



*We'll get you there.*

# Preparing for the Federal Deposit Insurance Corporation Improvement Act

CPAs | CONSULTANTS | WEALTH ADVISORS

©2022 CliftonLarsonAllen LLP. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

# Today's Presenters



David Heneke, CPA, CISA  
Principal – Financial Institutions



Mackenzie Rooney, CIA, CCBIA  
Manager – Financial Institutions



Scott Klitsch, CPA  
Principal – Financial Institutions





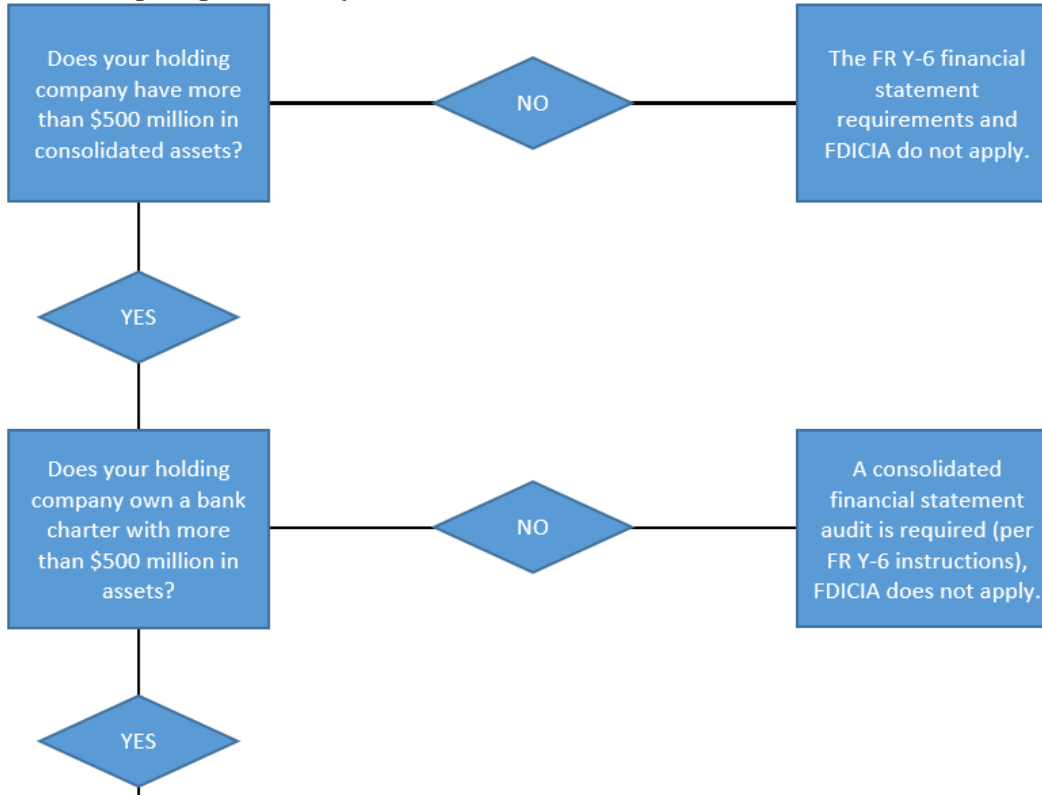
# Does FDICIA Apply to Me?

