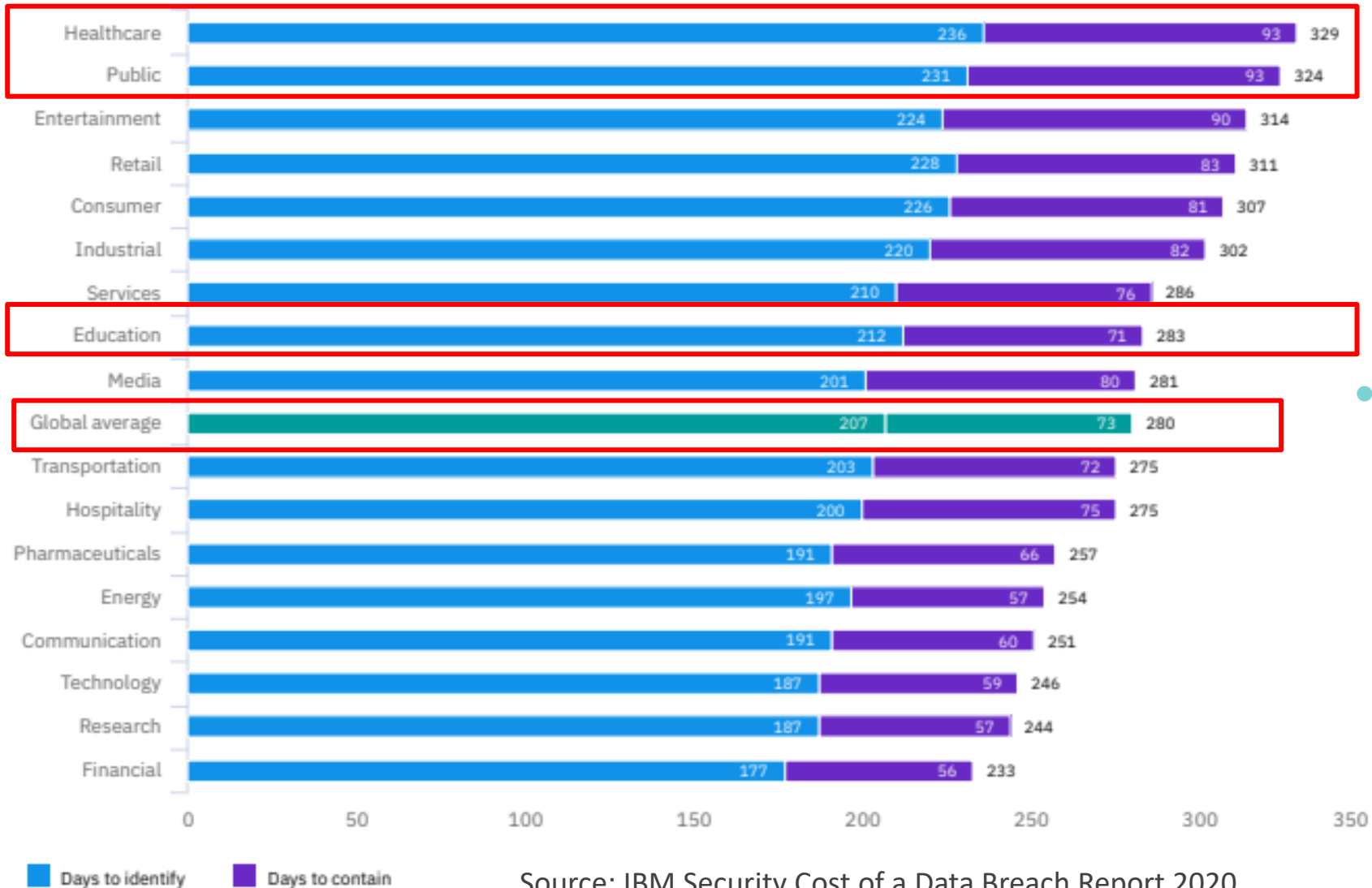


They will hit you with any or all of the following:

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



Average Days to Identify and Contain a Data Breach



Source: IBM Security Cost of a Data Breach Report 2020

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



Behind the statistics

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



Average cost
\$8.4M



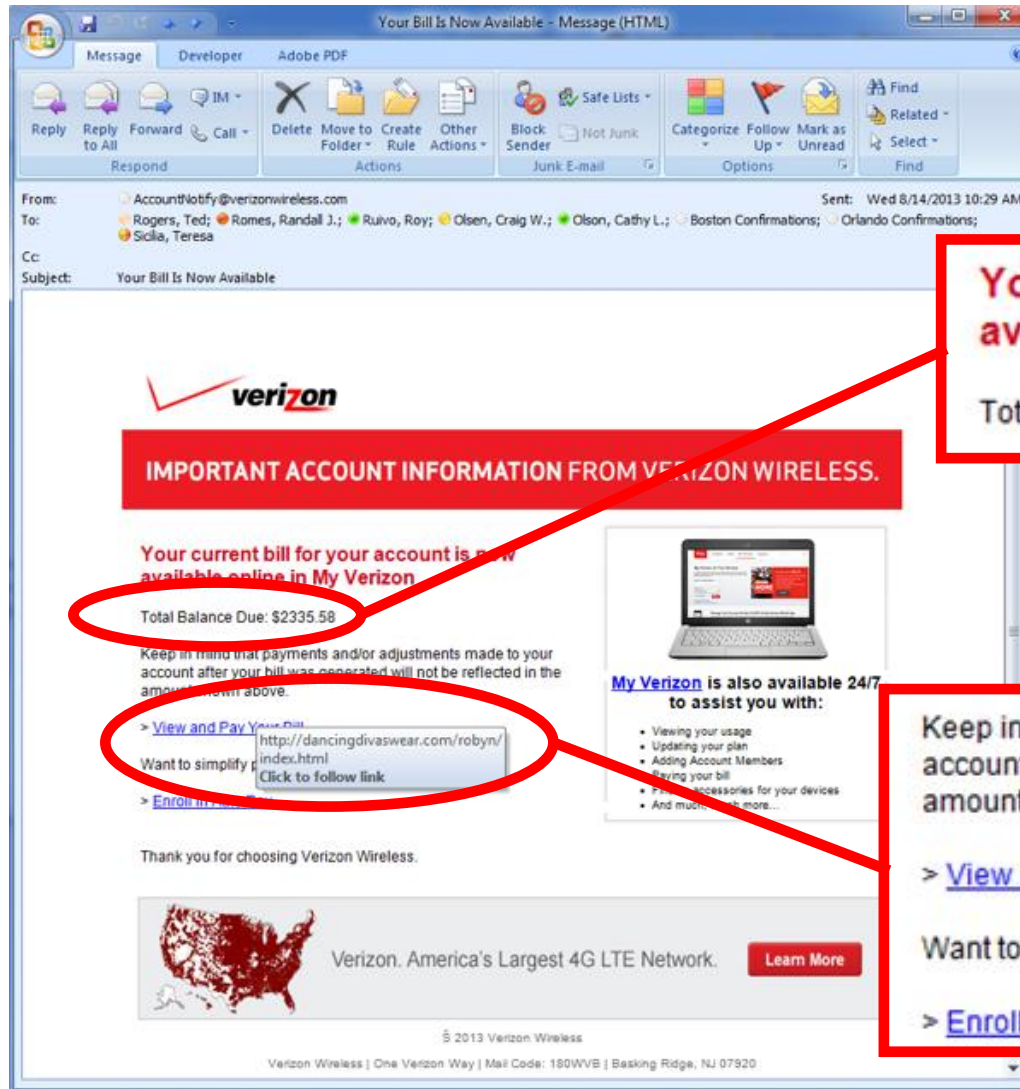
Here They Come

We All Look the Same To the Hackers

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Phishing and Pre-Text Phone Calls?



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

Total Balance Due: \$2335.58

IMPORTANT ACCOUNT INFORMATION FROM VERIZON WIRELESS.

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

Total Balance Due: \$2335.58

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

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> [View and Pay Your Bill](http://dancingdivaswear.com/robyn/index.html)
Want to simplify your bill payment?
Click to follow link
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Business Email Compromise

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

Fw: Commission Payment



◦ Dwayne Pearce <dwayne@vendor.com>

To: ◦ Brian Johnson



Download All

Preview All

This message is high priority.

EXTERNAL

We have an update in receiving payments, Via ACH. Kindly advice how we effect this change immediately.

Dwayne Pearce
dwayne@vendor.com
549-555-2232

From: Dwayne Pearce <dwayne@vendor.com>
Sent: Thursday, December 12, 2019 2:15 PM
To: William Bergson <william@vendor.com>; Barb Rogers <barbara@vendor.com>
Subject: FW: Commission Payment

From: Brian Johnson <bjohnson@company.com>
Date: Thursday, December 12, 2019 at 2:14 PM
To: Dwayne <dwayne@vendor.com>, William Bergson <william@vendor.com>
Subject: Commission Payment

Good afternoon,

Attached is the backup for commissions paid from the company.

Brian Johnson
Accounts Payable Supervisor
bjohnson@company.com

Does Your Organization Already Use a Phishing Service?

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

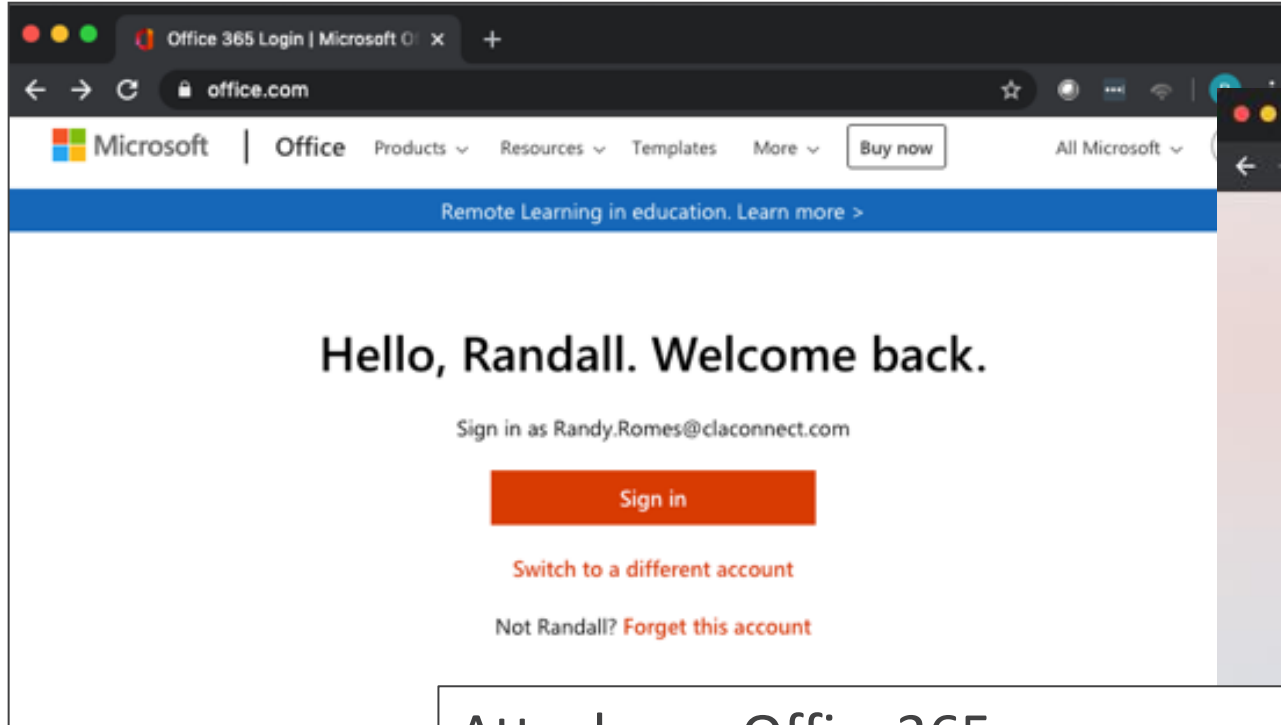


Passwords Are the Keys to the Kingdom...

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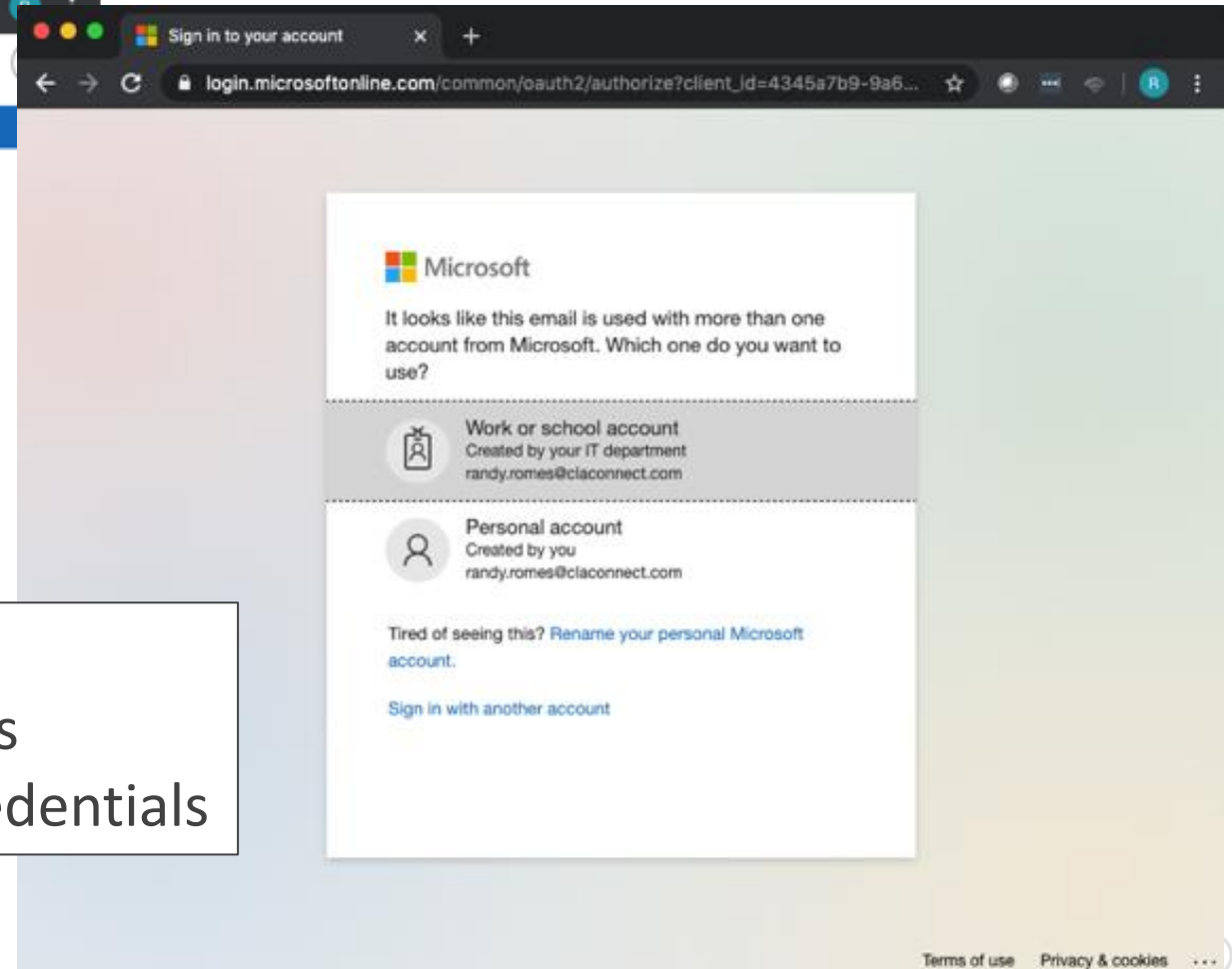
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Credential Harvesting and Password Guessing: The Cloud is Ripe for the Picking



Attacks on Office365

- Password guessing attacks
- Phishing that harvests credentials



Passwords

➤ Old Rules (NIST)

- Length (8+ characters)
- Complexity (Aa4@)
- Forced expiration (every_____)

➤ New Guidance (NIST)

- Password tools
 - MFA
 - Password managers

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

Password Strategies:

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

Password21 <----- **Unforgivable!**

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

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

Wallet Painting lamp <-- **GOOD**

Russell Wilson is a Bronco! ← BEST

- Password tools: MFA and Password Managers are needed





How Much is Operational Uptime Worth to Your Organization?

