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# Welcome!

## 2023 Denver Government & Nonprofit Training Academy



*We'll get you there.*

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# Intersection of Culture & Risk



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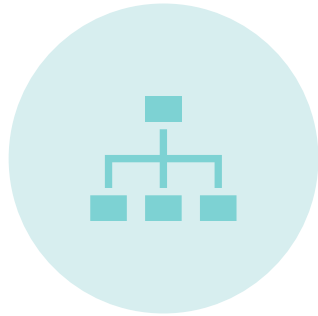
# Learning Objectives

Identify how culture impacts your financial results and is critical to your overall success

Review ways to cultivate a culture that enhances team performance and results by the intersection of culture and risk



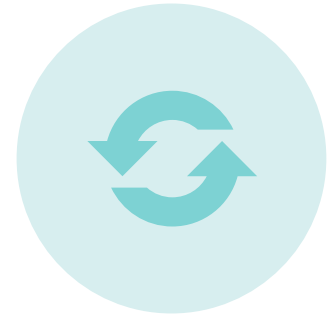
# Intersection of Culture and Risk



SUCCESSION



CONSISTENCY



FEEDBACK LOOP

# Intersection of Culture and Risk

Succession

Consistency

Feedback  
Loop

# Workforce in the Headlines

ABC: Construction Industry Faces Workforce Shortage of 650,000 in 2022

**The Retail Workforce Is About To Go Through Some Radical Changes**

Workforce participation remains below pre-pandemic levels. We have 3.3 million fewer Americans working today compared to February of 2020.

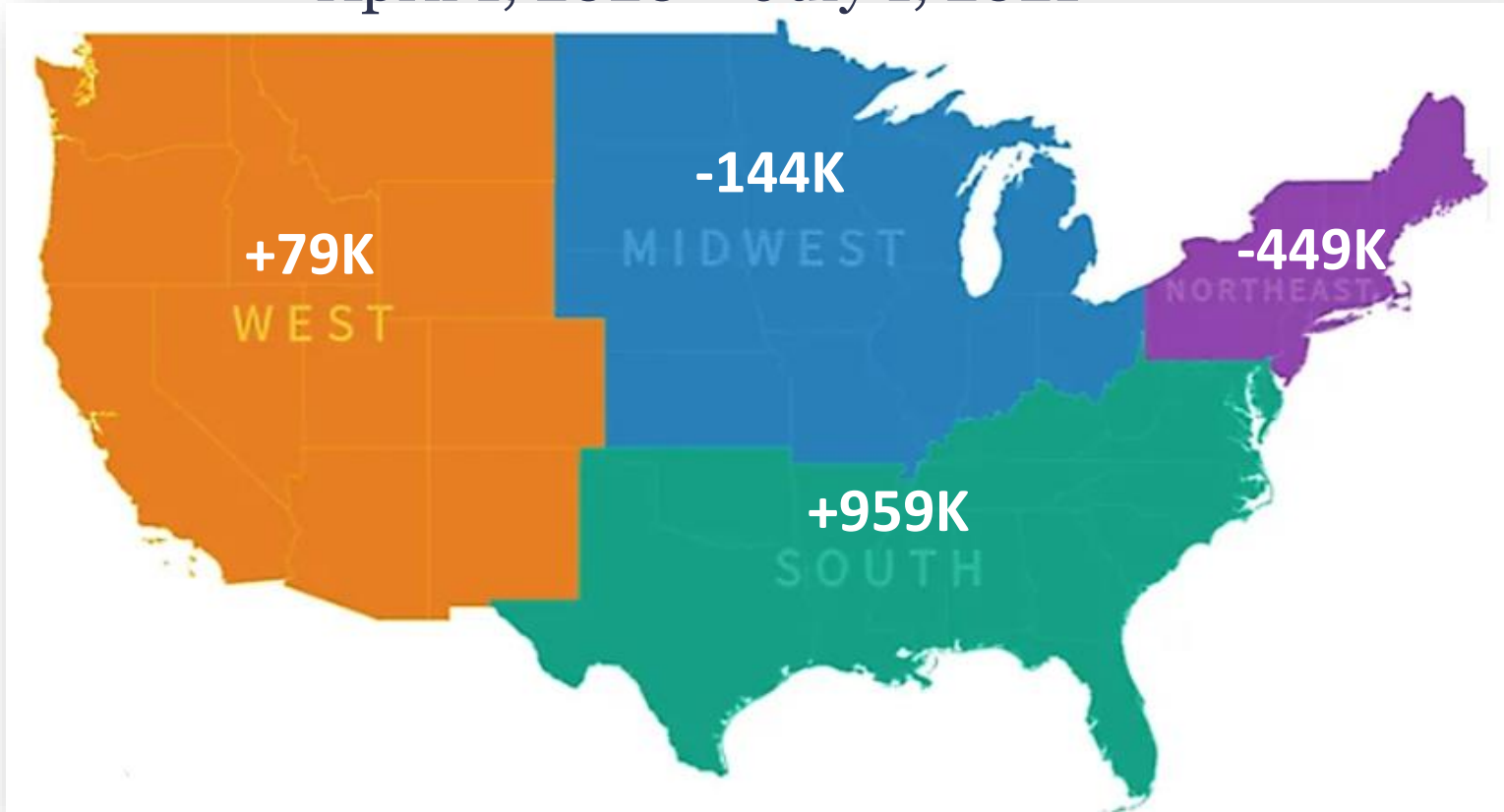
**2.1 Million Manufacturing Jobs Could Go Unfilled by 2030**

