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# Transition Strategies for Banks Nearing \$500M or \$1B in Assets

June 17, 2025



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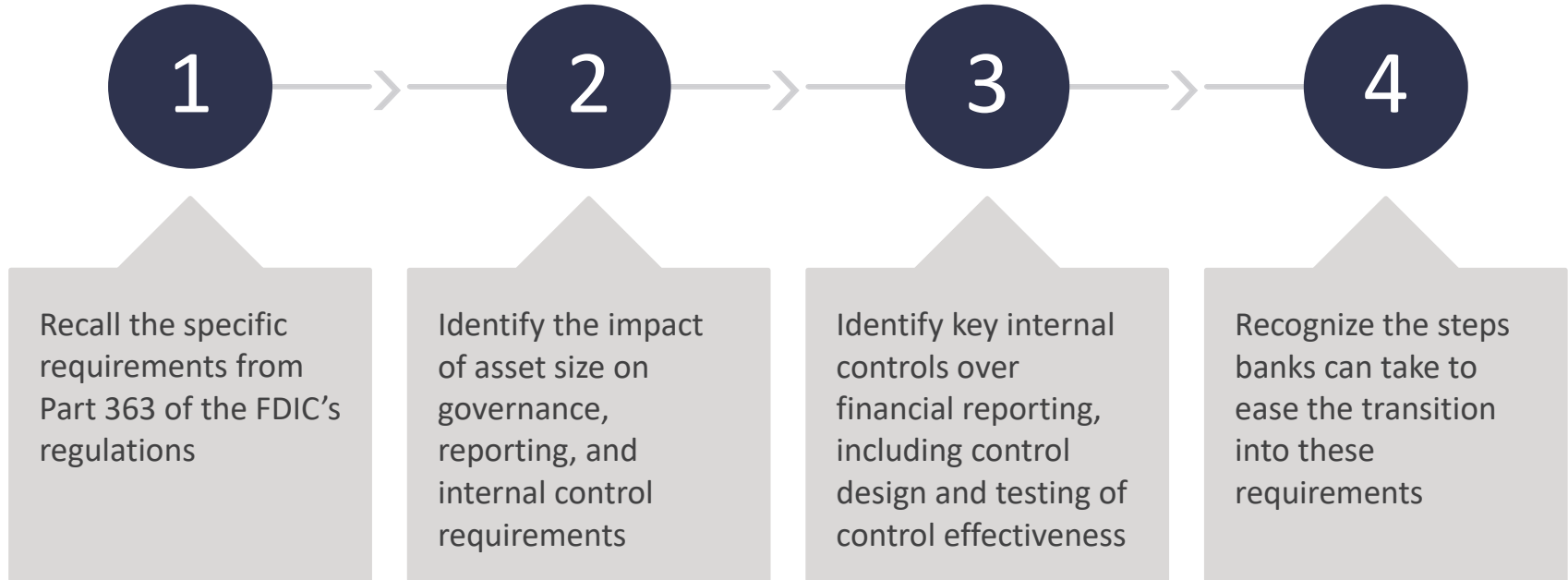
# Session CPE Requirements

- You need to attend 50 minutes to receive the full 1 CPE credit.
  - There will be 4 polling questions throughout the presentation. 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