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

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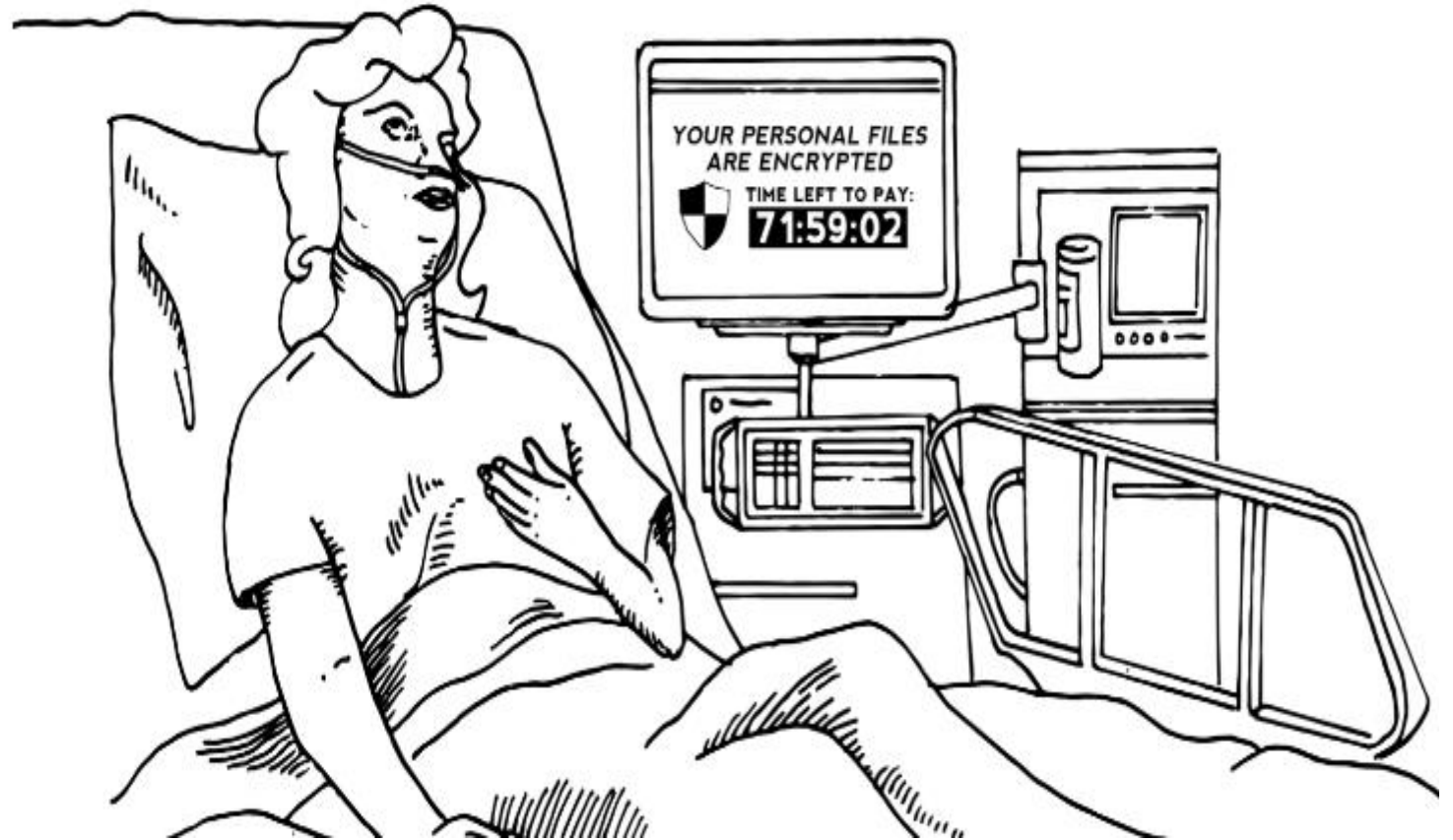
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Ransomware

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

Hospital ransomware: A chilling wake-up call

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



28 FBI, DHS, HHS Warn of Imminent, Credible Ransomware Threat Against U.S. Hospitals

On Monday, Oct. 26, KrebsOnSecurity began following up on a tip from a reliable source that an aggressive Russian cybercriminal gang known for deploying ransomware was preparing to disrupt information technology systems at hundreds of hospitals, clinics and medical care facilities across the United States. Today, officials from the **FBI** and the **U.S. Department of Homeland Security** hastily assembled a conference call with healthcare industry executives warning about an "imminent cybercrime threat to U.S. hospitals and The agencies on the conference call, which included the **U.S. Department of Health and Human Services** (HHS), warned participants about "credible information of an increased and imminent cybercrime threat to US hospitals and healthcare providers."

The agencies said they were sharing the information "to provide warning to healthcare providers to ensure that they take timely and reasonable precautions to protect their networks from these threats."

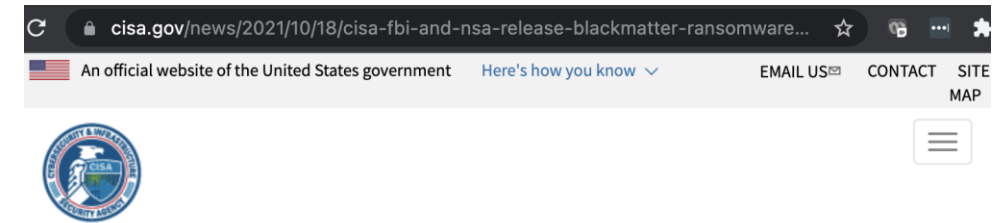


Late Last Year... Who will they set their sights on next?

<https://krebsonsecurity.com/2020/10/fbi-dhs-hhs-warn-of-imminent-credible-ransomware-threat-against-u-s-hospitals/>

Last Month...

Everyone has business operations at risk of denial of service and extortion.



CISA, FBI, AND NSA RELEASE BLACKMATTER RANSOMWARE ADVISORY TO HELP ORGANIZATIONS REDUCE RISK OF ATTACK

Original release date: October 18, 2021

WASHINGTON - The [Cybersecurity and Infrastructure Security Agency](#) (CISA), Federal Bureau of Investigation (FBI), and National Security Agency (NSA) published a [cybersecurity advisory](#) today regarding BlackMatter ransomware cyber intrusions targeting multiple U.S. critical infrastructure entities, including two U.S. food and agriculture sector organizations. The advisory includes technical details, analysis, and assessment of this cyber threat, as well as several mitigation actions that can be taken to reduce the risk to this ransomware.

First seen in July 2021, cyber actors leveraged BlackMatter with embedded, previously compromised credentials that enabled them to access the network and remotely encrypt hosts and shared drives. When the actors found backup data stores and appliances on the network, not stored offsite, they wiped or reformatted the data. BlackMatter is a ransomware-as-a-service (Raas) tool, which means the developers are able to profit from cybercriminal affiliates (i.e., BlackMatter actors) who deploy it.



Ransomware Attacks Continue to Evolve

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



Ransomware





Attacking the Supply Chain

SolarWinds Orion

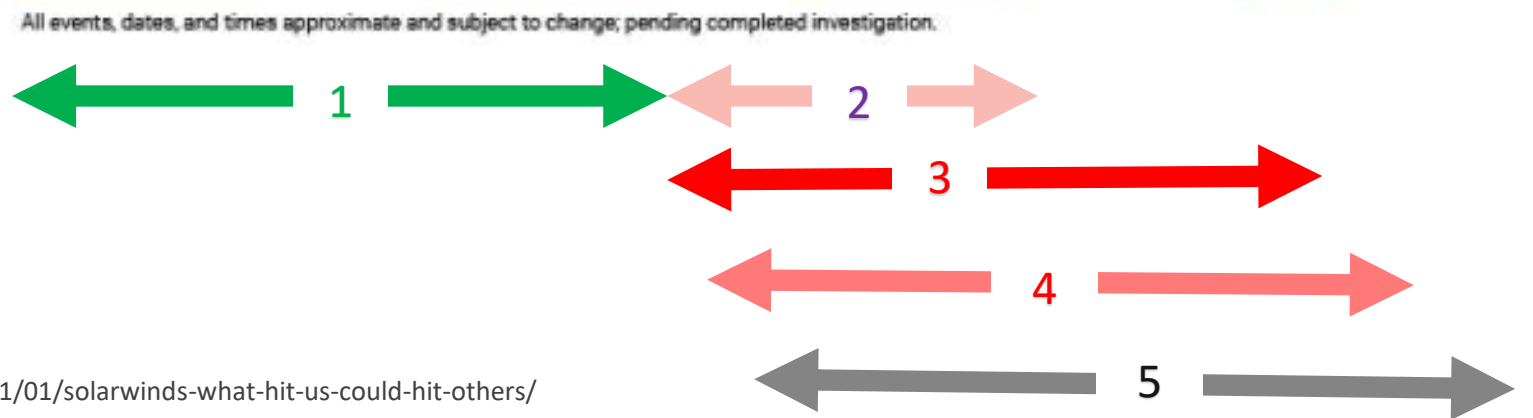
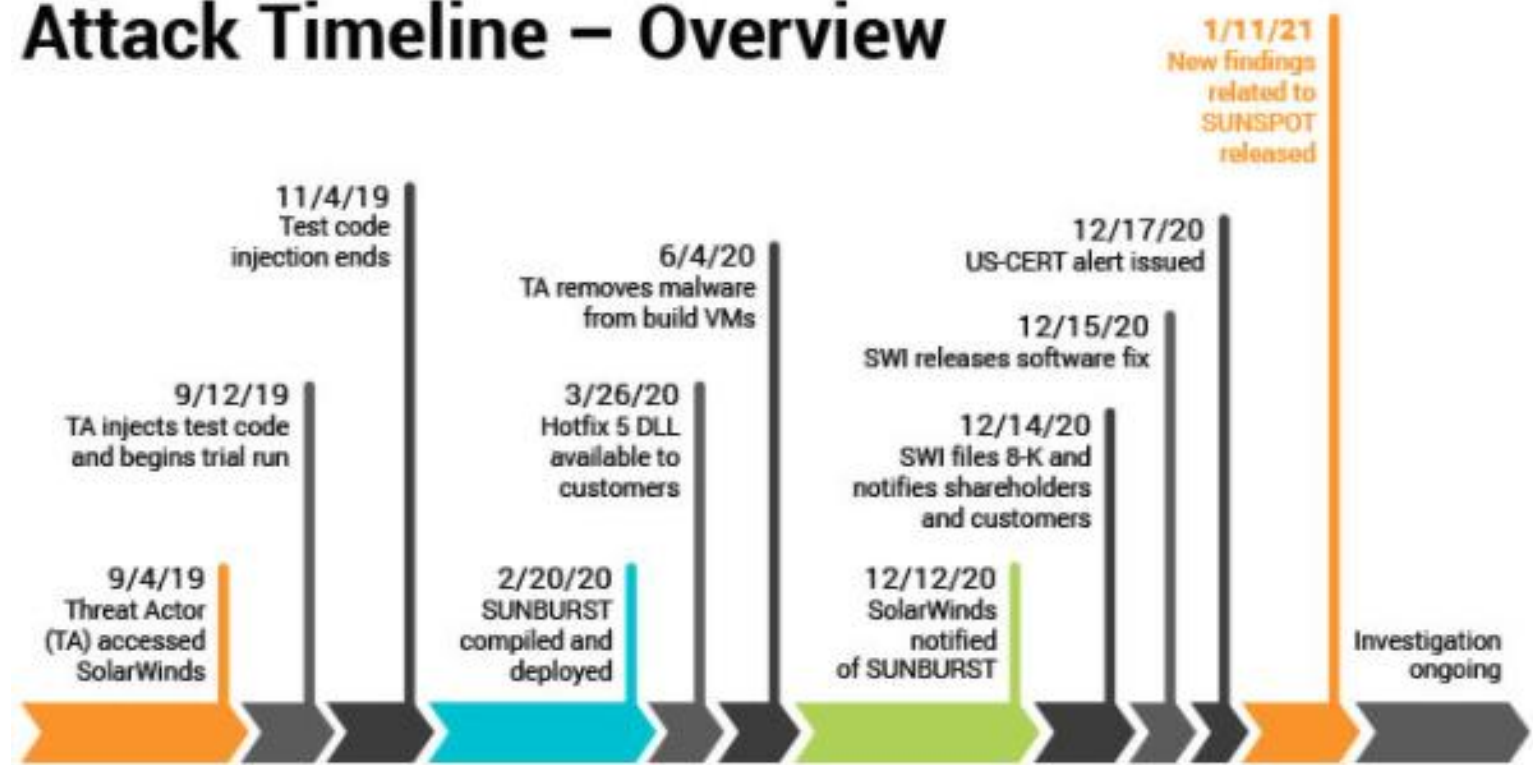
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Timeline of Events

Krebs On Security

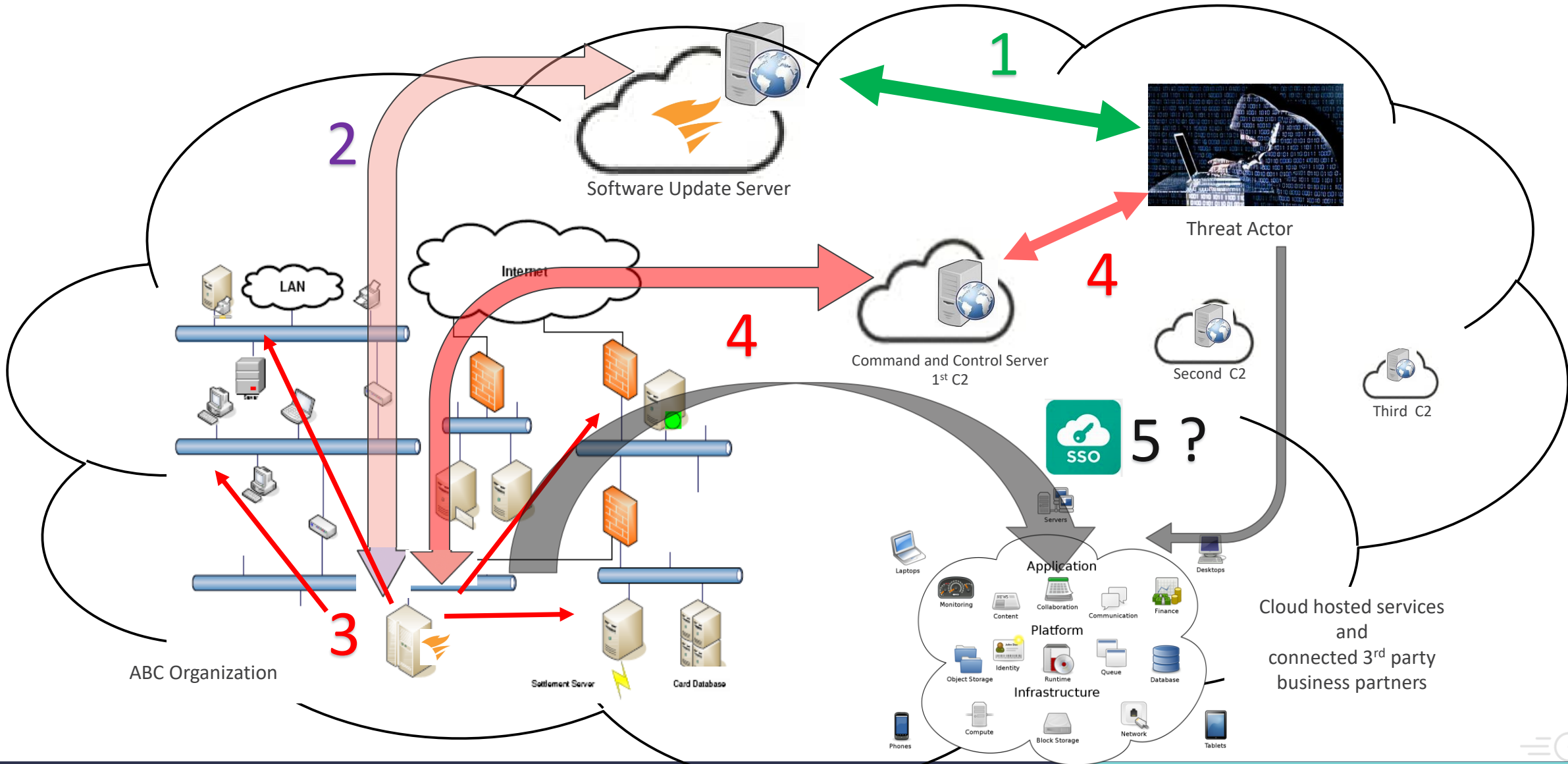
Attack Timeline – Overview



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



Picture in Your Minds Eye – SolarWinds Orion Compromise



Summary of SolarWinds Orion

1. SolarWinds (SW) development/update process is compromised

- Malware added to plug in component

2. Customers download and install SW update with back door malware

- Legitimate appearing malware installed

3. Sophisticated malware “scans” location

- Gathers information (“where am I”)
- Attacks/disables security tools

4. Malware “phones home”

- Connects to Command and Control Server (C2)
- Provides recon information and accepts instructions

5. Some organizations are subject to additional attack activity

- Lateral movement/pivoting
- Privilege escalation
- Creation of additional/secondary persistence mechanisms

6. Objectives?

- Espionage?
- Gather and steal information?
- Launch point for attack into other trusted systems?
 - Office 365?
 - Other trusted applications/systems?
 - Other trusted organizations?