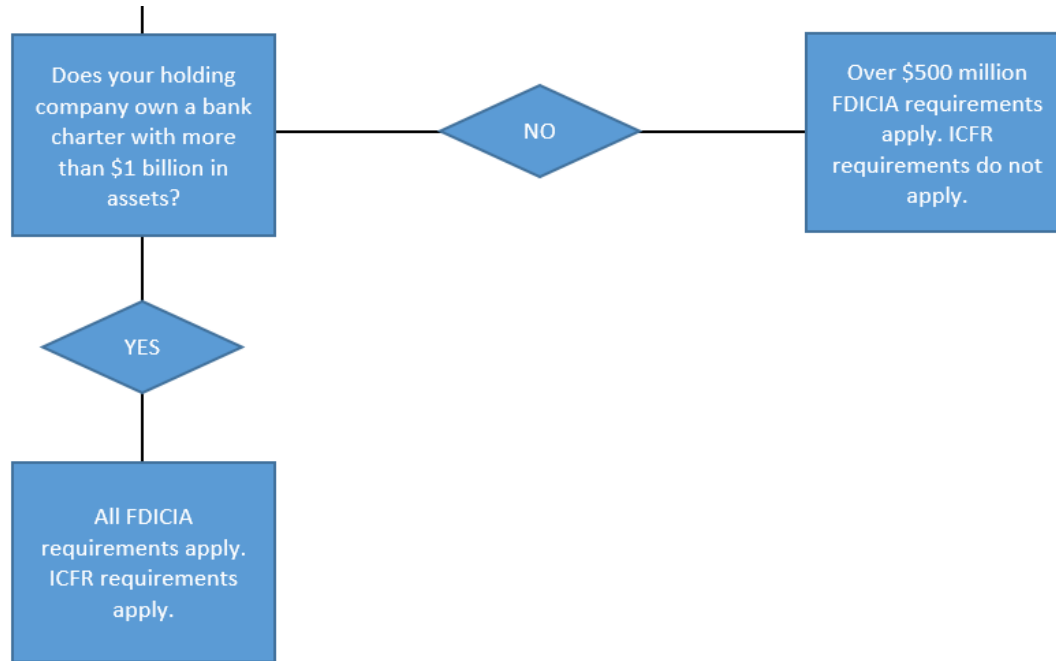
*We'll get you there.*

CPAs | CONSULTANTS | WEALTH ADVISORS

©2022 CliftonLarsonAllen LLP. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

As of the beginning of the fiscal year:







# Crossing \$500 Million in Assets

*We'll get you there.*

CPAs | CONSULTANTS | WEALTH ADVISORS

©2022 CliftonLarsonAllen LLP. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

# \$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 publically 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

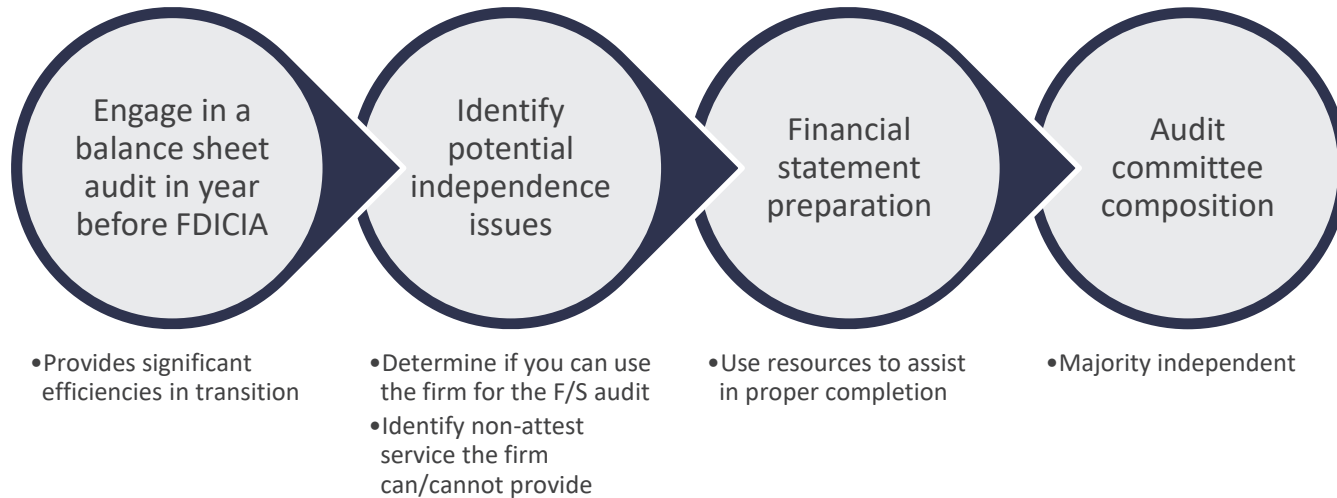


# Crossing \$500 Million Requirements

- 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





# Crossing \$1 Billion in Assets

*We'll get you there.*

CPAs | CONSULTANTS | WEALTH ADVISORS

©2022 CliftonLarsonAllen LLP. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