# Today's Presenters



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# Facts: The Basics

More than *130*  
U.S. locations

*1,200+*  
principals and  
signing directors

*14*  
industries

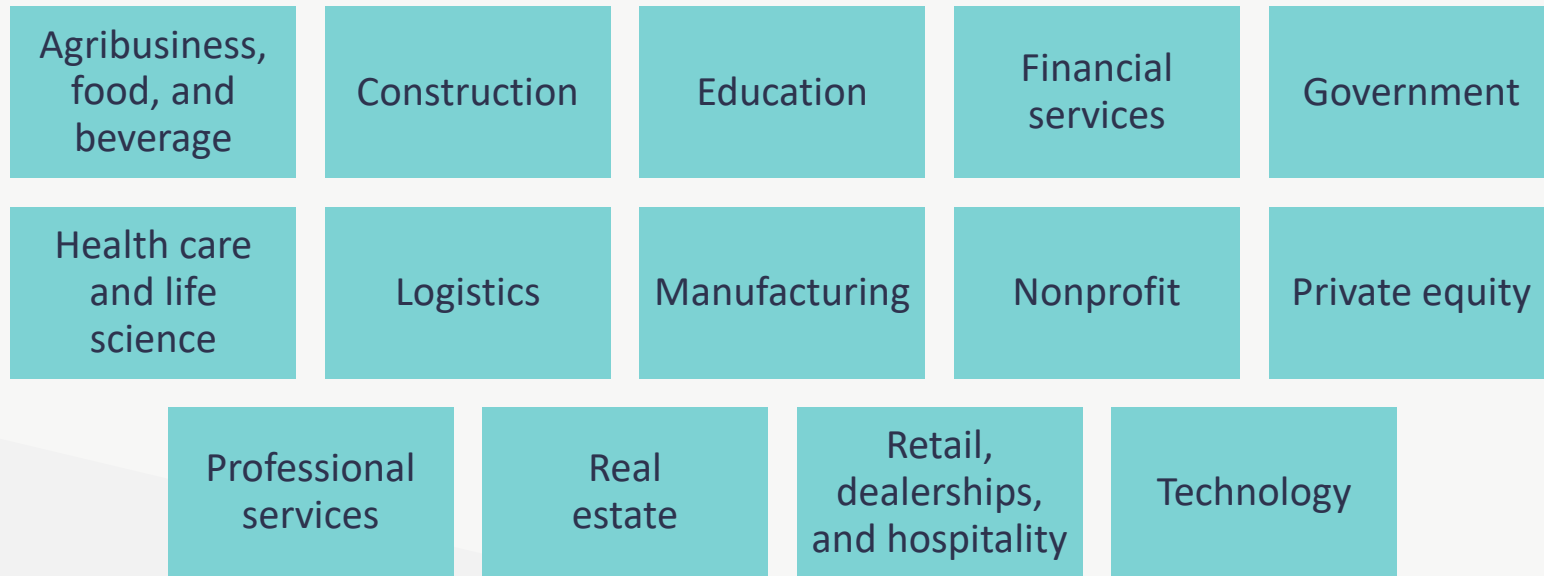
Nearly  
*9,000* people

*\$2B in revenue*

Seamless  
experience



# Deep Industry Specialization



# Community Banking Services

Audit and  
assurance

Regulatory  
compliance

Loan review and  
credit risk

Digital services

Klarivis

Internal audit  
and FDICIA  
compliance

Cybersecurity  
and IT services

Microsoft 365  
assessments

Model  
validations  
(CECL, ALM, etc.)

M&A advisory

Business  
opportunity  
assessments

Core contract  
advisory

Tax planning,  
compliance, and  
tax credits

Employee  
benefit plans

Executive search  
and outsourced  
staffing







# The Federal Deposit Insurance Corporation Improvement Act of 1991



# The Federal Deposit Insurance Corporation Improvement Act of 1991

- Commonly referred to as FDICIA
- Implemented in response to the savings and loan crisis
- Federal banking agencies were required to take supervisory actions when capital of an institution declined, and grade institutions on a 1 to 5 scale, which we now know as the CAMELS rating
- FDICIA applies to individually chartered institutions, so asset thresholds are applicable on a bank-by-bank basis
- Implemented specific requirements that affect organizations over \$500 million and \$1 billion in assets
- The measurement date for these asset thresholds is the beginning of the fiscal year



# Current Industry Trends

- Significant consolidation
- Asset size of banks is growing

Date	Number of FDIC-Insured Institutions	Average Asset Size	12-year % Increase	Median Asset Size	12-year % Increase
12/31/2024	4,543	\$ 5,308,147	159%	\$ 353,544	110%
12/31/2022	4,756	\$ 4,965,319		\$ 321,478	
12/31/2017	5,721	\$ 3,046,146		\$ 210,040	
12/31/2012	7,092	\$ 2,046,090		\$ 168,020	

*\*Information based on data extracted from file call reports for all FDIC-insured banks for the relevant quarters*