Take-Aways and To-Dos (ie. IR)

1. Do we use SolarWinds Orion?
 - If **NO** → Go to 6
 - If YES → What version?
2. Is our version the affected version (see SW advisory)?
 - If **NO** → Go to 6
 - If YES → Continue
3. Have we created a timeline of potential exposure?
4. What logs do we have and how far back in time do they go?
5. What Indicators of Compromise (IOC's) have we searched for?
 - What resources/references have we used to identify known and potential IOC's?
 - Use 3 and 4 to search for IOC's
6. Do we have any third-party service providers with trusted access?
 - Who has remote access into our environment?
 - Who do we push our data out to?
 - Are there any persistent open connections to or from third parties?
7. Repeat 1-5 for those identified in 6

Take-Aways and To-Dos (ie. IR)

8. “Know What Normal Looks like”

- Easy to say... challenging to execute
- Server communication to the outside and
- DNS logs

9. In-house threat hunting for IOC's

- In-house changes
 - Privileged accounts and service accounts
 - Critical files and system settings

10. Threat hunting in cloud Infrastructure

- Mandiant Azure AD Investigator
- CISA Sparrow
- MS Azure Security Compass

New information was being released regularly...



A New Critical SolarWinds Zero-Day Vulnerability Under

July 12, 2021 Ravie Lakshmanan



SolarWinds, the Texas-based company that became the epicenter of a [massive supply chain attack](#) late last year, has issued patches to contain a remote code execution flaw in its Serv-U managed file transfer service.

The fixes, which target Serv-U Managed File Transfer and Serv-U Secure FTP products, arrive after Microsoft notified the IT management and remote monitoring software maker that the flaw was being exploited in the wild. The threat actor behind the exploitation remains unknown as yet, and it isn't clear exactly how the attack was carried out.

Software Vendor/Supply Chain Risk Management

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



Software Vendor/Supply Chain Risk Management

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





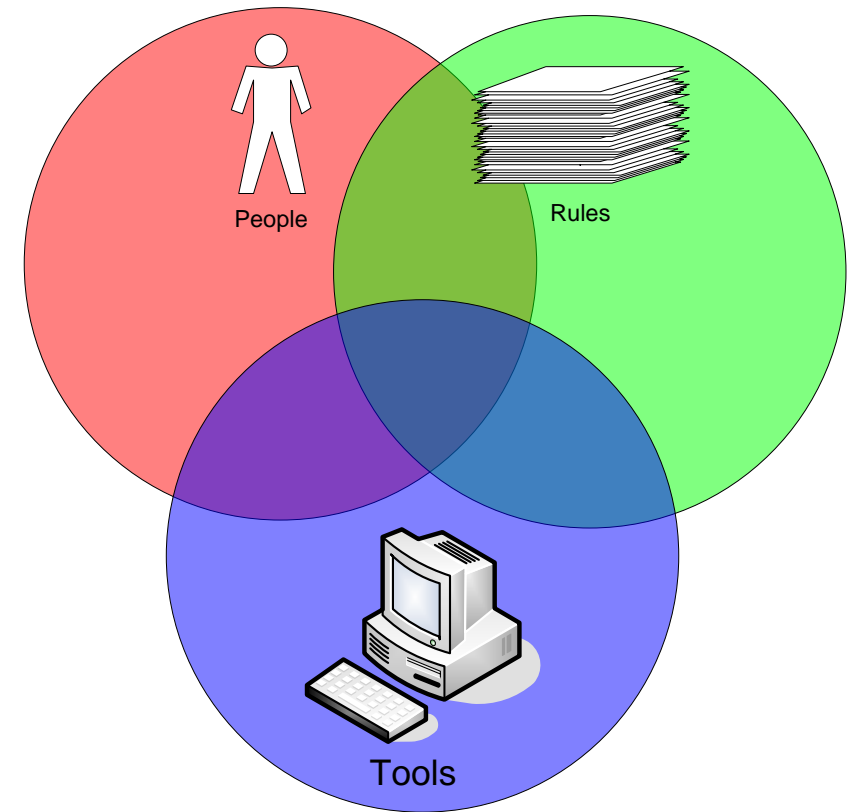
Is Cybersecurity Built Into Your Operational DNA?

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Policies and Standards

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



- Disciplined Exception Management

Basic

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

Foundational

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

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

Organizational

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

Standards Based
IT and Cyber
Operations

← → ↻ cisecurity.org/cis-benchmarks/

CIS Benchmarks™

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

[Join a Community](#)

Overview of CIS Benchmarks and CIS-CAT Demo **Register for the Webinar** **CIS Benchmarks FAQ** [Access all Benchmarks →](#)

Thu, Nov 4, at 1:30pm EDT
Tue, Nov 16, at 11:00am EDT

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

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

Cloud Providers	Alibaba Cloud Expand to see related content ↓	Download CIS Benchmark →
Operating Systems	Aliyun Linux Expand to see related content ↓	Download CIS Benchmark → Build Kit also available
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Cloud Providers	Amazon Web Services Expand to see related content ↓	Download CIS Benchmark →
Server Software	Apache Cassandra Expand to see related content ↓	Download CIS Benchmark →

CIS Benchmarks

Checklists and How-to guides for just about everything

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



Secure Office 365

NOT fully secure by default

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

docs.microsoft.com/en-us/microsoft-365/admin/security-and-compliance/secure-your-business-data?view=o365-worldwide

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Microsoft 365 / Microsoft 365 admin center help / Secure your organization / Top 10 ways to secure your data

Version: Microsoft 365

Filter by title

Microsoft 365 admin center help

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

Download PDF

Top 10 ways to secure Microsoft 365 for business plans

10/05/2021 • 14 minutes to read

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

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

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

Is this page helpful?

Yes No

In this article

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

Related content

Privileged Account Discipline and Hygiene

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





The Boy Scouts Motto: *“Be Prepared”*

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

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

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Incident Response Preparedness

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

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

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

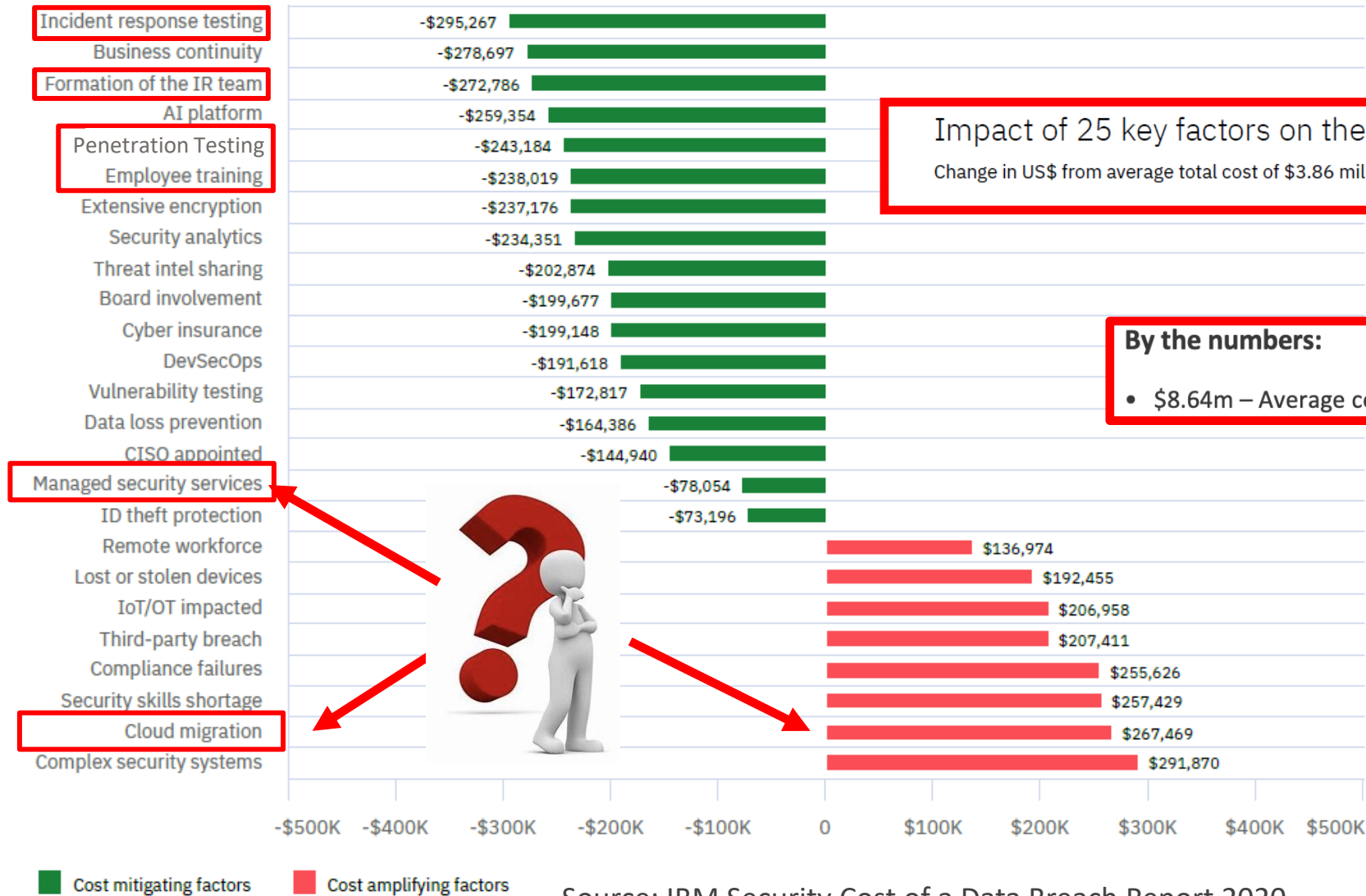
**Practice and
Test the Plan**

Practice the Plan

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



Incident Response Preparedness- Cost Savings



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

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

By the numbers:

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

Source: IBM Security Cost of a Data Breach Report 2020



“Chance Favors the Prepared Mind”

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





Boy Scouts Motto: Be Prepared...

Prepare

Operate

Test

- Standards Based Operations and Exception Management – Daily Operational DNA
- PCI Compliance is good cybersecurity hygiene
- Monitor and fine tune (continuous improvement)
- **Practice and Test**
 - Audit your operations controls (against a framework)
 - Review Office 365 (O365) security (periodically)
 - Schedule IR Tabletop and Disaster Recovery exercises
 - Perform application testing
 - Test new systems and after significant change
 - Engage independent penetration testing and vulnerability assessment (prove it)





Thank You!

Randy Romes, CISSP, CRISC, CISA,
MPC, PCI-QSA

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Other Resources

➤ CIS – Akamai Ransomware Risk Mitigation Partnership

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



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Cybersecurity



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

February 19, 2021 | by Javier Young

Authored By: John Hoffoss

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



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

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

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

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

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Create Opportunities

Other Resources



White House Memo:

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



THE WHITE HOUSE
WASHINGTON

TO: Corporate Executives and Business Leaders

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

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

DATE: June 2, 2021

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

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

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

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

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

What We Urge You To Do Now

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

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

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

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

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

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

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

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

Additional Resources

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

[CISA - RANSOMWARE GUIDANCE AND RESOURCES](#)



Other Resources

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

The screenshot displays the CLA Cybersecurity Blog website. The header includes the site name, a search bar, and a navigation menu. The main content area features three articles from July 2021, each with a thumbnail image, title, date, author, and a 'Read More' button. The right sidebar contains links to subscribe, get more resources, and a list of recent posts and categories.

Cybersecurity Blog

July, 2021

Cybersecurity in Higher Education – People, Process, and Associated Risks
July 22, 2021 | by Javier Young
Authored by Jacob Paullus

Information Technology and Information Security are some of the most important yet most complicated ecosystems to construct in a Higher Education environment. Between students, staff, and faculty, many of these institutions have a larger technological footprint than some of the largest companies in the world.

Read More

StopRansomware – New Website
July 21, 2021 | by Kadian Douglas

Ransomware continues to be a high risk for organizations and the number of cases reported continue to increase. There are also those cases that are not reported. As you continue to develop your strategy for responding to these attacks, visit the newly formed government page at Stop Ransomware | CISA. If you would also like [...]

Read More

Preventing a Password Compromise
July 16, 2021 | by Kadian Douglas
Authored by Zoran Jovic

Password compromise is one of the most serious threats organizations face today. Attackers are attempting to gain access to your credentials 24/7, and tailor many, if not most attacks with the main goal of gaining access to credentials. Once the attacker has a username and a password, they become an authenticated user with access to systems and applications! While it may be hard to expect you to never make a mistake, a combination of user awareness training and effective security controls can help minimize the risk of a compromise. Whether you already have implemented mitigating controls, or are just starting on your journey, CLA can help verify and enhance your security posture.