# \$1 Billion Requirements

\$500 million threshold  
requirements met

## Auditor Reports

- ICFR opinion

## Management Reports attesting to management responsibilities

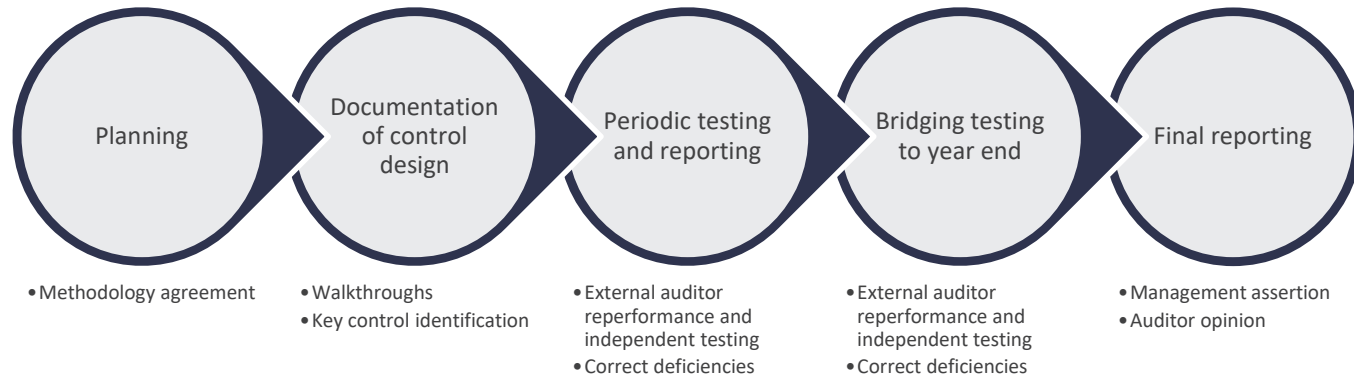
- Assessment of the effectiveness of the internal control structure
- Material weaknesses must be disclosed

## Audit Committee

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



# \$1 Billion Implementation Plan





# Internal Control Framework

*We'll get you there.*

CPAs | CONSULTANTS | WEALTH ADVISORS

©2022 CliftonLarsonAllen LLP. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

# 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).





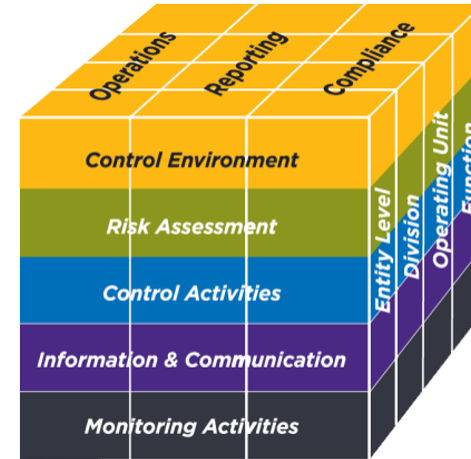
# What is COSO?

- 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

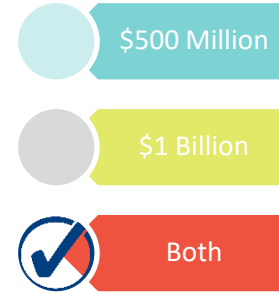
*We'll get you there.*

CPAs | CONSULTANTS | WEALTH ADVISORS

©2022 CliftonLarsonAllen LLP. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

# 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, remediation
  - Communication with governance and external audit firm
- Clearly documented and agreed upon annually with any outsourced parties or firms



# Assuming the Existing Internal Audit Function is Already FDICIA Compliant



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

☒ \$500 Million

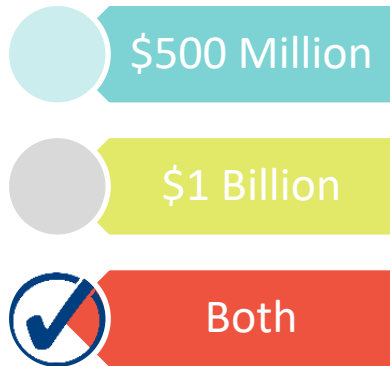
☐ \$1 Billion

☒ Both



# 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



# Not Sufficiently Testing Controls



ATTENTION SHOULD BE GIVEN TO THE DESIGN AND OPERATING EFFECTIVENESS OF KEY CONTROLS.