**Data Brief: Health Care Workforce Challenges Threaten Hospitals' Ability to Care for Patients**



# Cumulative Population Change by Region

April 1, 2020 – July 1, 2021





# Net Change in Population by Region

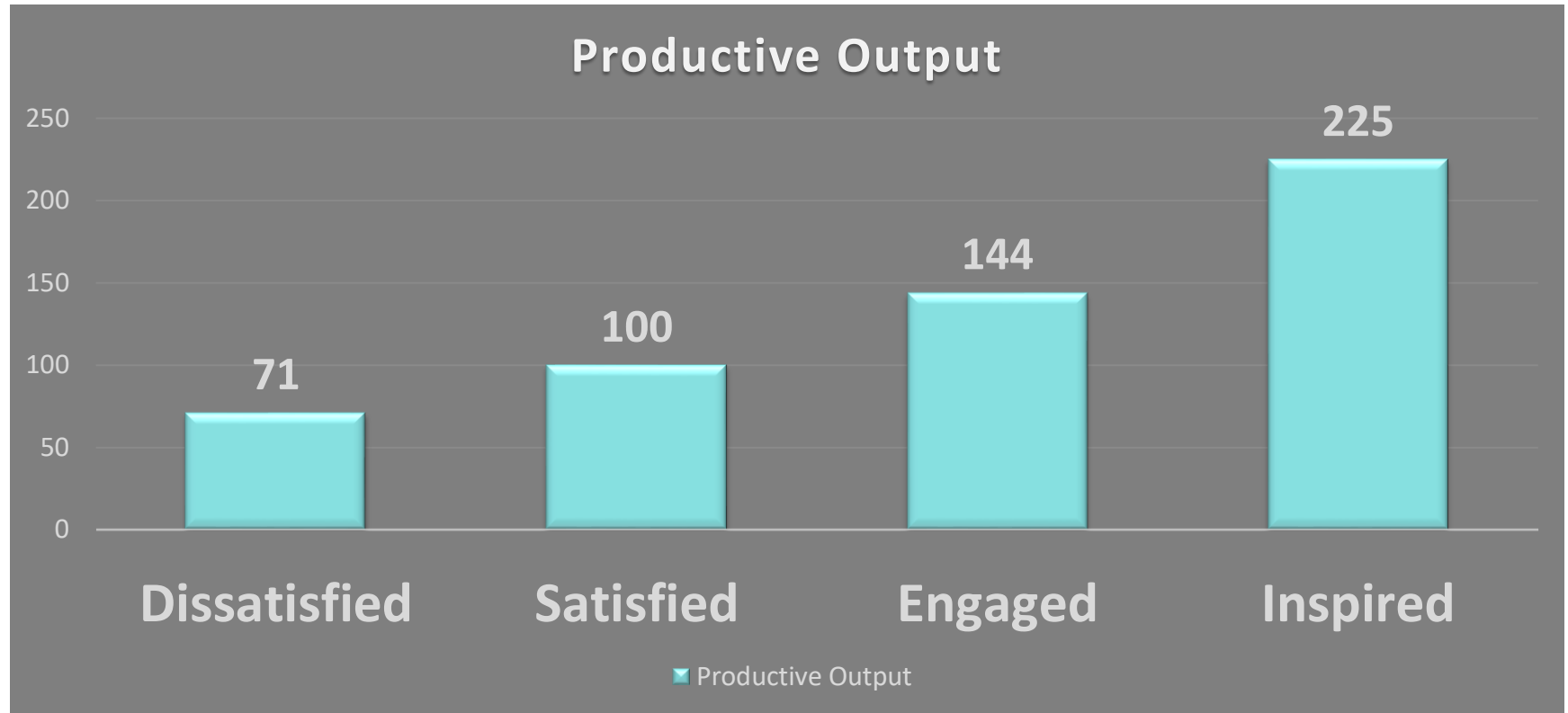
Growth  
>10%

2010

2020

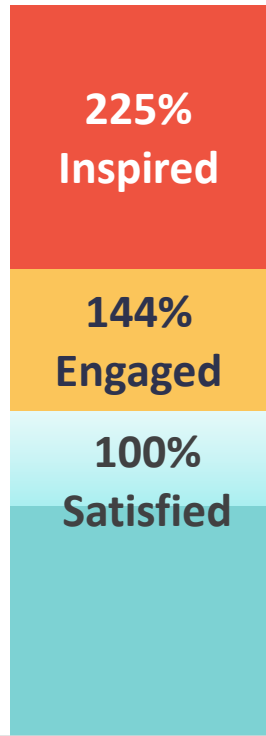


# Why Inspire Employees?



Source: BAIN & COMPANY AND EIU RESEARCH, 2015 – HBR.ORG

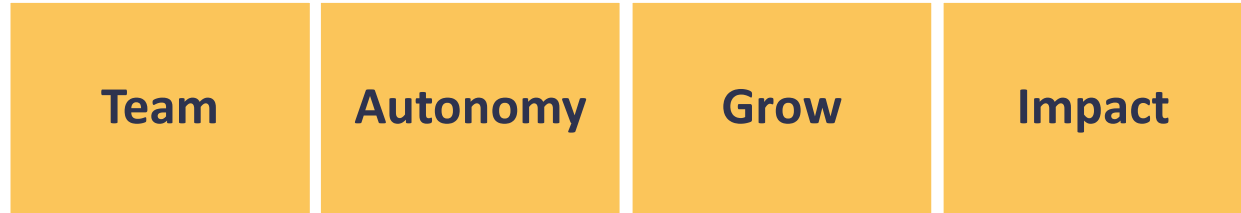




***INSPIRED EMPLOYEES:***



***ENGAGED EMPLOYEES:***



***SATISFIED EMPLOYEES:***



Source: BAIN & COMPANY AND EIU RESEARCH, 2015 – HBR.ORG



# Intersection of Culture and Risk

Succession

Consistency

Feedback  
Loop



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# Who Can Commit Fraud?

**ANYBODY**  
is capable of committing  
**FRAUD**

## *Report to The Nations – Some Statistics on Perpetrators*

- Perpetrator's level of authority has been strongly correlated with the size of the fraud
  - Only 23% of frauds in the current study were committed by owners/executives, but the median loss in these cases was \$337,000.
  - Employees and managers were much more likely to commit occupational fraud, but the losses in these schemes were much lower—though still substantial.
- Correlation between the fraudster's level of authority and the duration of the occupational fraud scheme
  - The typical fraud committed by an employee lasted 8 months before it was detected, whereas the typical fraud committed by an owner/executive lasted 18 months. Frauds committed by managers had a median duration of 16 months.



