We'll get you there.

CPAs | CONSULTANTS | WEALTH ADVISORS

Preparing for Crossing the FDICIA Threshold

February 14, 2024

The information herein has been provided by CliftonLarsonAllen LLP for general information purposes only. The presentation and related materials, if any, do not implicate any client, advisory, fiduciary, or professional relationship between you and CliftonLarsonAllen LLP and neither CliftonLarsonAllen LLP nor any other person or entity is, in connection with the presentation and/or materials, engaged in rendering auditing, accounting, tax, legal, medical, investment, advisory, consulting, or any other professional service or advice. Neither the presentation nor the materials, if any, should be considered a substitute for your independent investigation and your sound technical business judgment. You or your entity, if applicable, should consult with a professional advisor familiar with your particular factual situation for advice or service concerning any specific matters.

CliftonLarsonAllen LLP is not licensed to practice law, nor does it practice law. The presentation and materials, if any, are for general guidance purposes and not a substitute for compliance obligations. The presentation and/or materials may not be applicable to, or suitable for, your specific circumstances or needs, and may require consultation with counsel, consultants, or advisors if any action is to be contemplated. You should contact your CliftonLarsonAllen LLP or other professional prior to taking any action based upon the information in the presentation or materials provided. CliftonLarsonAllen LLP assumes no obligation to inform you of any changes in laws or other factors that could affect the information contained herein.

Session CPE Requirements

- You need to attend 50 minutes to receive the full 1 CPE credit.
- 4 Attendance Markers that read: “I’m Here,” will be launched during this session. You must respond to a minimum of 3 to receive the full 1 CPE credit.

Both requirements must be met to receive CPE credit

Learning Objectives

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

- Recall the steps necessary to implement FDICIA to satisfy audit and regulatory guidelines
- Identify common mistakes banks make as they become subject to this regulation