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15 Minute Break





Upcoming GASB Pronouncements and Their Impact on Your Organization

With a Focus on GASB 96, *Subscription-Based IT Arrangements*

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Learning Objectives

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

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





Upcoming Standards and Implementation Guides

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

- Effective for reporting periods beginning after December 15, 2020 (12/31/21 and 6/30/22)
- 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 and 6/30/23)
- 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 and 6/30/23)
- 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 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 another 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 and 6/30/22 (earlier application encouraged))
- Replaces the Comprehensive Annual Financial Report with Annual Comprehensive Financial Report or ACFR

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 contact

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:
 1. Preliminary Project Stage
 2. Initial Implementation Stage
 3. Operation and Additional Implementation Stage

Example – Case Facts

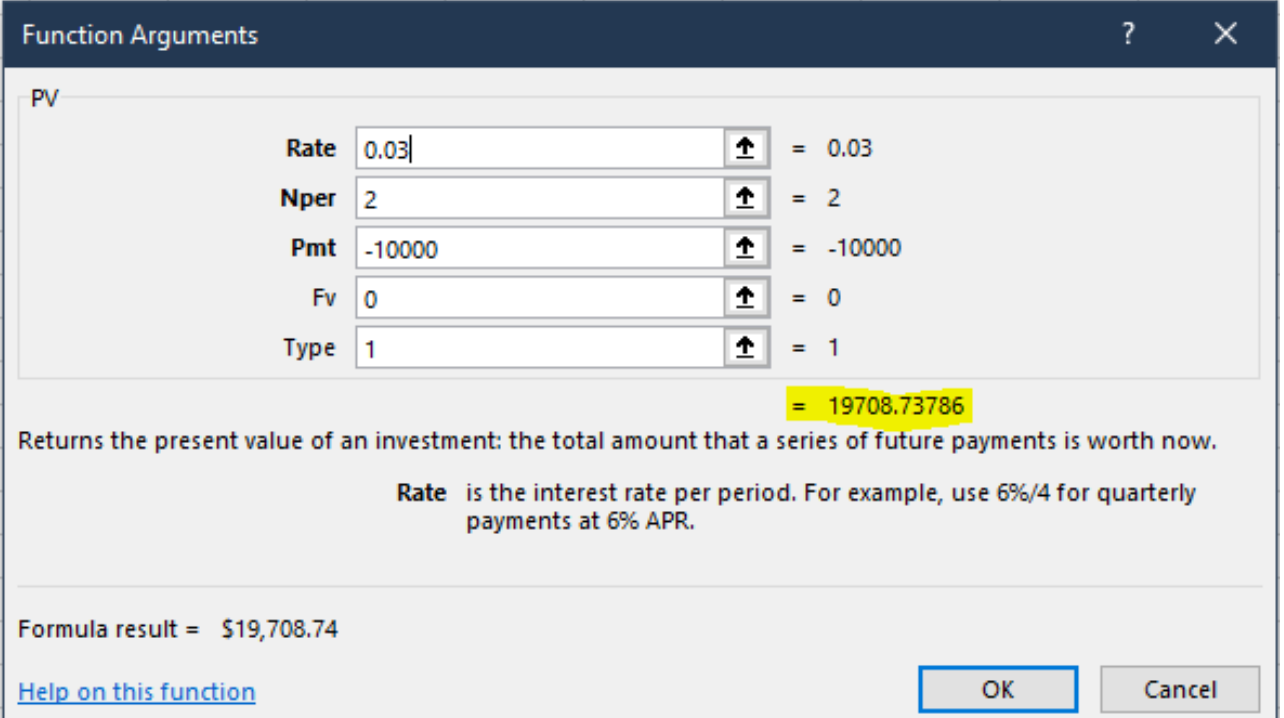
- Below are additional details of the Mountain Town Government SBITA:
 - Subscription Start Date: July 1, 2022
 - Subscription End Date: June 30, 2024
 - First Payment Date: July 1, 2022
 - Payments: \$10,000 annually, paid in advance (on July 1st)
 - Discount Rate: 3%

Example – Stage Costs

- In addition to the annual \$10,000 subscription payments, the Mountain 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
- $=PV(0.03,2,-10000,0,1)$



The image shows the 'Function Arguments' dialog box for the PV function in Excel. The dialog has a title bar 'Function Arguments' with a question mark and a close button. The function name 'PV' is in the top left. The arguments are listed in a table with input fields, up/down arrows, and calculated values. The 'Rate' is 0.03, 'Nper' is 2, 'Pmt' is -10000, 'Fv' is 0, and 'Type' is 1. The result is highlighted in yellow as -19708.73786. Below the table, there is a description of the function and a note about the Rate argument. At the bottom, it shows the formula result as \$19,708.74, a link to 'Help on this function', and 'OK' and 'Cancel' buttons.

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

= -19708.73786

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

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

Formula result = \$19,708.74

[Help on this function](#) OK Cancel

Example – Calculation of Subscription Asset

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



Example – Amortization Calculation

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



Example – Journal Entries

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

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
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



Questions?

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Comprehensive Projects

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

- 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

- Objective is to develop a comprehensive model that would establish guidance applicable to a wide range of revenue and expense transactions
- Issues to address:
 - Specific guidance for exchange transactions
 - Consider a performance obligation approach to recognition of revenue
 - Consider revisions to statements 33 and 36

Thank You!

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GASB 87 – Implementing the Lease Standard

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Learning Objectives

- Recognize the new GASB standard
- Identify the disclosure requirements for the new lease standard
- Explain some effective approaches in assessing and implementing the new standard
- Describe the steps for calculating amounts and example journal entries for implementation



Definition of a Lease

- 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
- Examples of nonfinancial assets
 - Buildings
 - Land
 - Vehicles
 - Equipment

Exclusions from GASB 87

- Short term leases (less than 12 months, after including all “noncancelable” options to extend)
- Leases for nominal amounts
- Building corporation leases
- Certificates of Participation
- Financial assets
- Intangible assets, software, biological assets, inventory, service concession arrangements, or supply contracts

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 reasonably certain of being or not being exercised:

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

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

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

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

Short-Term Lease Determination

The lease term used to determine if a lease is excluded as a short-term lease **can be different** than the lease term used in the lease calculations

Short-term Lease Determination:

- Includes all noncancelable periods

GASB 87 Lease Term Determination:

- Includes all noncancelable periods *that are reasonably certain to be exercised*

Cancelable Right-To-Use (Excluded)

- If both parties have an option to terminate the lease at their discretion
 - Important: An option to terminate is not considered to be cancelable if it is based on a future event that may or may not happen (such as bankruptcy, late payment, sale of the underlying leased asset, etc.)
 - Notice periods within an option to terminate are considered part of the noncancelable lease term
- If both parties have to agree to extend
- Month-to-month arrangements



Lease Term – Fiscal Funding Clause

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

Therefore, clauses within lease agreements relating to TABOR only impact determination of the lease term if it is reasonably certain that the agreement will be terminated due to TABOR.

Lessor - GASB 87 Implementation Process

1. Compile list of all leases where the entity is the lessor
2. Document key information from the leases
3. Calculate present value of future lease receipts
4. Create lease receipt schedule with principal and interest
 - Same process as for lessees. Required to use Interest Method (no straight-line)
5. Create Deferred Inflow of Resources amortization schedule
 - Interest method, straight-line, other
6. Determine journal entries
7. Evaluate for potential restatement (comparative statements)

GASB 87 – Steps for calculating leases - LESSEE

1. Compile a list of all leases currently in place

- Keep a folder for all the lease agreements that are currently in-place
- Be informed on any new leases

GASB 87 – Steps for calculating leases - LESSEE

2. Document key information from the lease

- Lease commencement date (date of ownership of leased asset)
- General description of lease (for footnote disclosure)
- Lease term
- Payment information – frequency/timing of payments, variable payments
- Determination of Interest rate (if not included in lease)



GASB 87 – Steps for calculating leases - LESSOR

3. Calculate the Present Value of lease receipts

	A	B	C	D
1			Discount Rate	3.50%
2				
3	Payment Date	Lease Payment #	Lease Payment	Present Value
4	3/10/2022	1	(100,000.00)	100,000.00
5	3/10/2023	2	(100,000.00)	=PV(D1,B5-1,0,C5,1)
6	3/10/2024	3	(100,000.00)	\$93,351.07
7	3/10/2025	4	(100,000.00)	\$90,194.27
8	3/10/2026	5	(100,000.00)	\$87,144.22
9	3/10/2027	6	(100,000.00)	\$84,197.32
10	3/10/2028	7	(100,000.00)	\$81,350.06
11	3/10/2029	8	(100,000.00)	\$78,599.10
12	3/10/2030	9	(100,000.00)	\$75,941.16
13	3/10/2031	10	(100,000.00)	\$73,373.10
14		Total	(1,000,000.00)	860,768.65



Lessor - Initial Recognition

KEY CONSIDERATIONS

- Calculated as the present value of lease payments
 - Determine implicit rate, if not specifically stated in lease agreement
 - Reduced by any amounts determined to be uncollectible
 - Include variable payments fixed in substance
 - Include variable payments based on an index or rate
 - Exclude variable payments based on performance
 - Reduce payments by any incentives



GASB 87 – Steps for calculating leases - LESSOR

4. Create lease receipt schedule with principal and interest

	A	B	C	D	E	F
1		Discount Rate	3.50%			
2						
3	Date	Balance	Interest	Principal	Total Receipts	FYE Interest Receivable
4	3/10/2022	860,768.65	-	100,000.00	100,000.00	5,033.58
5	3/10/2023	=B4-D4	=B5*C1	=E5-C5	100,000.00	4,548.11
6	3/10/2024	687,395.55	24,058.84	75,941.16	100,000.00	4,045.65
7	3/10/2025	611,454.40	21,400.90	78,599.10	100,000.00	3,525.60
8	3/10/2026	532,855.30	18,649.94	81,350.06	100,000.00	2,987.36
9	3/10/2027	451,505.24	15,802.68	84,197.32	100,000.00	2,430.27
10	3/10/2028	367,307.92	12,855.78	87,144.22	100,000.00	1,853.69
11	3/10/2029	280,163.70	9,805.73	90,194.27	100,000.00	1,256.92
12	3/10/2030	189,969.43	6,648.93	93,351.07	100,000.00	639.27
13	3/10/2031	96,618.36	3,381.64	96,618.36	100,000.00	-
14		Total	\$ 139,231.35	\$ 860,768.65	\$ 1,000,000.00	



GASB 87 – Steps for calculating leases - LESSOR

5. Create Deferred Inflow of Resources amortization schedule

$$\begin{array}{r} \text{Lease Receivable} \\ + \text{Receipts Prior to Lease Commencement} \\ \hline \text{Deferred Inflow of Resources - Lease} \end{array}$$

Amortization – Rational and systematic method

1. Interest Method
2. Straight-Line
3. Any other rational and systematic method

GASB 87 – Steps for calculating leases - LESSOR

**“Amortization of the Deferred Inflow of
Resources for Leases”**

TRANSLATION:

“Revenue Recognition”

GASB 87 – Steps for calculating leases - LESSOR

5. Create Deferred Inflow of Resources amortization schedule

Interest Method (Match to Receivable)

Lease Receivable					Deferred Inflow - Lease		
Date	Balance	Interest	Principal	Total Receipts	Date	Balance	Lease Revenue
3/10/2022	860,768.65	-	100,000.00	100,000.00	3/10/2022	860,768.65	100,000.00
3/10/2023	760,768.65	26,626.90	73,373.10	100,000.00	3/10/2023	760,768.65	73,373.10
3/10/2024	687,395.55	24,058.84	75,941.16	100,000.00	3/10/2024	687,395.55	75,941.16
3/10/2025	611,454.40	21,400.90	78,599.10	100,000.00	3/10/2025	611,454.39	78,599.10
3/10/2026	532,855.30	18,649.94	81,350.06	100,000.00	3/10/2026	532,855.29	81,350.06
3/10/2027	451,505.24	15,802.68	84,197.31	100,000.00	3/10/2027	451,505.23	84,197.31
3/10/2028	367,307.92	12,855.78	87,144.22	100,000.00	3/10/2028	367,307.92	87,144.22
3/10/2029	280,163.70	9,805.73	90,194.27	100,000.00	3/10/2029	280,163.70	90,194.27
3/10/2030	189,969.43	6,648.93	93,351.07	100,000.00	3/10/2030	189,969.43	93,351.07
3/10/2031	96,618.36	3,381.64	96,618.36	100,000.00	3/10/2031	96,618.36	96,618.36
	Total	\$ 139,231.35	\$ 860,768.65	\$ 1,000,000.00			860,768.65



GASB 87 – Steps for calculating leases - LESSOR

5. Create Deferred Inflow of Resources amortization schedule

Straight-Line

Lease Receivable					Deferred Inflow - Lease		
Date	Balance	Interest	Principal	Total Receipts	Date	Balance	Lease Revenue
3/10/2022	860,768.65	-	100,000.00	100,000.00	3/10/2022	860,768.65	86,076.87
3/10/2023	760,768.65	26,626.90	73,373.10	100,000.00	3/10/2023	774,691.78	86,076.87
3/10/2024	687,395.55	24,058.84	75,941.16	100,000.00	3/10/2024	688,614.91	86,076.87
3/10/2025	611,454.40	21,400.90	78,599.10	100,000.00	3/10/2025	602,538.04	86,076.87
3/10/2026	532,855.30	18,649.94	81,350.06	100,000.00	3/10/2026	516,461.17	86,076.87
3/10/2027	451,505.24	15,802.68	84,197.31	100,000.00	3/10/2027	430,384.30	86,076.87
3/10/2028	367,307.92	12,855.78	87,144.22	100,000.00	3/10/2028	344,307.43	86,076.87
3/10/2029	280,163.70	9,805.73	90,194.27	100,000.00	3/10/2029	258,230.56	86,076.87
3/10/2030	189,969.43	6,648.93	93,351.07	100,000.00	3/10/2030	172,153.69	86,076.87
3/10/2031	96,618.36	3,381.64	96,618.36	100,000.00	3/10/2031	86,076.82	86,076.82
	Total	\$ 139,231.35	\$ 860,768.65	\$ 1,000,000.00			860,768.65



GASB 87 – Steps for calculating leases - LESSOR

Other Method (Match Lease Revenue to Cash Receipts)

- When payments are not made at the end of each month, accrued Interest will increase interest income at the end of the year.
- This additional interest income causes total revenue (interest plus lease revenue) to exceed the amount of cash receipts during the year.
- Another “rational and systematic” method is to adjust the lease revenue so that for each fiscal year presented:
 - **Interest Income + Accrued Interest + Lease Revenue = Cash Receipts**
 - **Total Revenue = Cash Receipts**
- Likely immaterial in many cases, but can be material for large leases with one annual payment

GASB 87 – Steps for calculating leases - LESSOR

5. Create Deferred Inflow of Resources amortization schedule

Other Method (Match Lease Revenue to Cash Receipts)

							Deferred Inflow of Resources - Lease				
							Interest Method		Match to Cash Receipts		
Year Ending:	Principal	Interest Receipts	Total Payment	Receivable Balance	Interest Receivable	Interest Income	Lease Revenue	Balance	Lease Revenue	Balance	Difference
12/31/2022	95,175.37	4,824.63	100,000.00	778,529.74	18,879.34	23,703.97	95,175.37	778,529.74	76,296.03	797,409.08	18,879.34
12/31/2023	76,644.11	23,355.89	100,000.00	701,885.63	17,068.06	21,544.61	76,644.11	701,885.63	78,455.39	718,953.69	(1,811.28)
12/31/2024	78,884.88	21,115.12	100,000.00	623,000.75	15,107.77	19,154.83	78,884.88	623,000.75	80,845.17	638,108.52	(1,960.29)
12/31/2025	81,309.98	18,690.02	100,000.00	541,690.77	13,136.00	16,718.25	81,309.98	541,690.77	83,281.75	554,826.77	(1,971.77)
12/31/2026	83,749.28	16,250.72	100,000.00	457,941.49	11,105.08	14,219.80	83,749.28	457,941.49	85,780.20	469,046.57	(2,030.92)
12/31/2027	86,261.76	13,738.24	100,000.00	371,679.73	9,038.30	11,671.46	86,261.76	371,679.73	88,328.54	380,718.03	(2,066.78)
12/31/2028	88,818.60	11,181.40	100,000.00	282,861.13	6,859.38	9,002.48	88,818.60	282,861.13	90,997.52	289,720.51	(2,178.92)
12/31/2029	91,514.17	8,485.83	100,000.00	191,346.96	4,640.16	6,266.61	91,514.17	191,346.96	93,733.39	195,987.12	(2,219.22)
12/31/2030	94,259.59	5,740.41	100,000.00	97,087.37	2,354.38	3,454.63	94,259.59	97,087.37	96,545.37	99,441.75	(2,285.78)
12/31/2031	97,087.37	2,912.63	100,000.00	-	-	558.25	97,087.37	-	99,441.75	-	(2,354.38)



Deferred Inflow of Resources Amortization *(Revenue Recognition)*

- Interest Method:
 - Revenue recognition close to cash receipts (budget consideration)
 - Lease Receivable and Deferred Inflow will closely match
- Straight-Line Method:
 - Potentially the largest early revenue recognition (fund balance consideration)
 - Lease Receivable and Deferred Inflow will not match
 - Consistent lease revenue for budgeting (though not interest income)
- Other – Match Lease Revenue to Scheduled Cash Receipts:
 - Not a standard method in software solutions
 - Revenue recognition will match cash receipt schedule
 - Accounts for accrued interest (useful for annual lease payments)