# Does FDICIA Apply to Me?



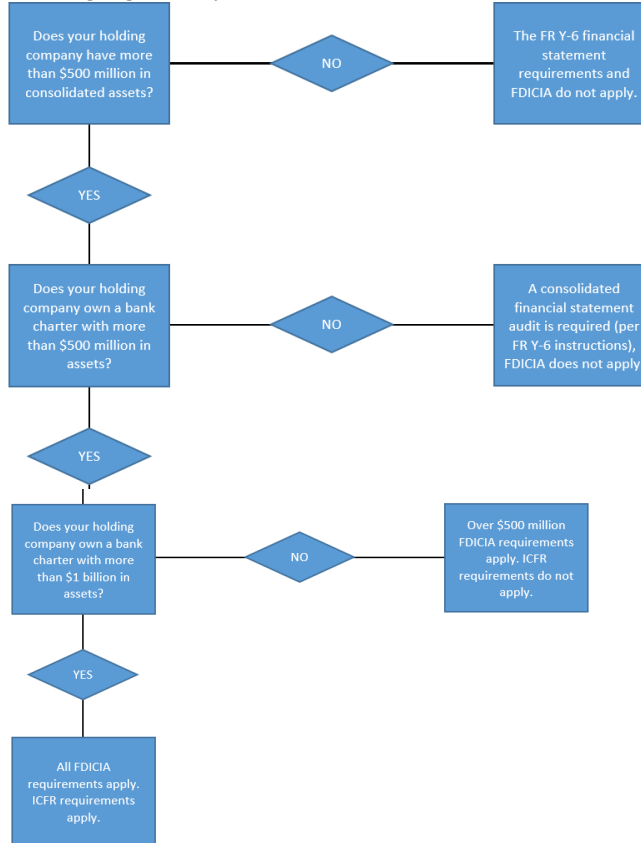
# Polling Question

Where is your institution currently at in the FDICIA process?

- Hoping to stay under \$500 million
- Crossing \$500 million very soon or just crossed
- Between \$500 million and \$1 billion, thinking about next steps
- Nearing \$1 billion and in implementation mode
- Over \$1 billion and FDICIA compliant, just here because I love learning from CLA



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 letter  
Internal control letter (if applicable)



Management reports

Attesting to management responsibilities



Audit committee

All outside directors, majority independent of  
management



# Crossing \$500 Million Requirements

- Audited Financial Statements
  - Institutions are required to submit audited financial statements to the relevant Federal Bank Agency within 120 days after the fiscal year ends for non-public institutions, or within 90 days for publicly traded ones.
  - The statements should be comparative, but if an institution has not been audited before, earlier year statements can be unaudited.
  - They can be either consolidated or specific to the bank.



# Crossing \$500 Million Requirements

- Auditor Independence
  - FDICIA mandates that auditors follow the strictest independence standards from the AICPA, SEC, and PCAOB
  - In most situations, SEC and PCAOB rules are the strictest, prohibiting certain services from being offered by auditors that may otherwise be acceptable, including:
    - Preparing individual tax returns for those in a financial reporting oversight role
    - Preparing financial statements
    - Other prohibited services (internal audit, valuation, bookkeeping, etc.)
  - Partner rotation
    - Signing partners must rotate every five years. Requires partner rotation and a new signing partner every five years
    - Other partners must rotate every seven years



# Crossing \$500 Million Requirements

- **Auditor reports**

- During a financial statement audit, you will receive auditor reports that must be submitted to the relevant Federal Bank Agency within 15 days of receipt. These include:
  - **Governance communication** – Essential communication with governance detailing the auditor's responsibilities, any misstatements, and disagreements with management.
  - **Internal control communication (if applicable)** – Notification of any material weaknesses or significant deficiencies in internal controls identified during the audit.



# Crossing \$500 Million Requirements

- **Management reports**

- Along with audited financial statements, institutions must submit a statement of management's responsibilities, signed by the CEO and CFO or equivalent roles. This includes accountability for:
  - Preparing annual financial statements
  - Maintaining a proper internal control structure for financial reporting
  - Adhering to safety and soundness regulations set by the FDIC and the relevant federal banking agency



# Crossing \$500 Million Requirements

- **Audit committee**

- Institutions must establish an independent audit committee.
- Composition – all outside directors, majority independent.
- The committee's key responsibilities include:
  - Appointing, compensating, and overseeing the independent public accountant for FDICIA-related services.
  - Collaborating with management and the independent public accountant to review the reports issued under FDICIA.