CLA Presenters

Mackenzie Rooney, CIA, CCBIA

Manager – Financial Institutions

Nicholas Meyer, CPA

Principal – Financial Institutions

Travis Whiting, CPA

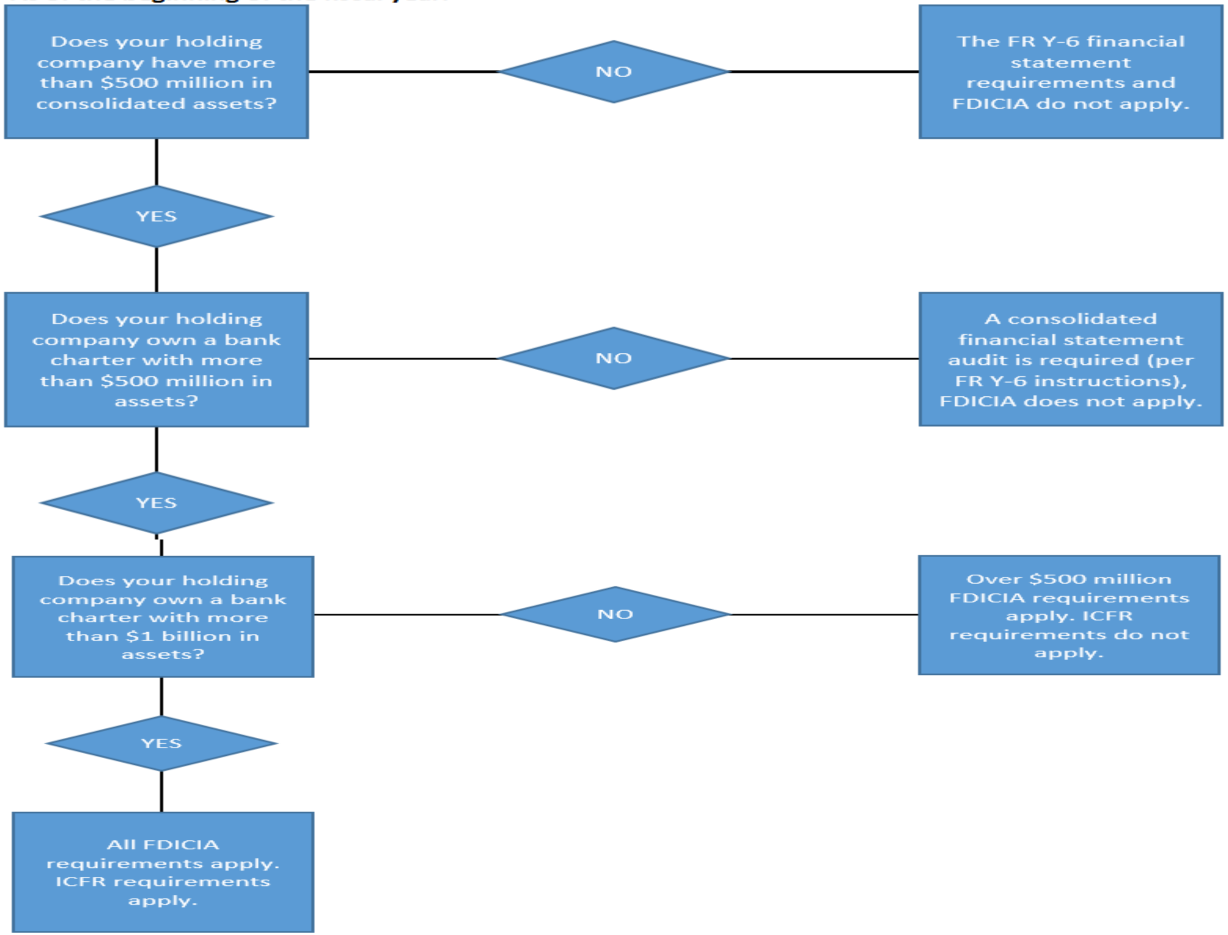
Principal – Financial Institutions

Find support at *every* turn

Benefit from guidance on all aspects of your business.

Does FDICIA Apply to Me?

As of the beginning of the fiscal year:



Crossing $500 Million in Assets

$500 Million Requirements

Audited Financial Statements

Financial Statement Auditor Independence

Auditor Reports

- Governance Communication
- Internal Control Communication, if applicable

Management Reports attesting to management responsibilities

Audit Committee

- All outside directors, majority independent of management

Crossing $500 Million Requirements

- Audited Financial Statements
  - An institution must submit audited financial statements to the appropriate Federal Bank Agency within 120 days of the end of the fiscal year for a non-public institution or 90 days if the institution is publicly traded
  - The financial statements must be comparative, but for institutions which have not been audited in the past, statements for the earlier year may be presented on an unaudited basis
  - Can be consolidated or bank only

Crossing $500 Million Requirements

- Financial Statement Auditor Independence
  - FDICIA requires that the auditor comply with the most restrictive independence standards and interpretations of the AICPA, the SEC, and the PCAOB
  - In most situations, the SEC and PCAOB rules are the most restrictive, thus there are services not allowed to be provided by your auditor that would be in other situations, such as:
    - Preparation of individual tax returns for individuals in a financial reporting oversight role
    - Preparation of financial statements

Crossing $500 Million Requirements

- Financial Statement Auditor Independence
  - The audit also requires partner rotation which requires a new signing partner be brought onto the audit engagement every five years
  - Partners that perform other functions on the audit, but are not the signing partner, are required to rotate every seven years

$500 Million Implementation Plan

Engage in a balance sheet audit in year before FDICIA	• Provides significant efficiencies in transition
Identify potential independence issues	• Determine if you can use the firm for the F/S audit • Identify non-attest service the firm can/cannot provide
Financial statement preparation	• Use resources to assist in proper completion
Audit committee composition	• Majority independent

Crossing $1 Billion in Assets

$1 Billion Requirements

$500 million threshold requirements met

Auditor Reports

- ICFR opinion

Management Reports attesting to management responsibilities

- Assessment of the effectiveness of the internal control structure
- Material weaknesses must be disclosed

Audit Committee

- All outside directors, all members must be independent of management

$1 Billion Implementation Plan

Planning	Documentation of control design	Periodic testing and reporting	Bridging testing to year end	Final reporting
• Methodology agreement	• Walkthroughs • Key control identification	• External auditor reperformance and independent testing • Correct deficiencies	• External auditor reperformance and independent testing • Correct deficiencies	• Management assertion • Auditor opinion

Internal Control Framework

Internal Control Framework

Identification of the internal control framework:

- FDICIA requires management's written assessment of the effectiveness of internal controls to include a statement identifying the internal control framework used by management to evaluate the effectiveness of the institution's internal controls over financial reporting
- This framework must be a suitable, recognized control framework established by a body of experts that followed due-process procedures, and widely available to users of management's report
- The most widely used framework is Internal Control – Integrated Framework, sponsored by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

What is COSO?