Lessor - Recording Subsequent Receipts

Recording Lease Receipts

- Debit Deferred Inflow of Resources – Lease based on the amortization schedule created in *Step 5*
- Credit Lease Revenue based on the amortization schedule created in *Step 5*
- Debit Cash for the total amount of the lease receipts
- Credit Lease Receivable based on the *Principal* amount in the payment schedule created in *Step 4*
- Credit Interest Income based on the *Interest* amount in the payment schedule created in *Step 4*

Lessor - Initial Recognition

- Potential Restatement:

Restatement to re-recognize underlying asset if previously removed under pre-GASB 87 recording as a capital lease

Restatement for comparative financial statements

Lessor - Financial Reporting

- *Governmental funds*
 - Recognize lease receivable and deferred inflow of resources.
- Government-wide and Business-type Funds
 - Recognize lease receivable and deferred inflow of resources.
 - *Should NOT derecognize or remove underlying asset, but continue to depreciate and evaluate for impairment*



Lessor - Disclosures

- *Disclosures:*
 - General description of the lease arrangement
 - Total amount of revenues
 - (if not directly presented on face of statements)
 - Total amount of revenues from variable payments
 - Existence, terms and conditions of options by lessee to terminate the lease or abate payments, when the lessor has issued debt secured by lease payments

Lessee - GASB 87 Implementation Process

1. Compile list of all leases where the entity is the lessee
2. Document key information from the leases
3. Calculate present value of lease payments
4. Create lease receipt schedule with principal and interest
5. Create amortization (depreciation) schedule for lease asset
6. Determine full accrual entries, government-wide/business-type entries
7. Determine modified accrual entries
 - If lease is recorded in a governmental fund
8. Evaluate for potential restatement (capital leases and comparative statements)



GASB 87 – Steps for calculating leases - LESSEE

1. Compile a list of all leases currently in place

- Keep a folder for all the lease agreements that are currently in-place
- Be informed on any new leases

GASB 87 – Steps for calculating leases - LESSEE

2. Document key information from the lease

- Lease commencement date (date of ownership of leased asset)
- Understanding of underlying asset (type, estimated useful life, etc.)
- General description of lease (for footnote disclosure)
- Lease term
- Payment information – frequency/timing of payments, variable payments
- Interest rate (either included in lease or entity's estimated borrowing rate)

GASB 87 – Steps for calculating leases - LESSEE

3. Calculate the Present Value of Lease Payments

	A	B	C	D
1			Discount Rate	3.50%
2				
3	Payment Date	Lease Payment #	Lease Payment	Present Value
4	3/10/2022	1	(10,000.00)	10,000.00
5	4/10/2022	2	(10,000.00)	=PV(\$D\$1/12,B5-1,0,C5,1)
6	5/10/2022	3	(10,000.00)	9,941.92
7	6/10/2022	4	(11,000.00)	10,904.31
8	7/10/2022	5	(11,000.00)	10,872.60
9	8/10/2022	6	(11,000.00)	10,840.98
10	9/10/2022	7	(12,000.00)	11,792.13
11	10/10/2022	8	(12,000.00)	11,757.83
12	11/10/2022	9	(12,000.00)	11,723.64
13	12/10/2022	10	(13,000.00)	12,663.67
14	1/10/2023	11	(13,000.00)	12,626.85
15	2/10/2023	12	(13,000.00)	12,590.12
16	3/10/2023	13	(14,000.00)	13,519.16
17	4/10/2023	14	(14,000.00)	13,479.85
18	5/10/2023	15	(14,000.00)	13,440.65
19		Total	(180,000.00)	\$ 176,124.63



GASB 87 – Steps for calculating leases - LESSEE

Key Considerations:

- The present value of lease payments is recorded as the lease liability
- Can use =PV() formula in Excel to calculate the present value
 - Remember to enter the interest rate in the formula based on the number of periods
 - Example: 5% annual interest rate for monthly payments is entered as 0.4167% (5% / 12)
- Exclude down payments, prepayments or other payments prior to lease commencement date
- Net lease incentives (“rent holidays” or rebates) with payments



GASB 87 – Steps for calculating leases - LESSEE

Included in calculation of present value for lease asset and lease liability:

- Variable Payment that is “fixed in substance”
 - Example: Copier lease with a minimum of 1,000 pages at \$0.05 per copy are included in the payment each month would be included as "fixed in substance" payment of \$50 each month.
- Variable Payment based on an index or rate (like CPI)
 - Future lease payments are assumed to increase as if the index rate remains the same as the current rate through the entire lease term

Excluded in calculation of present value for lease asset and lease liability:

- Variable Payment based on performance
 - Required to disclose the terms of the variable payment in the footnotes
 - Example: Copier lease with an additional payment per copy used



GASB 87 – Steps for calculating leases - LESSEE

4. Create lease payment schedule with principal and interest

	A	B	C	D	E
1		Discount Rate	3.50%		
2					
3	Date	Balance	Interest	Principal	Total Payment
4	3/10/2022	176,124.63	-	10,000.00	10,000.00
5	4/10/2022	=B4-D4	=B5*C1/12	=E5-C5	10,000.00
6	5/10/2022	156,609.16	456.78	9,543.22	10,000.00
7	6/10/2022	147,065.94	428.94	10,571.06	11,000.00
8	7/10/2022	136,494.88	398.11	10,601.89	11,000.00
9	8/10/2022	125,892.99	367.19	10,632.81	11,000.00
10	9/10/2022	115,260.18	336.18	11,663.82	12,000.00
11	10/10/2022	103,596.36	302.16	11,697.84	12,000.00
12	11/10/2022	91,898.52	268.04	11,731.96	12,000.00
13	12/10/2022	80,166.56	233.82	12,766.18	13,000.00
14	1/10/2023	67,400.38	196.58	12,803.42	13,000.00
15	2/10/2023	54,596.96	159.24	12,840.76	13,000.00
16	3/10/2023	41,756.20	121.79	13,878.21	14,000.00
17	4/10/2023	27,877.99	81.31	13,918.69	14,000.00
18	5/10/2023	13,959.30	40.70	13,959.30	14,000.00
19	Total	\$ -	\$ 3,875.37	\$ 176,124.63	\$ 180,000.00

**If not already determined in lease agreement*



GASB 87 – Steps for calculating leases - LESSEE

How To:

- The payment schedule is created by multiplying the remaining principal (lease liability) by the interest rate (divided by number of annual payments) to determine the amount of interest expense per payment.
 - Repeat calculation for each payment
 - Lease liability should be zero when calculating the last lease payment
 - Same concept as a loan amortization schedule

GASB 87 – Steps for calculating leases - LESSEE

IMPORTANT – OPERATING LEASES:

- The lease payment schedule for operating leases for this calculation should begin as of the earliest period presented under GASB 87.
 - Payments prior to the earliest period presented would remain as expenses in previous years.
- This avoids the potential for significant restatements for operating leases in single year financial statement presentations. Restatement would still be necessary for comparative financial statements.
 - *Implementation Guide 2019-3 Q&A 4.76*



GASB 87 – Steps for calculating leases - LESSEE

5. Create amortization schedule for lease asset

Lease Asset Depreciation		
Lease Asset Value	\$	500,000.00
Is Asset Nondepreciable?	No - Depreciable	
Depreciable Life	5 years	
Lease Commencement Date	1/1/2022	
Annual Depreciation Amount	\$	100,000.00

Year #	FY Ending:	Depreciation Amount
1	12/31/2022	\$ 100,000.00
2	12/31/2023	100,000.00
3	12/31/2024	100,000.00
4	12/31/2025	100,000.00
5	12/31/2026	100,000.00



GASB 87 – Steps for calculating leases - LESSEE

Key Considerations

- *Lease asset = lease liability + payments prior to lease commencement*
 - Includes down payments and prepayments
- Asset is amortized over the lesser of the estimated useful life or the lease term
- Straight line amortization is acceptable
- If lease agreement contains a purchase option that is reasonably assumed to be exercised, asset is amortized over the estimated useful life of the asset
 - If the leased asset to be purchased is land, the land is considered nondepreciable
- Amortization can be grouped with depreciation expense for financial reporting



GASB 87 – Steps for calculating leases - LESSEE

6. Full accrual entries *(government-wide and business-type funds)*

Initial Recording:

- Debit to “Lease Asset” for present value of lease + payments prior to lease commencement
- Credit to “Lease Liability” for present value of lease
- Credit to “Cash” for any difference relating to payments prior to lease commencement

Recording Lease Payments:

- Debit to “Lease Liability” based on lease payment schedule from Step 4.
- Debit to “Interest Expense” based on lease payment schedule from Step 4.
- Credit to “Cash”



GASB 87 – Steps for calculating leases - LESSEE

6. Full accrual entries *(government-wide and business-type funds)*

Recording Amortization/Depreciation:

- Debit to “Depreciation Expense” based on amortization schedule
- Credit to “Accumulated Depreciation” for present value of lease

Recording Accrued Interest Payable:

- Debit to “Interest Expense”
- Credit to “Accrued Interest Payable”
 - Calculated identical to accrued interest for bonds and other long-term liabilities



GASB 87 – Steps for calculating leases - LESSEE

7. Modified accrual entries (*governmental funds*)

Initial Recording:

- Debit to “Lease Expenditure” for present value of lease payments
- Credit to “Other Financing Source – Lease” for present value of lease payments

Recording Lease Payments:

- Debit to “Principal – Lease” based on lease payment schedule from Step 4.
- Debit to “Interest Expense” based on lease payment schedule from Step 4.
- Credit to “Cash”

IMPORTANT: All leases will have a budgetary impact when the lease commences



GASB 87 – Steps for calculating leases - LESSEE

8. Consider Potential for Restatement – **Capital Leases ONLY**

Capital Leases that commenced prior to beginning of GASB 87 implementation year will need to be evaluated for potential restatement.

Need for a Restatement can come from two sources within the calculation:

1. Difference between lease liability and lease asset
 - Due to payments made prior to lease commencement date (i.e., significant down payment)
2. Total difference from previous years between principal payments (reduction in lease liability) and lease asset amortization

GASB 87 – Steps for calculating leases - LESSEE

8. Consider Potential for Restatement

May not need a restatement based on:

- Operating Leases (excluded under Implementation Guide 2019 Q4.76)
- Timing of the lease commencement date
- No Payments prior to lease commencement. Lease Asset equals Lease Liability at implementation
- Difference between reduction in principal and reduction in amortization expense is not material

GASB 87 - Required Disclosures - Lessee

Required Disclosures:

- General description of the lease
- Total amount of lease assets (by major class) and related accumulated amortization
 - Included in capital asset footnote table but shown separate from other capital assets (Q&A 4.41)
 - Capital Assets relating to capital leases will need to be reclassified into the lease section
- Amount of current year outflows related to variable payments
- Principal and interest requirements to maturity
 - First five years, and in five-year increments after. Same presentation as debt schedules
- Commitments under leases before commencement of the lease term
- Components of any loss associated with an impairment



GASB 87 – Example Capital Asset Footnote

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Total Capital Assets Not Being Depreciated	1,000,000	-	-	1,000,000
Capital Assets Being Depreciated:				
Furniture and Equipment	3,000,000	1,000,000	-	4,000,000
Total Capital Assets Being Depreciated	3,000,000	1,000,000	-	4,000,000
Lease Assets Being Amortized				
Buildings	5,000,000	-	-	5,000,000
Total Lease Assets Being Amortized	5,000,000	-	-	5,000,000
Less Capital Asset Accumulated Depreciation:				
Furniture and Equipment	(1,000,000)	(300,000)	-	(1,300,000)
Total Capital Asset Accumulated Depreciation	(1,000,000)	(300,000)	-	(1,300,000)
Less Lease Asset Accumulated Amortization				
Buildings	(2,000,000)	(500,000)	-	(2,500,000)
Total Lease Asset Accumulated Amortization	(2,000,000)	(500,000)	-	(2,500,000)



Potential Timing Issue

- GASB 87, Paragraph 94

94. Leases should be recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation. If applied to earlier periods, leases should be recognized and measured using the facts and circumstances that existed at the beginning of the earliest period restated.

Potential Timing Issue

Example:	Year #	Date	Payment
10 year lease	1	3/31/2020	30,000
Began 2 years before GASB 87 implementation	2	3/31/2021	30,000
\$30k annual lease payments in March each year	GASB Implementation	7/1/2021	-
6/30 year end	3	3/31/2022	30,000
3% discount rate	4	3/31/2023	30,000
	5	3/31/2024	30,000
	6	3/31/2025	30,000
	7	3/31/2026	30,000
	8	3/31/2027	30,000
	9	3/31/2028	30,000
	10	3/31/2029	30,000



Potential Solution – XNPV Formula

H	I	J	K
Discount Rate	3%	XNPV	212,149.20
	XNPV Formula: =XNPV(I1,K4:K12,J4:J12)		
Lease Year #	XNPV Periods	Date	Payment
GASB Implementation	1	7/1/2021	-
3	2	3/31/2022	30,000
4	3	3/31/2023	30,000
5	4	3/31/2024	30,000
6	5	3/31/2025	30,000
7	6	3/31/2026	30,000
8	7	3/31/2027	30,000
9	8	3/31/2028	30,000
10	9	3/31/2029	30,000



Potential Solution – XNPV Formula

N	O	P	Q	R	S
Discount Rate	3%	XNPV	212,149.20		
XNPV Periods	Date	Payment Amt	Balance	Principal	Interest
1	7/1/2021	-	212,149.20	-	-
2	3/31/2022	30,000	186,891.70	25,257.50	4,742.50
3	3/31/2023	30,000	162,498.45	24,393.25	5,606.75
4	3/31/2024	30,000	137,386.96	25,111.49	4,888.51
5	3/31/2025	30,000	111,508.57	25,878.39	4,121.61
6	3/31/2026	30,000	84,853.83	26,654.74	3,345.26
7	3/31/2027	30,000	57,399.44	27,454.39	2,545.61
8	3/31/2028	30,000	29,126.21	28,273.23	1,726.77
9	3/31/2029	30,000	-	29,126.21	873.79



Potential Solution – XNPV Formula

N	O	P	Q	R	S
Discount Rate	3%	XNPV	212,149.20		
XNPV Periods	Date	Payment Amt	Balance	Principal	Interest
1	7/1/2021	-	212,149.20	-	-
2	3/31/2022	30,000	=Q4-R5	=P5-S5	=Q4*((1+\$O\$1)^((O5-O4)/365)-1)
3	3/31/2023	30,000	162,498.45	24,393.25	5,606.75
4	3/31/2024	30,000	137,386.96	25,111.49	4,888.51
5	3/31/2025	30,000	111,508.57	25,878.39	4,121.61
6	3/31/2026	30,000	84,853.83	26,654.74	3,345.26
7	3/31/2027	30,000	57,399.44	27,454.39	2,545.61
8	3/31/2028	30,000	29,126.21	28,273.23	1,726.77
9	3/31/2029	30,000	-	29,126.21	873.79



Potential Solution – XNPV Formula

IMPORTANT NOTES:

- The XNPV formula automatically compounds interest, whereas most leases are calculated using simple interest.
- Therefore, the interest rate used in the calculation will be slightly greater when using the XNPV formula rather than the PV formula
- The XNPV formula can also be used for instances where lease payments are irregular.

Re-measurement

- As the “lease term” defined in GASB 87 includes periods that may be subject to re-negotiations in the future, circumstances of the lease agreement may significantly change from the initial recording.
- The lease liability/receivable should be remeasured if there is a change in the circumstances of the lease, such as:
 - Change in lease term (includes lease extensions)
 - Additional amounts are expected to be paid/received based on changes in circumstances outlined in the agreement
 - Change in interest rate the lessor charges the lessee, if used as the discount rate



Re-measurement *(continued)*

- When lease liabilities are remeasured, lease assets should be adjusted by the same amount.
- When lease receivables are re-measured, deferred inflows of resources relating to leases should be adjusted by the same amount.

IMPORTANT: *Need to consider whether changes to the lease should be considered a lease modification and re-measured OR a new lease agreement with termination of the previous lease*

Thank You!