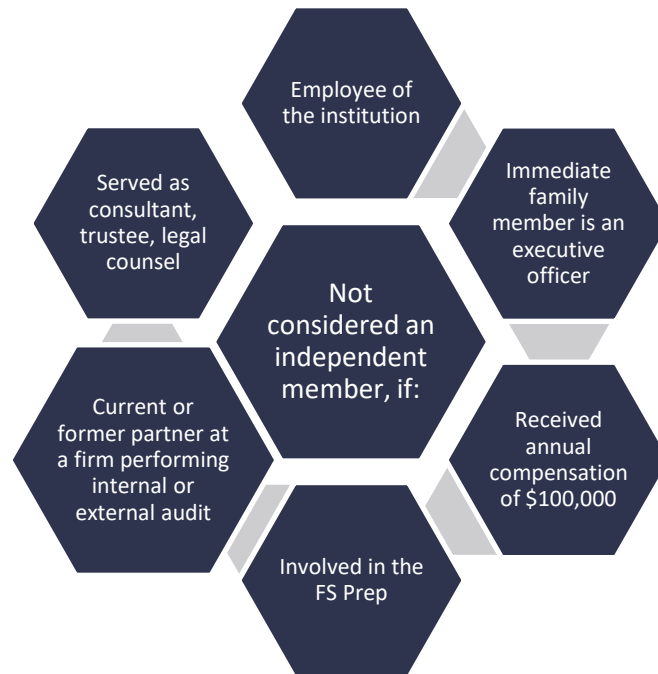


# Audit Committee Independence

## Key terms

- Immediate family member
  - A person's spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-laws, brothers- and sisters-in-law, and anyone (other than domestic employees) who shares such person's home.
- Affiliate
  - A person or entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.
- Timeline
  - Currently, or within the last three years.

## Independence considerations



# \$500 Million Implementation Plan

Engage in a balance sheet audit in year before FDICIA

- Provides significant efficiencies in transition
- Additional options include directors' exams, financial statement prep, and other initial audit procedures

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

- Form committee and establish reporting structure
- Majority independent



# Polling Question

How optimistic are you on the current economic conditions and the impact to your organization?

- 5 = Very confident
- 4 = Confident
- 3 = Neutral
- 2 = Somewhat confident
- 1 = Not at all confident