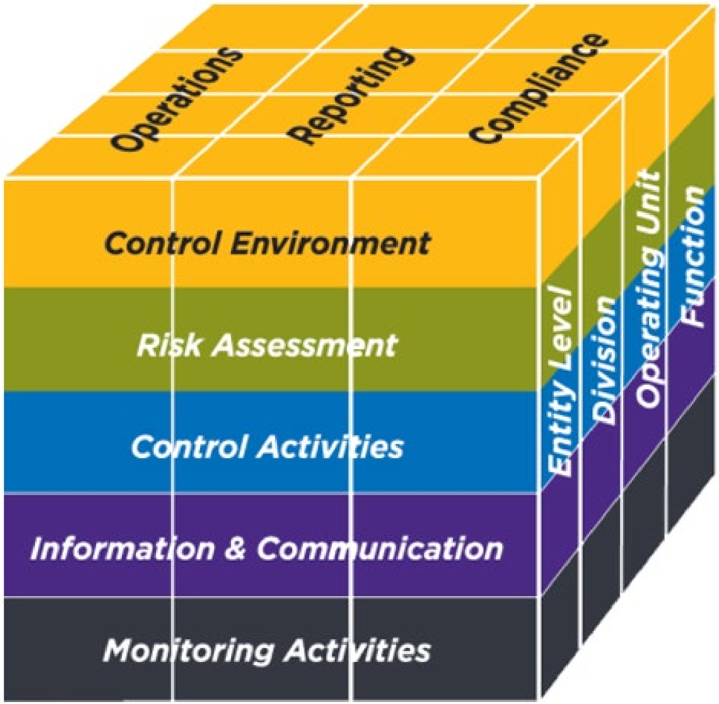
- Committee of Sponsoring Organizations of the Treadway Commission
  - American Accounting Association
  - AICPA – Financial Executives International
  - Institute of Management Accountants
  - The Institute of Internal Auditors
- Released first internal control framework in 1992
- Updated framework in 2013

This framework includes 17 principles supporting 5 components

- Each of the 5 components and the 17 relevant principles need to be present and functioning

Components of the COSO Integrated Framework

- Controls Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring Activities



Common Pitfalls

Lack of Consistent Methodology

- Determine a clear methodology related to the:
  - Risk assessment
  - Sample sizes
  - Frequency of testing
  - Responsibility of testing
  - Documentation
  - Evaluation of control deficiencies and remediation
  - Communication with governance and external audit firm
- Clearly documented and agreed upon annually with any outsourced parties or firms

$500 Million

$1 Billion

Both

Assuming the Existing Internal Audit Function is Already FDICIA Compliant

- $500 Million
- $1 Billion
- Both

Annual enterprise risk assessment to determine significant lines of business and support functions

Evaluate time and resources to determine if independent individuals testing and reporting on FDICIA controls, have sufficient skills, training, and availability

Testing Too Many Controls

- Key controls are those that, if they fail, could lead to a material misstatement on your financial statements or regulatory reports

$500 Million

$1 Billion

Both

Not Sufficiently Testing Controls

Attention should be given to the design and operating effectiveness of key controls

Include attributes such as verifying completeness and accuracy of the underlying data, inquiry, or observation of the control operator, and re-performance of the steps within the control in order to determine that the control can be relied upon

- $500 Million
- ✓ $1 Billion
- Both

Lack of Precision in Review

- $500 Million
- $1 Billion
- ✓ Both

- In many instances, sighting evidence of the reviewer's initials on a reconciliation is not sufficient to conclude that the control is designed and operating effectively

Testing the Process Instead of the Control

- Spend time and resources focused on ICOFRs instead of operational processes instead of ICOFRs

$500 Million

$1 Billion

Both

Internal Audit is Acting as the Control

Watch for instances in which the internal audit function (or outsourced internal audit) is the control operator

If not independent of the control, your institution cannot assert on your own work

$500 Million

$1 Billion

Both

Waiting Too Long to Start Testing

- Waiting until near the end of the year to perform testing, any control deficiencies noted may have to be reported because management no longer has enough instances of the control to remediate and test to conclude otherwise

$500 Million

$1 Billion

Both

Ignoring Portions of the Year

- $500 Million
- $1 Billion
- Both

Recommend testing a portion of your sample size as of or near year-end

Samples selected from a prior year's annual reporting period do not provide evidence of control design and operation for the current year's attestation and opinion

Lack of Audit Trail

$500 Million

$1 Billion

Both

Document

Document

Document

Lack of Reporting

$500 Million

$1 Billion

Both

Increases the potential of the external auditor reporting a significant deficiency or material weakness that might have otherwise been avoided

Quarterly presentations to management, governance are recommended

Annual presentations to the external auditor is recommended

Additional Resources

You may find the following information helpful for members of the Bank as you plan for implementation:

- FDICIA Rule 363
- Article: What to Expect When Your Bank Reaches $1 Billion

Thank You!

Nicholas Meyer, CPA
nicholas.meyer@CLAconnect.com
612-397-3229

Travis Whiting, CPA
travis.whiting@CLAconnect.com
612-373-1422

Mackenzie Rooney, CIA
mackenzie.rooney@CLAconnect.com
320-282-7915