John-Paul LeChevallier, CPA

Signing Director

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Lunch and Networking





Key Considerations for Complying with Uniform Guidance Procurement Rules

2022 Denver Government and Nonprofit Training Academy, March 29, 2022

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Learning Objectives

- Recognize the recent changes made by the Office of Management and Budget (OMB) for Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) as it applies to procurement rules for governmental organizations
- Discuss key items arising from these federal changes and other considerations to consider when dealing with federal funding sources

What do Uniform Guidance Procurement Requirements Apply to?

Goods and services charged to:

✗ Non-Federal program

✗ Indirect cost pool

✓ Federal award

Where in the Uniform Guidance are procurement requirements located?

- Within Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)
 - Subpart D, Section 200.317 – 200.327 are the procurement standards
 - <https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200>



Procurement Policies

When was the last time your organization reviewed its procurement policies?



Federal Procurements: Why Important

The White House Office of Federal Procurement Policy

The government must ensure that it spends money wisely and eliminates waste and abuse of taxpayer dollars. Approximately one out of every ten dollars of Federal government spending is going to contractors, it is imperative that contract actions result in the best value for the taxpayer. ([The Office of Federal Procurement Policy | The White House](#))

§200.318 General Standards Overview

Documented procedures required, including conflict of interest in selection of contracts

Maintain oversight ensuring contractors performing in accordance with contract

Award contracts to only responsible contractors

Must maintain sufficient records supporting detailed history of procurement

Suspension & Debarment (Contracts > \$25,000) checks should be made at www.sam.gov (maintain documentation!)

Procurement (200.318(b))

Entities must maintain oversight to ensure that contractors perform in accordance with the


terms

conditions

and specifications

of their contracts or purchase orders

Procurement (200.318(d))



Procedures must avoid acquisition of unnecessary or duplicative items.

Consideration should be given to consolidating or breaking out procurements to obtain a more economical purchase.

Procurement (200.318 (d))

Where appropriate, an analysis should be made of lease versus purchase alternatives, and any other appropriate analysis to determine the most economical approach.

§200.318 General procurement standards.

(e) To foster greater economy and efficiency, and in accordance with efforts to promote cost-effective use of shared services across the Federal Government, the non-Federal entity is encouraged to enter into state and local intergovernmental agreements or inter-entity agreements where appropriate for procurement or use of common or shared goods and services. **Competition requirements will be met with documented procurement actions using strategic sourcing, shared services, and other similar procurement arrangements.**

Procurement (200.318(h))

Organizations Must Award Contracts Only to Responsible Contractors:



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



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



Procurement (200.318(h))

Suspension and Debarment (within 200.214)



Checks for contracts over \$25,000 should be made on the EPLS site – (www.sam.gov) and documentation kept. Also applicable to subawards (subrecipient agreements).



or add in the clause in the procurement contract



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



Procurement Records (200.318(i))

Records must be sufficiently maintained to detail the history of procurement:



- Detail history of the procurement [different for each procurement method]
- Rationale for method of procurement
- Selection of contract type
- Contractor selection or rejection
- Basis for contract price



§200.319 Competition.

(a) All procurement transactions for the acquisition of property or services required under a Federal award must be conducted in a manner providing full and open competition consistent with the standards of this section and §200.320.

(f) Noncompetitive procurements can only be awarded in accordance with §200.320(c).

Competition (200.319)

All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section.

- In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, or invitations for bids or requests for proposals must be excluded from competing for such procurements.

Competition (200.319)

Some of the situations considered to be restrictive of competition include but are not limited to:

- (1) Placing unreasonable requirements on firms in order for them to qualify to do business;
- (2) Requiring unnecessary experience and excessive bonding;
- (3) Noncompetitive pricing practices between firms or between affiliated companies;
- (4) Noncompetitive contracts to consultants that are on retainer contracts;
- (5) Organizational conflicts of interest;
- (6) Specifying only a “brand name” product instead of allowing “an equal” product to be offered and describing the performance or other relevant requirements of the procurement; and
- (7) Any arbitrary action in the procurement process.

Competition (200.319)

Must have
written
procedures for
procurement
transactions.



Procurement

- Question:

Can/should an organization have different procurement procedures for federal and nonfederal procurements?

- Answer:

The nonfederal entity must have and use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations and the standards of this section (of the Uniform Guidance), for the acquisition of property or services required under a Federal award or subaward.

Note that 200.317 of the UG outlines procurement by states (which must follow the same policies and procedures it uses for non-Federal funds).

Competition (200.319)

These procedures must ensure that all solicitations:

Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured.

The description may include a statement of the qualitative nature of the material, product or service to be procured and, when necessary, must set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use.



Competition (200.319)

These procedures must ensure that all solicitations:

When it is impractical or uneconomical to make a clear and accurate description of the technical requirements, a “brand name or equivalent” description may be used as a means to define the performance or other salient requirements of procurement.

Identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.



§200.320 Methods of procurement to be followed.

The non-Federal entity must have and use documented procurement procedures, consistent with the standards of this section and §200.317, 200.318, and 200.319 for any of the following methods of procurement used for the acquisition of property or services required under a Federal award or sub-award.



§200.320 Methods of procurement to be followed.

(a) Informal procurement methods

(1) Micro-purchases

- (1) Distributions
- (2) Micro-purchase awards
- (3) Micro-purchase thresholds
- (4) Non-Federal entity increase to the micro-purchase threshold up to \$50,000

(2) Small purchases

- (1) Small purchase procedures
- (2) Simplified acquisition thresholds

(b) Formal procurement methods

- (1) Sealed bids
- (2) Proposals

(c) Noncompetitive procurement



§200.320 Methods of Procurement

The micro-purchase and simplified acquisition thresholds referenced herein are determined/set by the Federal Acquisition Register (FAR) at 48 CFR part 2, subpart 2.1

- There are certain exceptions to the thresholds identified in this document that are detailed at 48 CFR part 2, subpart 2.1

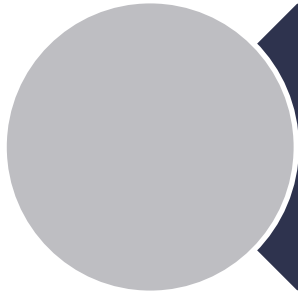
§200.320 (a)(1) Micro-purchases

Micro Purchases:

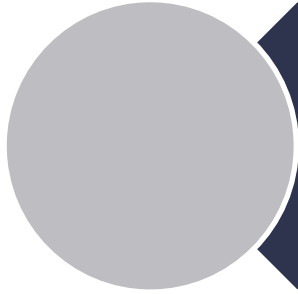
- Non-federal entity can increase the micro-purchase threshold from \$10,000 up to \$50,000, if certain conditions are met (see below)
- Can't be less stringent than state and local laws and regulations and can be increased to \$50,000
- No requirement to solicit competitive rates or quotes
- Based on reasonableness, experience, research, etc.
- Purchasing cards (P-cards) can be utilized if procedures documented and approved
- Non-federal entity should distribute micro-purchases equitably among qualified suppliers.
- A nonfederal entity may self-certify a threshold up to \$50,000 on an annual basis and must maintain documentation to be made available to the federal awarding agency and auditors in accordance with §200.334.
 - A qualification as a low-risk auditee, in accordance with the criteria in §200.520 for the most recent audit
 - An annual internal institutional risk assessment to identify, mitigate, and manage financial risks
 - For public institutions, a higher threshold consistent with state law



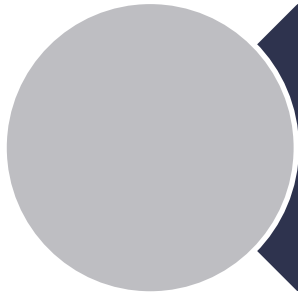
§200.320 (a)(2) Small purchase



The acquisition of property or services, the aggregate dollar amount of which is higher than the micro-purchase threshold but does not exceed the simplified acquisition threshold (currently at \$250K).



Price or rate quotations must be obtained from an adequate number of qualified sources as determined appropriate by the non-Federal entity.



The non-Federal entity is responsible for determining an appropriate simplified acquisition threshold based on internal controls, an evaluation of risk and its documented procurement procedures which must not exceed the threshold established in the FAR.



§200.320 Methods of Procurement

Sealed Bids and Proposals

Purchase greater than Simplified Acquisition threshold (\$250k)

- Still need to adhere to state and local procurement laws and regulations
- Requires public advertising unless a non-competitive procurement can be utilized in accordance with [§ 200.319](#) or [paragraph \(c\)](#) of this section (see next slide)
- See sections (B)(1) and (B)(2) of this section for the various requirements that apply to each procurement



§200.320 Methods of Procurement

Noncompetitive

Only awarded if one or more of the following apply:

- Doesn't exceed micro-purchase threshold
- Only available from a single source
- Public emergency won't permit delay
- Federal awarding agency authorizes in response to written request
- Competition deemed inadequate



Contracting with disadvantaged businesses (200.321)

The non-Federal entity must take all necessary affirmative steps to assure that minority businesses, women's business enterprises, and labor surplus area firms are used when possible.

Contracting with disadvantaged businesses (200.321) (Continued)

Affirmative steps must include:

- Placing qualified small and minority businesses and women's business enterprises on solicitation lists;
- Assuring that small and minority businesses, and women's business enterprises are solicited whenever they are potential sources;
- Dividing total requirements, when economically feasible, into smaller tasks or quantities to permit maximum participation by small and minority businesses, and women's business enterprises;
- Using the services and assistance, as appropriate, of such organizations as the Small Business Administration and the Minority Business Development Agency of the Department of Commerce; and
- Requiring the prime contractor, if subcontracts are to be let, to take affirmative steps



Affirmative Steps

Small Business Enterprises:

- Website: https://web.sba.gov/pro-net/search/dsp_dsbs.cfm
- Search based on specific NAICS codes (<http://www.naics.com/search/>)

Minority Business Enterprises and Women's Business Enterprises:

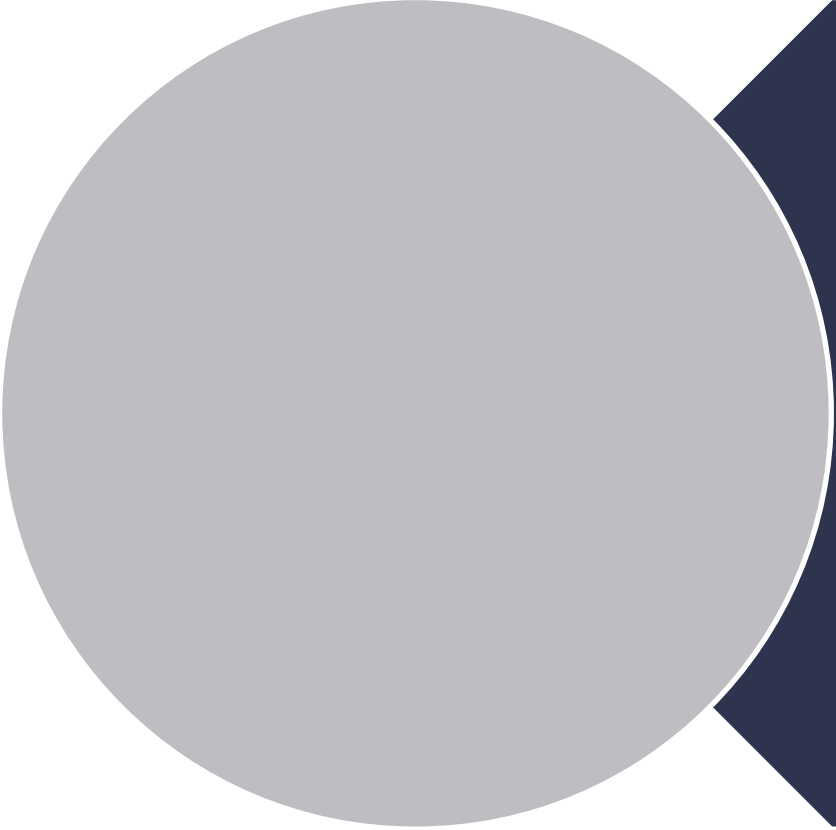
- Website: <http://www.sba8a.com/>
- Search based on Industry code and/or state location

Labor Surplus Area Firms:

- Website: <https://www.dol.gov/agencies/eta/lsa>
- Note that this list is updated on an annual basis and therefore look under “related links” box to find latest list issued by DOL



§200.322 Domestic preferences for procurements



(a) As appropriate and to the extent consistent with law, the non-Federal entity should, to the greatest extent practicable under a Federal award, provide a preference for the purchase, acquisition, or use of goods, products, or materials produced in the United States (including but not limited to iron, aluminum, steel, cement, and other manufactured products). The requirements of this section must be included in all subawards including all contracts and purchase orders for work or products under this award.

§200.322 Domestic preferences for procurements



(b) For purposes of this section:

- “Produced in the United States” means, for iron and steel products, that all manufacturing processes, from the initial melting stage through the application of coatings, occurred in the United States.
- “Manufactured products” means items and construction materials composed in whole or in part of non-ferrous metals such as aluminum; plastics and polymer-based products such as polyvinyl chloride pipe; aggregates such as concrete; glass, including optical fiber; and lumber



§200.324 Contract Cost and Price

Must perform cost/price analysis for every procurement exceeding SAT, including contract modifications

Must make estimates prior to receiving bids or proposals

Must negotiate profit as a separate element of price if no competition

Cost plus a percentage of cost and percentage of construction cost methods cannot be used



§200.327 Contract Provisions

- The non-federal entity's contracts must contain applicable provisions as provided in Appendix II to this part (of the Uniform Guidance)
 - Appendix II to Part 200 – Contract Provisions for Non-Federal Entity Contracts under Federal Awards: <https://www.ecfr.gov/current/title-2/part-200/appendix-Appendix%20II%20to%20Part%20200>

PROCUREMENT CHECKLIST

To comply with CLIENT NAME's Federal Procurement Standards Policy, 2 CFR 200 Uniform Guidance, and other contractual requirements, completion of this form is required.

This form must be retained by the Project Manager with all supporting documentation upon completion of the purchase. Failure to do so will result in noncompliance with Federal requirements.

Project Name and Code: _____

Describe the goods and services being procured:

SELECT WHICH METHOD OF PROCUREMENT YOU ARE FOLLOWING:

☐ **Small Purchase** (\$10,001 - \$249,999)

List the two quotations/proposals solicited and received.

	<u>Vendor/Contractor Name</u>	<u>Item/Service</u>	<u>Total Cost</u>	<u>Other Consideration:</u>
1	_____	_____	_____	_____
2	_____	_____	_____	_____

☐ **Simplified Acquisition** (\$250,000 and above)

Reference: CRF 200.320 as your guide for additional procurement requirements

☐ Competitive Proposal process used

☐ Sealed Bid process used

List the three bids/proposals solicited and received.

	<u>Vendor/Contractor Name</u>	<u>Item/Service</u>	<u>Total Cost</u>	<u>Other Consideration:</u>
1	_____	_____	_____	_____
2	_____	_____	_____	_____
3	_____	_____	_____	_____

Check the reason you chose this vendor/contractor for this purchase:

- ☐ Vendor/contractor was the lowest bidder.
- ☐ Vendor/contractor provided the best evaluated responsible offer (other than low bid).*
- ☐ Vendor/contractor establishes or maintains essential research, development, or technical capacity. *
- ☐ Compatibility with other components of a system already exist.*
- ☐ Only vendor/contract that meets pre-established performance characteristics.*
- ☐ Vendor/contractor specifically identified within award documentation.*
- ☐ Other. *



* REQUIRES EXPLANATION. Also, attach any/all supporting documentation.

Price/Cost Analysis based on:

- | | |
|---|--|
| <input type="checkbox"/> Adequate price competition | <input type="checkbox"/> Comparison to similar items * |
| <input type="checkbox"/> Catalog/market pricing | <input type="checkbox"/> Cost/benefit analysis * |
| <input type="checkbox"/> Historical pricing | <input type="checkbox"/> Award specifically identifies |
| <input type="checkbox"/> Other. * | |

* REQUIRES EXPLANATION. Also, attach any/all supporting documentation.