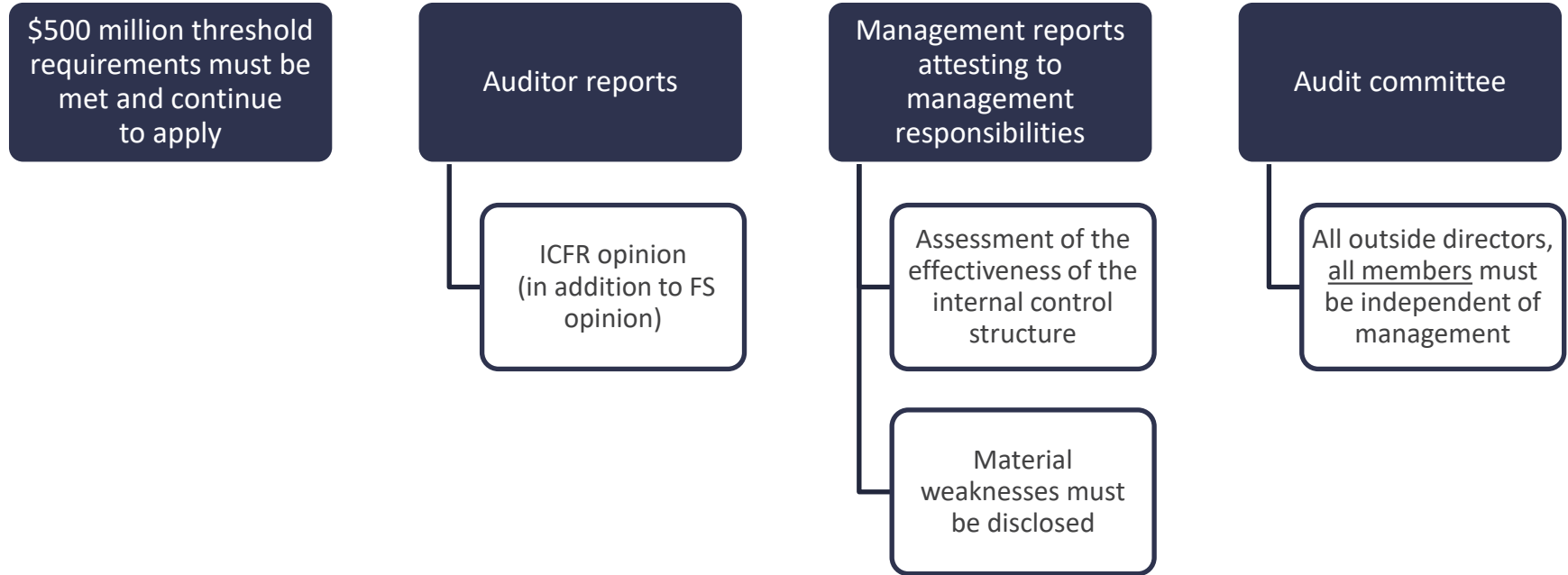


# Crossing \$1 Billion in Assets



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# \$1 Billion Requirements



# Crossing \$1 Billion Requirements

- **Auditor reports**

- In addition to the reports required at the \$500 million level, the financial statement auditor is also required to provide an opinion on the effectiveness of internal control over financial reporting, which is also provided to the appropriate Federal Bank Agency



# Crossing \$1 Billion Requirements

- **Management reports**
  - Management must also provide an assessment of the effectiveness of the institution's internal control structure and procedures, which include:
    - A statement identifying the internal control framework used by management to evaluate the effectiveness of the institution's internal control over financial reporting
    - A statement that the assessment included controls over the preparation of regulatory financial statements in accordance with regulatory reporting instructions including identification of such regulatory reporting instructions



# Crossing \$1 Billion Requirements

- **Management reports**
  - A statement expressing management's conclusion as to whether the institution's internal control over financial reporting is effective as of the end of its fiscal year
  - Management must disclose all material weaknesses in internal control over financial reporting, if any, that it has identified that have not been remediated prior to the insured depository institution's fiscal year-end.



# \$1 Billion Implementation Plan

Planning	Documentation of control design	Periodic testing and reporting	Bridging testing to year-end	Final reporting
<ul style="list-style-type: none"><li>• Methodology selection</li></ul>	<ul style="list-style-type: none"><li>• Key Control identification</li><li>• Walkthroughs</li><li>• Documentation of design</li></ul>	<ul style="list-style-type: none"><li>• External auditor reperformance &amp; independent testing</li><li>• Correct deficiencies</li></ul>	<ul style="list-style-type: none"><li>• External auditor reperformance &amp; independent testing</li><li>• Correct deficiencies</li><li>• Remediation testing</li></ul>	<ul style="list-style-type: none"><li>• Management assertion</li><li>• Auditor opinion</li></ul>





# 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)
    - This framework includes 17 principles supporting 5 components





# Components of the COSO Integrated Framework

There are five components of the COSO Integrated Framework (2013)

Controls environment

Risk assessment

Control activities

Information and communication

Monitoring activities



# Determining Key Process Areas

- Utilize a materiality calculation, balance sheet and income statement data, and qualitative criteria to identify key processes, business units, locations, and applications/systems to be considered in scope
- Incorporate key general ledger accounts in the key process areas as well as critical processes that support the process



# Determining Key Process Areas

- Key areas from example risk assessment:
  - Cash and due from banks
  - Interest bearing deposits in other banks
  - Securities and interest income
  - Loans and interest income
  - Interest receivable
  - Premises and equipment, net
  - Foreclosed assets
  - Bank owned life insurance
  - Other assets
  - Deposits
  - Short- and long-term borrowings
  - Other liabilities
  - Equity
- Interest income
- Compensation and employee benefits
- Other expenses
- Information technology
  - Identify significant applications
    - Excel and significant spreadsheets
    - Vendor management
    - Access
    - SOC reports
    - Cloud services
- Entity level
  - Related parties
  - Acquisitions
  - COSO required elements



# Key Controls

- Key controls are designed to address risks of misstatement identified through financial statement assertions evaluation.
- Focus only on key controls related to financial reporting, excluding regulatory and operational controls.
- Test controls that are crucial for the auditor's conclusion on whether the company's controls adequately mitigate the assessed risk of misstatement for each relevant financial statement assertion.
- Multiple controls may address the same risk for a specific assertion, while a single control might cover risks for various assertions.
- The choice of controls for testing hinges on whether they, alone or together, sufficiently mitigate the risk of misstatement.