 \$500 Million

 \$1 Billion

 Both

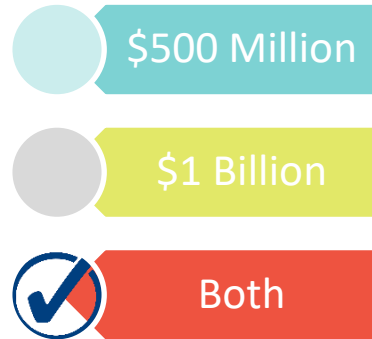


INCLUDE ATTRIBUTES SUCH AS VERIFYING COMPLETENESS AND ACCURACY OF THE UNDERLYING DATA, INQUIRY, OR OBSERVATION OF THE CONTROL OPERATOR, AND RE-PERFORMANCE OF THE STEPS WITHIN THE CONTROL IN ORDER TO DETERMINE THAT THE CONTROL CAN BE RELIED UPON.



# Lack of Precision in Review

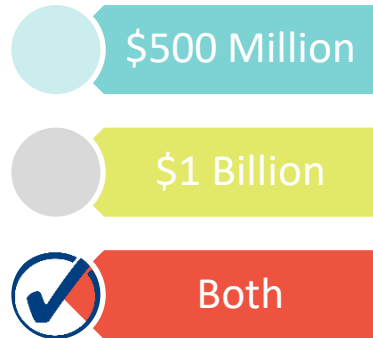
- In many instances, sighting evidence of the reviewer's initials on a reconciliation is not sufficient to conclude that the control is designed and operating effectively.





# Testing the Process Instead of the Control

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



# Internal Audit is Acting as the Control



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



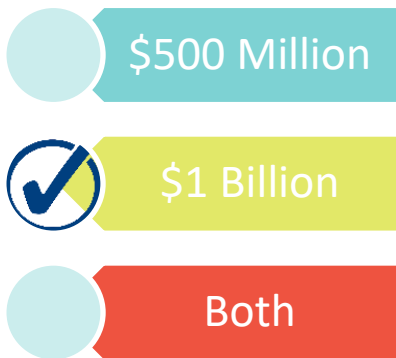
If not independent of the control, your institution cannot assert on your own work

- ☒ \$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



# Ignoring Portions of the Year

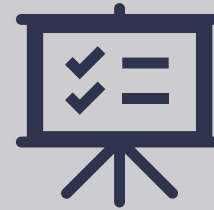


RECOMMEND TESTING A PORTION OF YOUR SAMPLE SIZE AS  
OF OR NEAR YEAR-END

 \$500 Million

 \$1 Billion

 Both

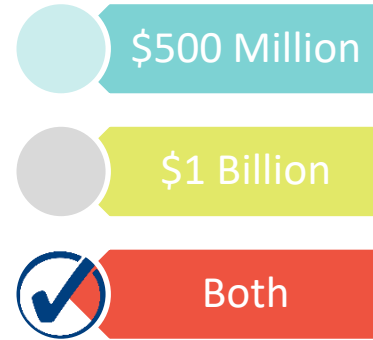


SAMPLES SELECTED FROM A PRIOR YEAR'S ANNUAL  
REPORTING PERIOD DO NOT PROVIDE EVIDENCE OF CONTROL  
DESIGN AND OPERATION FOR THE CURRENT YEAR'S  
ATTESTATION AND OPINION



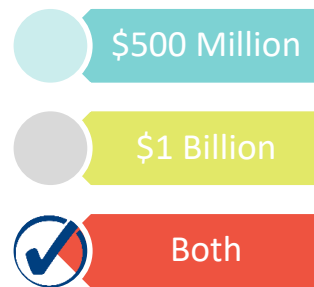
# Lack of Audit Trail

- Document
- Document
- Document



# Lack of Reporting

- 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](#)
  - [ICBA and CLA Community Banker University](#)



# Thank You!

David Heneke, CPA, CISA  
David.Heneke@CLAconnect.com  
320.203.5621

# Any Questions?

Scott Klitsch, CPA  
Scott.Klitsch@CLAconnect.com  
208.387.6440

Mackenzie Rooney, CIA  
Mackenzie.Rooney@CLAconnect.com  
320.282.7915



CLAconnect.com



CPAs | CONSULTANTS | WEALTH ADVISORS

©2022 CliftonLarsonAllen LLP. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.