☐ **Sole Source (Noncompetitive Procurement)**

- ☐ Item/service only available from this source.*
- ☐ An unusual and compelling urgency precludes full and open competition.*
- ☐ Approval from granting agency received.*
- ☐ Other. *

* REQUIRES EXPLANATION. Also, attach any/all supporting documentation.

2 CRF Part 200 requires that grantees take affirmative steps to assure that minority businesses, women's business enterprises, and labor surplus area firms are used when possible. Were any of the following groups solicited for this purchase?

- | | |
|-----------------------------------|---|
| <input type="checkbox"/> Small | <input type="checkbox"/> Women-owned |
| <input type="checkbox"/> Minority | <input type="checkbox"/> Labor-surplus Area |

If not solicited, explain why not:

If solicited and not selected, explain why not:

- ☐ Suspension/Debarment checked online (<https://www.sam.gov>)

Name of vendor/contractor selected for work: _____

- ☐ Contract/agreement executed
- ☐ Form W-9 rec'd ☐ Insurance certificate rec'd

Date

Preparer Print & Sign: _____

Project Manager Print & Sign: _____



Federal Funding Accountability and Transparency Act (FFATA) – Reporting Requirement

Applies to direct recipients who make first-tier subawards

Required to report each first-tier subaward or subaward amendment that results in an obligation of \$30,000 or more in federal funds

Required to register in the System for Award Management (SAM) and actively maintain that registration

Federal Funding Accountability and Transparency Act (FFATA) – Reporting Requirement

Reporting done via the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS)

Information input to FSRS is available at USASpending.gov as the publicly available website for viewing this information (<https://www.usaspending.gov/search>).

Required Key Data Elements to Document

Key data elements

Compliance testing of the Transparency Act reporting requirements must include the following key data elements about the first-tier subrecipients and subawards under grants and cooperative agreements.

Subaward Data Element	Definition
Subawardee Name	This is the Sub-Awardee's Name
Subawardee DUNS #	The subawardee organization's nine-digit Data Universal Numbering System (DUNS) number.
Amount of Subaward	The net dollar amount of federal funds awarded to the subawardee including modifications.
Subaward Obligation/Action Date	Date the subaward agreement was signed.
Date of Report Submission	Date the recipient entered the action/obligation into FSRS.
Subaward Number	Subaward number or other identifying number assigned by the prime awardee organization to facilitate the tracking of its subawards.
Subaward Project Description	Describes the subaward project.
Subawardee Names and Compensation of Highly Compensated Officers	Names of officers if thresholds are met.



How to Prepare for FFATA Reporting Requirements

Determine if your entity is a direct recipient of federal funding and makes subawards in excess of \$30,000

If so, identify a method for tracking the key data elements identified on the previous slide

Login to FSRS and report the required subaward agreements/amendments/modifications

- Actions are required to be reported no later than the last day of the month *following* the month in which the subaward was made

Login again and search for the subaward to ensure it was reported correctly and that the key data elements agree to supporting documentation



Questions?



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Introductions

- Robert Pavao, CLA Search Advisor
- Jeff Roberts, Signing Director, Non-Profit Consultant

Learning Objectives

- Review finance labor market trends
- Discuss strategies for succession planning, filling the bench, and cross-training
- Discuss the approach to hybrid work environments
- Identify how processes and systems used in the business office impact the overall team and how to improve them



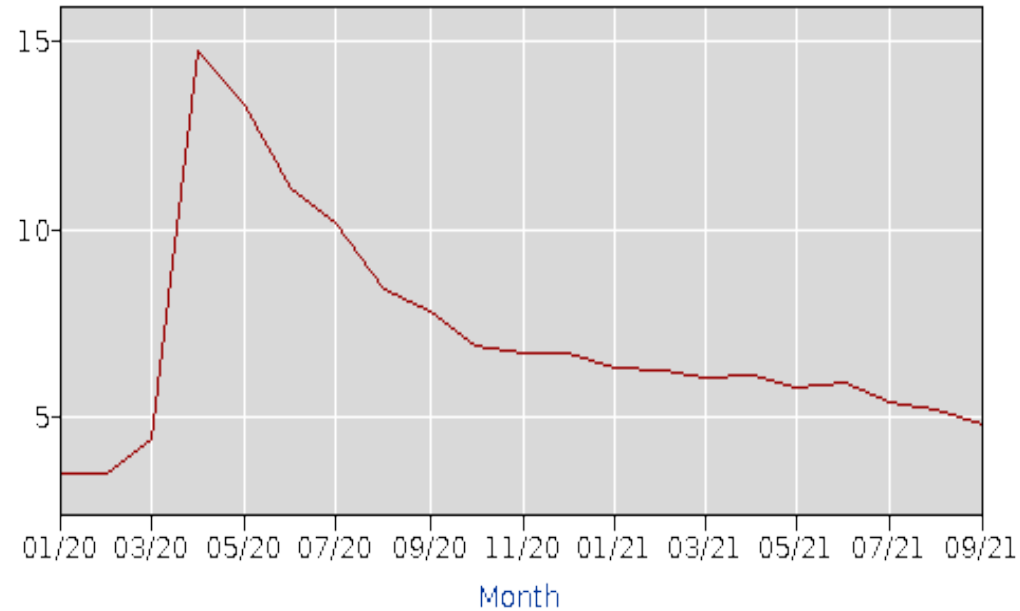


Trends in the finance labor market & how to navigate finding new talent

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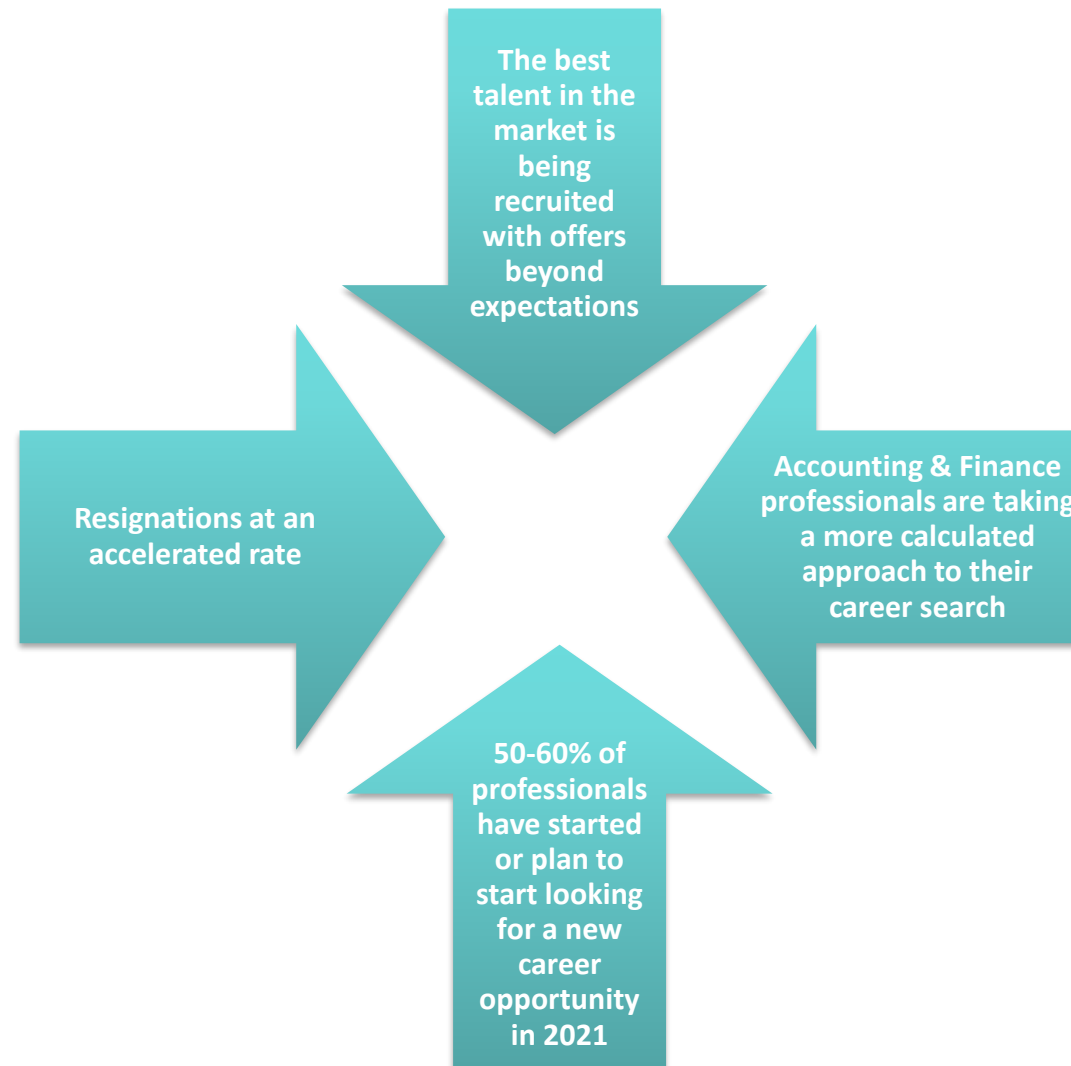
Workforce statistics



- National unemployment rate is 3.8%
- 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

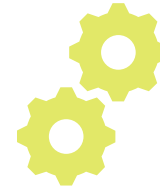
Planning for success



Direct recruiting



Current hiring
practices



Systems and
flexibility



Competitive
advantage



Assessing your Business Office

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Business Operations: Common Challenges Today



Do You Find Yourself Asking These Questions...

Do I have the right team in place?

Do we have the right software?

Can we automate process flows and approvals?

Why use Excel for everything?

How can we go paperless?

Why does it take so long to get reports?

Do most other business offices experience this level of staff turnover?

Are we being as efficient as we can?

Why are other departments tracking information outside the system?



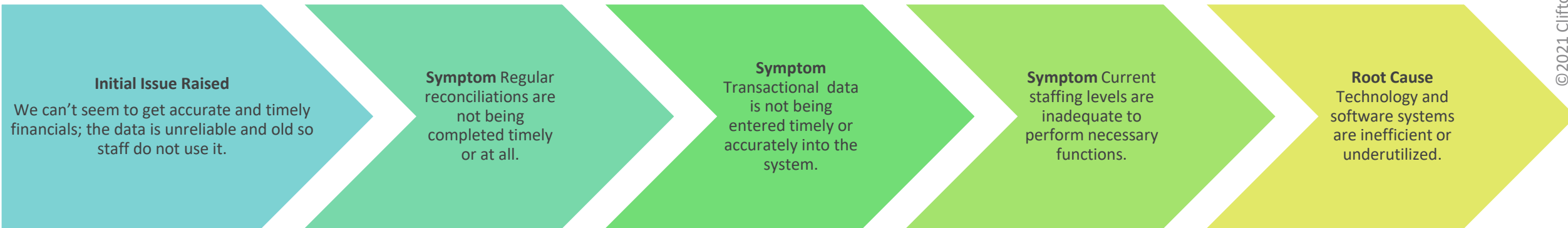
What remedies have you tried?

- 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



CLA's Approach to a Business Office Assessment

Structure

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

Process

Walk through all core processes to identify areas of potential **risk**, 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 technology systems, how they are structured, and where the organization isn't using technology, but could help to **automate or streamline**. Look at how **data flows** through the organization. Review systems of record and system **integrations** and analyze areas where the **movement of data between systems** or functional areas is a manual process.



CLA's approach to a Business Office Assessment

Discover

- Documentation Review
- Interviews and Walkthroughs
- Identify Systems Requirements

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

Assess

- Evaluation
- Observations
- Recommendations

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

Optimize

- Prioritize
- Implementation Roadmap
- System Selection and Optimization

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

Structure • Process • Systems

Team/Structure – Common Observations

Lack of time for professional development and team skill building.

Critical infrastructure teams, e.g., finance and accounting, have not kept pace with the organization's changing needs.

Missing critical skillsets – leadership, technical accounting, analysis, planning, and compliance.

Lack of succession planning, cross-training, and plans for continuity of operations.



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



“All CFOs need to leave a legacy before they move on. (But) Many finance teams are merely processing machines moving from one deadline to the next having too little time to invest in being a business partner to budget holders and senior management.”

David Parmenter



Lessons Learned

Municipality

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Background and Situation

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

Known Challenges

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

What we learned

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

Recommendations

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

Questions?

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15 Minute Break





Ethical Challenges in Business Decisions:

Creating an Environment of Ethical Awareness to Prevent Fraud

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Learning Objectives

- Identify and differentiate the principles and key concepts of personal ethics and business ethics
- Recognize the need for ethics in business to help mitigate risks to the organization
- Describe case examples of ethical violations that lead to fraud
- Identify and describe the attributes of a highly ethical organization

Speaker Introduction

Principal

CLA's Forensics Practice

Over 20 years of experience leading fraud investigations, forensic accounting projects, and internal control reviews for large government organizations, education institutions, nonprofits, and commercial businesses.



**Jenny
Dominguez**

CPA/CFF, CFE

Speaker Introduction

Manager

CLA's Forensics Practice

Over 9 years of audit, tax, and consulting experience serving state and local governments, nonprofit, and for-profit entities, including forensic accounting engagements, fraud investigations, and internal control assessments.



Ayla Grady

CPA, CFE



Ethics Concepts

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Personal Ethics - Values

What are your personal values?

- Simply: The things that are important to you in life

It should be easy to live by your “values,” right?

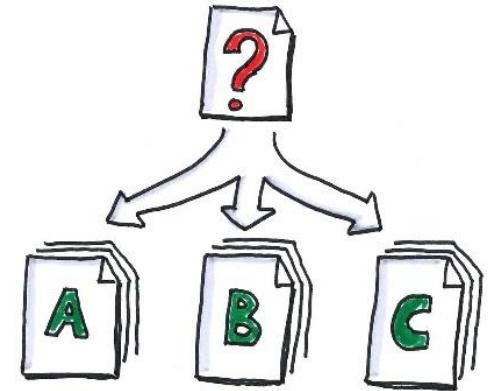
NOT ALWAYS! Why?



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Personal Ethics - Values

Personal ethics can change over time – depending on what is most important to you. Or can change from situation to situation, based on how you perceive your “role” in each situation.



Role Morality - Feeling you have permission to make ethical decisions that may harm others in ways that would be wrong if it weren't for the role you're playing. But because you're acting on behalf of someone else's best interests, you view your actions as permissible.

Personal Ethics - Values

- Ethics means different things to different people.
- What has helped you define your personal ethics?
 - Faith?
 - Spirituality?
 - Upbringing?
 - Family?
 - Moral code of conduct?
 - Laws and civil rights?
 - Academia?