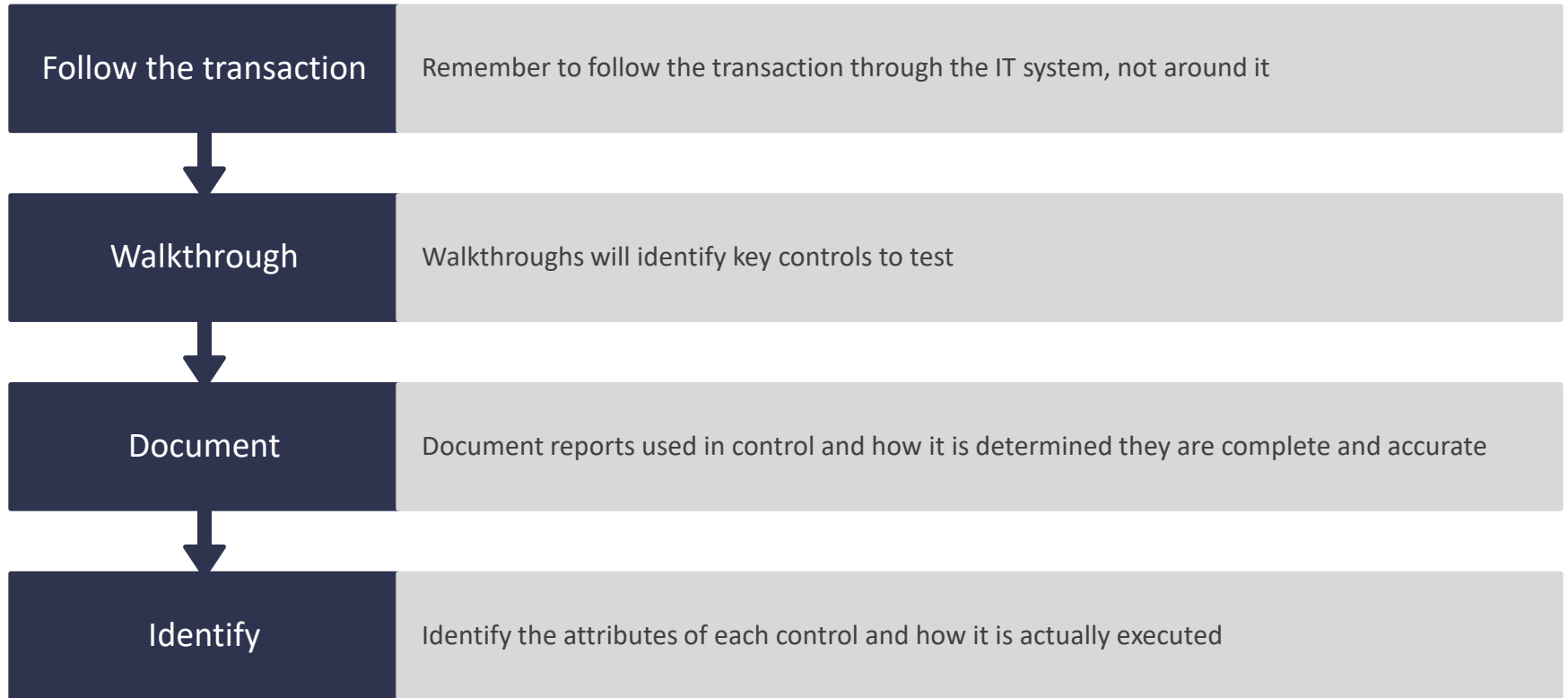


# Determining Key Controls

- Consider “telling a story” of how the process functions from start to finish
  - Who? What?
  - Where?
  - Why?
  - How?
  - By what means?
- Fully Manual, fully automated, or Partly automated?
- Preventative, Detective?
- Whether the control works in combination with other controls or relies on the operation of other controls
- Is this a management review control?
  - What is looked at? Reports, supporting documents, etc.
  - What constitutes an exception?