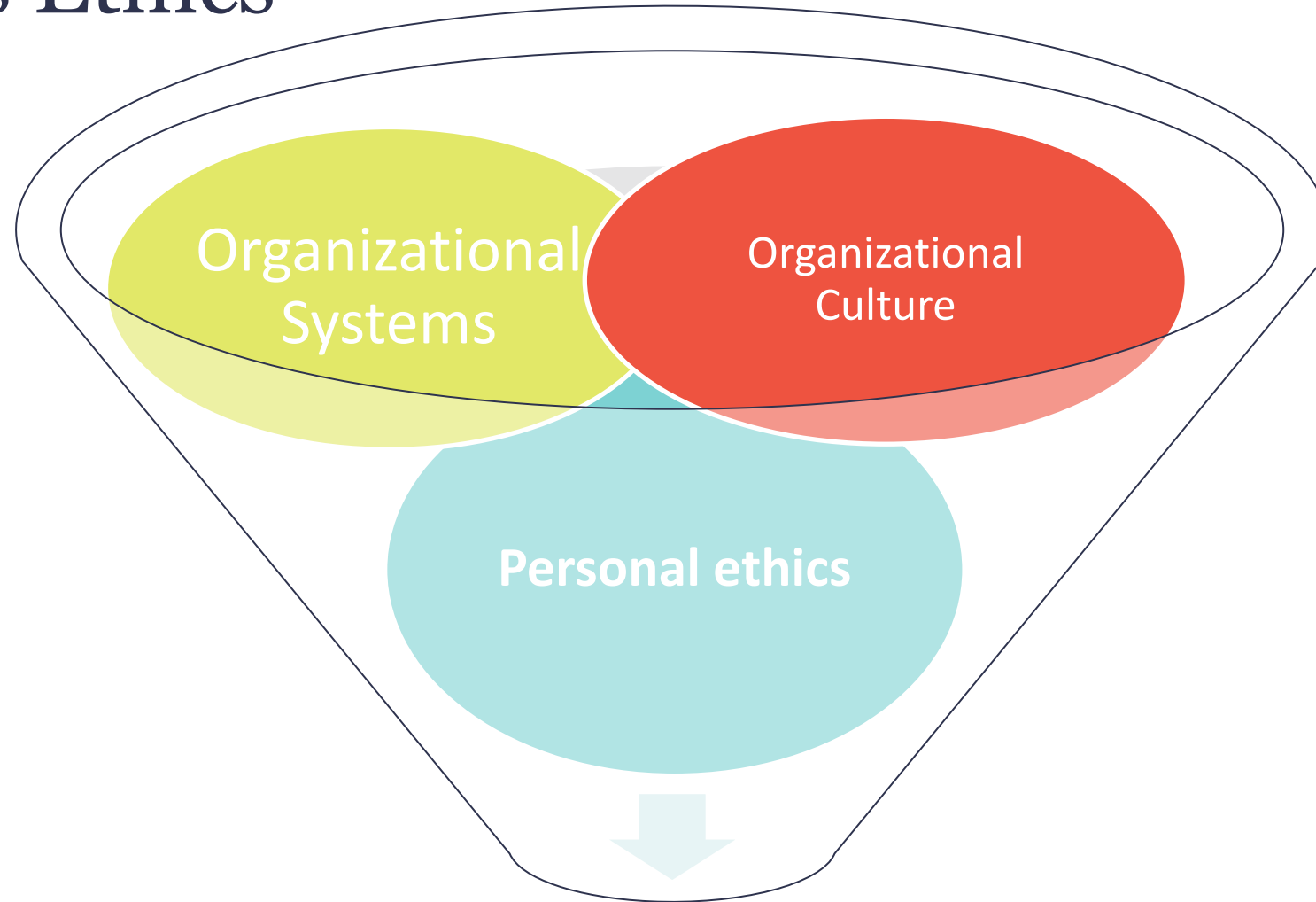


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HOW ARE MY PERSONAL ETHICS RELEVANT TO MY JOB?



Business Ethics



Are the decisions made by an organization ethical?

Let's Hear from You...

In your opinion, which of these has the most impact on whether a company is ethical?

- A. Organizational systems
- B. Organizational culture
- C. Personal ethics of employees

Principles of Ethics in Business

Honesty

Integrity

Loyalty

Fairness

Concern/Respect for others

Courage



Practicing Ethics – Inside & outside the workplace

Honesty

- Returning extra change/driving the speed limit
- Not withholding information from employees

Integrity

- Keeping promises to your kids over work commitments
- Don't accept praise for or steal others' ideas/work

Loyalty

- Sticking up for a friend who is the subject of gossip
- Recognize others for their accomplishments



Practicing Ethics – Inside & outside the workplace

Fairness

- Don't take sides in family disputes
- Hold all team members accountable

Respect

- Practice active listening
- Welcome and encourage diversity

Courage

- Speak up when you see someone being mistreated
- Speak up when you see unethical or inappropriate behavior

Why is Ethics Important in Business?



- It helps employees make good decisions and in turn leads to happier, more satisfied employees.
- It reduces liability.
- It ensures high-quality customer service.
- And most importantly, it keeps everyone off the front pages!



Moral Muteness

Moral Muteness is:

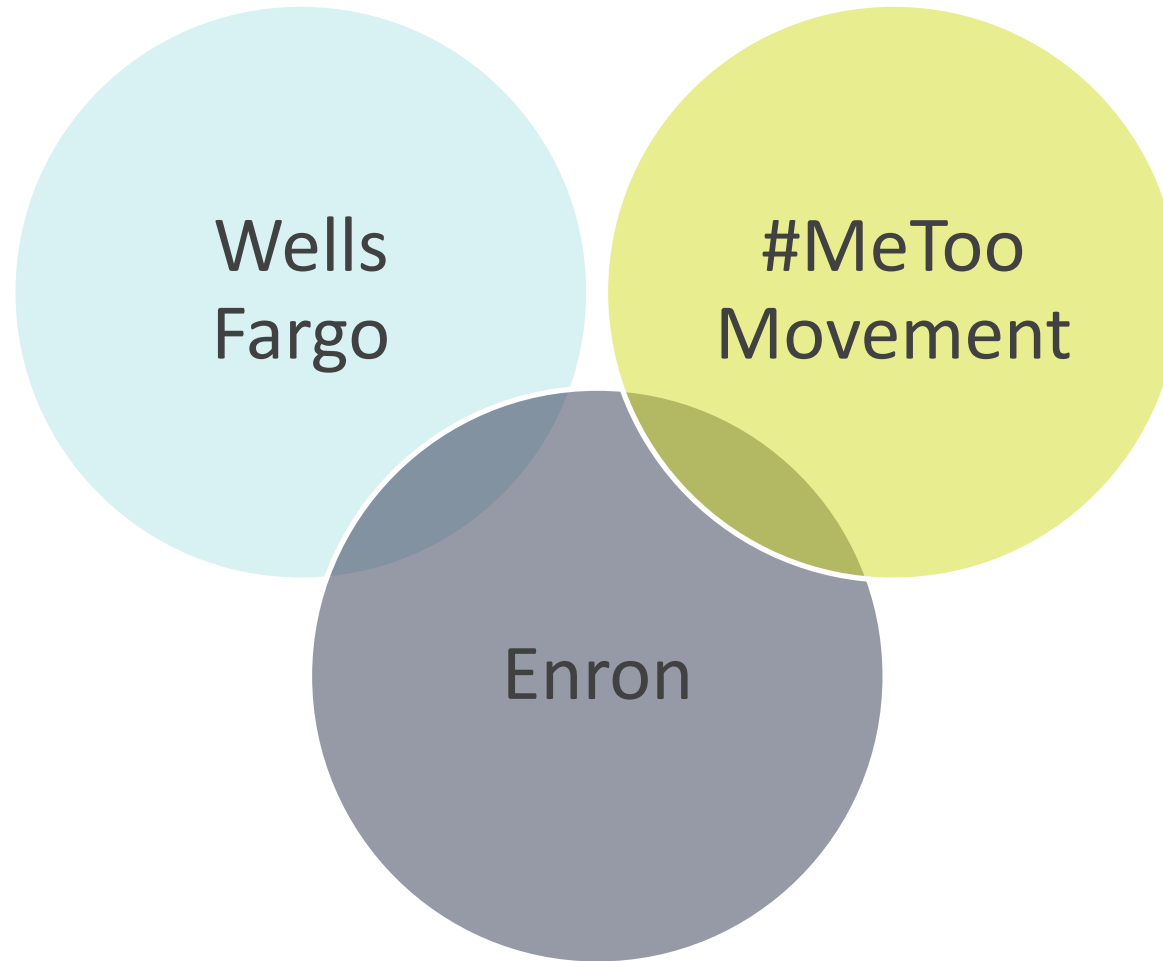
1. Not speaking up when witnessing unethical behavior
 2. The unwillingness to discuss ethics
 3. Discussing practices/decisions in a way that obscures your moral position and ethical beliefs
- (Bird & Walters, 1989)

What causes moral muteness?

Discussions of ethics can be threatening to harmony, efficiency, or power.



Moral Muteness – Real Life Examples



Ethical Fading



An erosion of the **ethical** standards of a business in which employees become used to engaging in or condoning bad behavior.

Ethical Fading

The inability to see that a situation requires an ethical judgement

Situational Influence

Why good people do bad things

“Decades of evidence shows us that **situations** can persuade even the most ethical and compassionate people to betray their own values.”

– Phil Zimbardo, PhD, founder of HIP and social psychologist who conducted the famous Stanford Prison Experiment 1971



Ethical Challenges in Government and Nonprofit

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How effective are ethics and compliance programs?

- A recent survey showed:
 - 84% of employees working for organizations with a high-quality ethics program perceived their organization as having a strong ethics culture
 - 85% of employees working for an organization with a strong ethics culture observed favorable outcomes
- Conversely:
 - 13% of employees working for organizations with underdeveloped ethics programs perceived their organization as having a strong ethics culture
 - 0% of employees working for organizations with a weak ethics culture observed favorable outcomes

Ethical Challenges Turned Fraud....

Charging non-grant costs to federal/state contracts

Abuses of credit cards
– meals; travel; etc.

Staff benefiting personally from organization assets

Awarding grant funds to family or friends

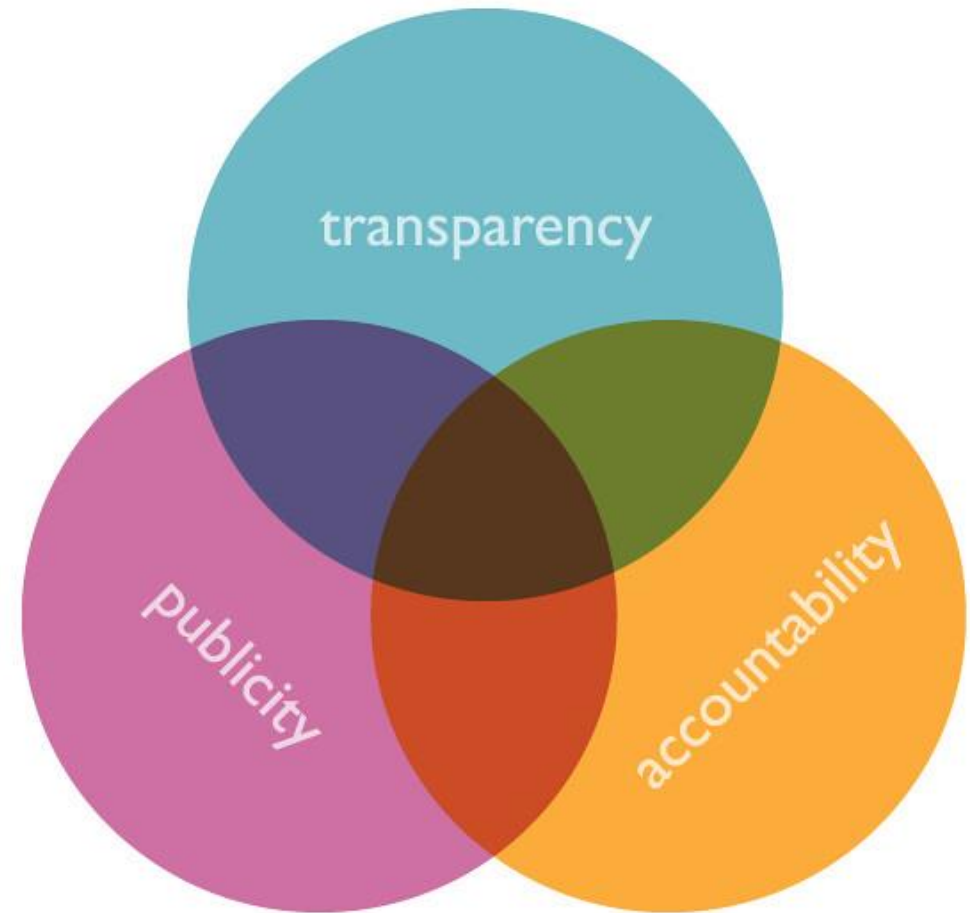
Awarding vendor contract to family or friend

Allowing employees to pad their timesheets to compensate for “value”

Ethical Challenges in Government and Nonprofit

The importance of:

- Perception – What is more important, reality or perception?
- How is transparency achieved?



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Case Study #1

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Case Study #1 – State Agency

- State Agency that receives federal grant funds
- Corruption/embezzlement of federal funding
- Agency has \$1 billion in economic contributions per year
 - CLA's scope was \$226 million in applicable federal disbursements
- Executive Director was in role approximately 4 years
 - Started career with the state and appointed as ED
 - No known financial or other issues but appeared to desire recognition
 - Desired to establish a holistic family approach to assistance



Case Study #1 – State Agency

Bypassing procurement procedures, ED selected two subgrantees to execute the state agency's initiatives and increased their funding from less than \$1 million to \$14-19 million per year

ED used their influence with the subgrantees to have contracts awarded to family and friends for vague scopes of work or for work they were not qualified to perform

Schemes

ED used their influence to have the subgrantees pay for personal expenses of family/friends

ED used their authority to coerce monitoring staff to not perform appropriate monitoring of subgrantees

Case Study #1 – State Agency

Conclusions

CLA found
embezzlement of
approximately:

- \$1m – conflicts of interest
- \$7.5m – undue influence and favoritism
- \$3.8m – waste and abuse

The Executive
Director resigned
from their position

The Executive
Director was indicted,
and the criminal
litigation is pending

Case Study #1 – State Agency

- ED awarded subgrants to 3 favored subgrantees
 - Program had 28 total subgrantees
 - 3 were favored by ED
 - Scope of work for subgrantees was generic and high level
 - Subgrantees were not required to provide supporting documentation with their monthly reporting
 - No accountability for how funding was used
- Allegation by subgrantee: ED used threats of withholding funding to coerce subgrantee to award contracts

Case Study #1 – State Agency

- ED employed their brother-in-law and nephew and also engaged them as independent contractors
 - Excessive compensation for their experience and responsibilities
 - No evidence of work being performed
 - Rental of location that was never used
 - Overlapping periods as employees and as independent contractors
 - Full contract amount was paid at the time the contracts were executed

Case Study #1 – State Agency

- ED employed friends and also engaged them as independent contractors
 - One specific friendship with the family of a public figure; ED viewed relationship as beneficial and a way to open doors
 - Many times, individuals established an LLC within a week of discussion with the ED
 - Lump sum payments made on established contracts and many times on the same day the contract was signed
 - Little to no evidence of work being performed
 - Payments for rehabilitation services to a family member, and while receiving treatments, also received payroll and travel reimbursement payments



Case Study #2

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Case Study #2 – Financial Aid

- Financial Aid Director
 - With the college for 16 years
 - 5 staff responsible for completeness of student files
 - Calculated and awarded all aid
 - Assess satisfactory academic progress
- District was behind in processing financial aid and hired a consultant to assist
 - Identified irregularities in financial aid applications and awards
- College put the FA Director on administrative leave for CLA to investigate

Case Study #2 – Financial Aid

Were awards in accordance with federal regulation?

Scope:

1. Two fiscal years
2. Test: student eligibility, satisfactory academic progress, appeals, and financial aid disbursements
3. Assess individual culpability of financial aid employees
4. Sample size: 326 students

Case Study #2 – Financial Aid

Findings:

1. Students who continually fell below SAP continued to receive aid (multiple appeals approved) - \$321k
2. FWS was paid in violation of college policy - \$50k
3. Missing verification documentation - \$59k
4. Missing “professional judgment” supporting documentation - \$78k
5. Other missing documentation - \$19k
6. No personal financial benefit to FA Director

Case Study #2 – Financial Aid

Extrapolation of QC to Total Aid Paid		Total
	PELL	\$ 2,282,477.81
	Loans	2,168,079.29
	SEOG	75,621.70
	FWS	213,171.27
	Total	<u>\$ 4,739,350.07</u>

Case Study #2 – Financial Aid

Interview of Financial Aid Director:

- Confirmed that he would not require students to submit documentation before modifying their files
- He viewed the students as his “customers” and expressed significant concern for those students who “needed” money
- Ethical dilemma: students struggled financially in an expensive city

Other Information:

- Commonly referred to on campus as “Santa Clause”

Case Study #2 – Financial Aid

Results:

- College self reported to the Department of Education
- DOE conducted a Program Review and issued 14 findings
- DOE required college to:
 - Take corrective action with 60 days
 - Perform additional review of Title IV recipients for 2 years
 - DOE selected separate sample: test and extrapolate – resulted in \$1.6 million finding



Attributes of a Highly Ethical Organization

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Attributes of a Highly Ethical Organization

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



Attributes of a Highly Ethical Organization

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



Questions

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Thank you!

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Closing Remarks

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