# Walkthroughs



# Effectiveness Testing



Sample based testing, performed by internal audit (inquiry, inspection, observation, re-performance)



Testing period (interim, year-end)



Deficiency at interim? Perform remediation testing at year-end



External auditor will review testing, reperform a sample, and perform independent testing.



Conclusions on effectiveness



Reporting implications

# Polling Question

Would it be helpful to have a discussion with a CLA professional on your organization's strategy as you approach this threshold?

- Yes, please have someone from CLA contact me to discuss.
- Not at this time; we're not quite ready.







# 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



# Assuming the Existing Internal Audit Function Is Already FDICIA Compliant

 \$500 Million

 \$1 Billion

 Both

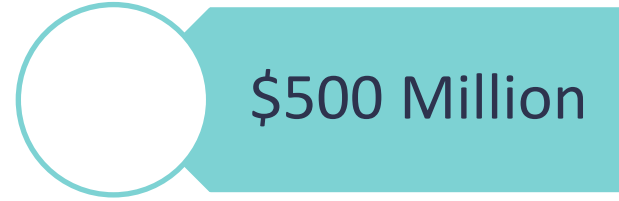
Annual enterprise risk assessment to determine significant lines of business and support functions

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

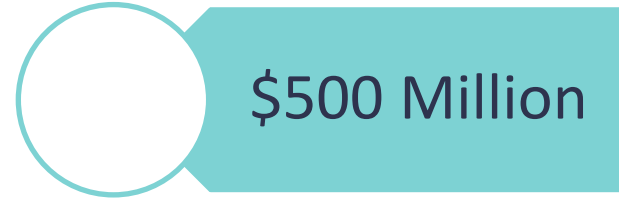


Both

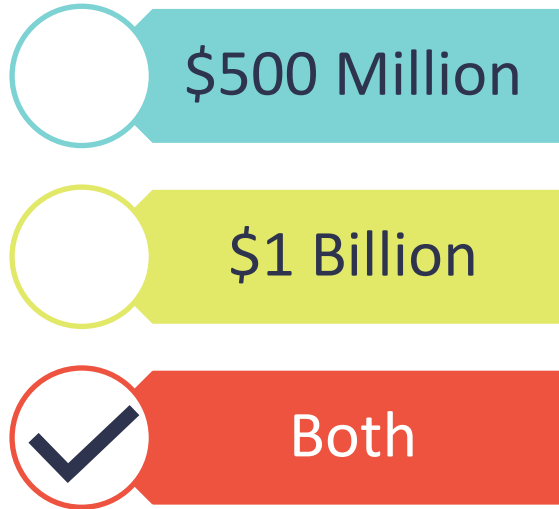
# Not Sufficiently Testing Controls

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



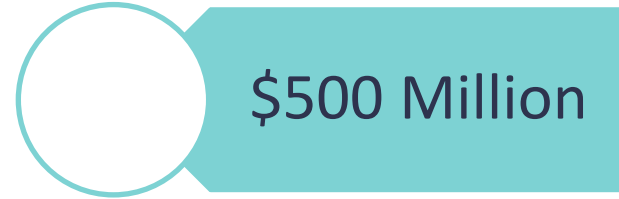
# Lack of Precision in Review



- 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 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



\$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



# 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

# Recap



Banks continue to grow at a rapid pace as consolidation continues



Complying with the regulatory requirements can be a manageable process if appropriately and timely addressed



It is never too early to get started when anticipating crossing one of the asset threshold levels



# Polling Question

Did you find the information in this CLA webinar helpful to you and your organization or business?

- Yes
- No



# 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](#)



# How Can We Help?

## Approaching or crossing \$500 Million

- Financial statement preparation
- Initial audit procedures
- Independent auditor

## Approaching or crossing \$1 Billion

- FDICIA readiness consulting
- FDICIA key control outsourced testing
- Independent auditor





*Thank you!*

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