# What to look for

## Red flags

- Missing or edited journal entries
- Changes in work habits or behaviors
- Refusal to take vacation
- Employee makes unexpected, large purchases
- Missing inventory, equipment or money
- Employee claims larger than normal travel expenses



# Lessons Learned

- ACFE notes
- There is a true need for proactive fraud risk assessments and internal controls reviews.
- CLA notes a need for institutions to understand the internal audit, IT and risk functions in their organizations.
- It is more cost effective to proactively engage forensic services to review and assist with recommendations on how to enhance the policies and procedures based on our best practice experience.





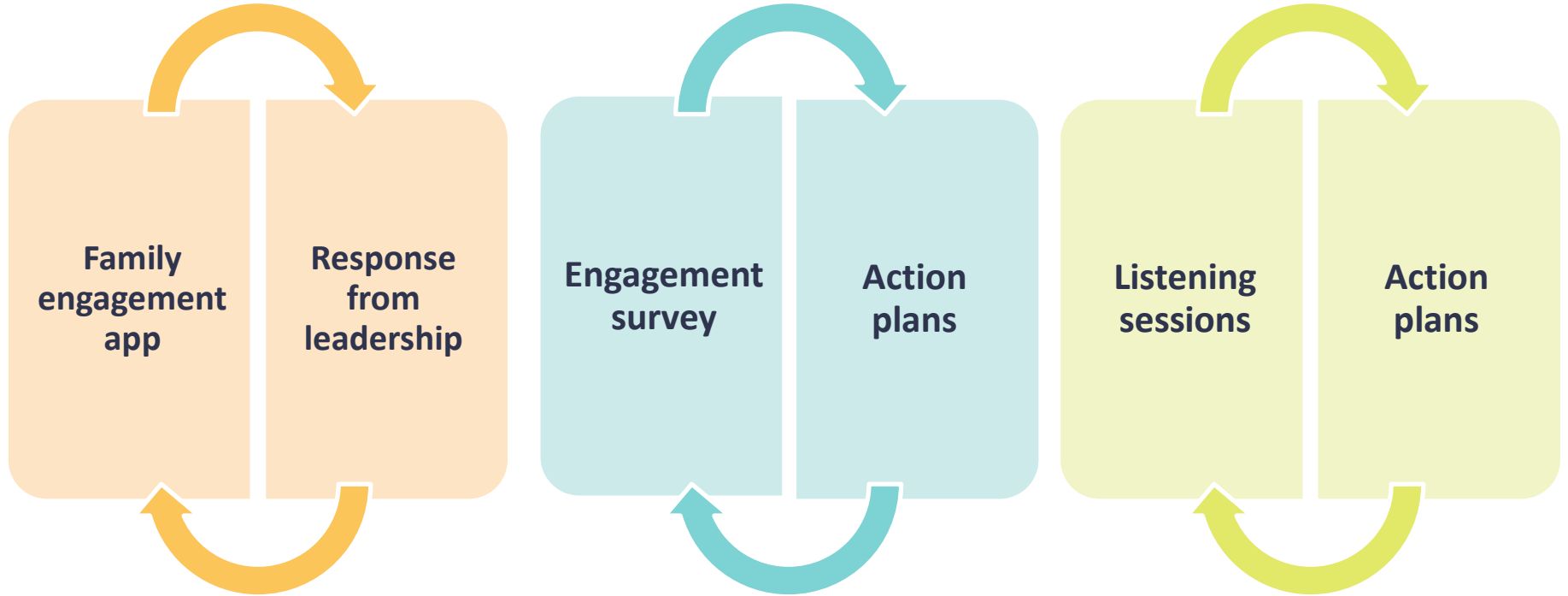
# Intersection of Culture and Risk

Succession

Consistency

Feedback  
Loop

# Feedback Loop: We Listen and *Take Action*



# We Welcome and Care for the Whole Person

Personal and leadership development



Wellness:  
Thrive,  
wellness stipend,  
mental health  
ease of access



Diversity, Equity and Inclusion (DEI)



# *Return to office*

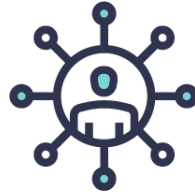
# Better Together Tenets



**Wellness**



**Inclusion**



**Relationships**



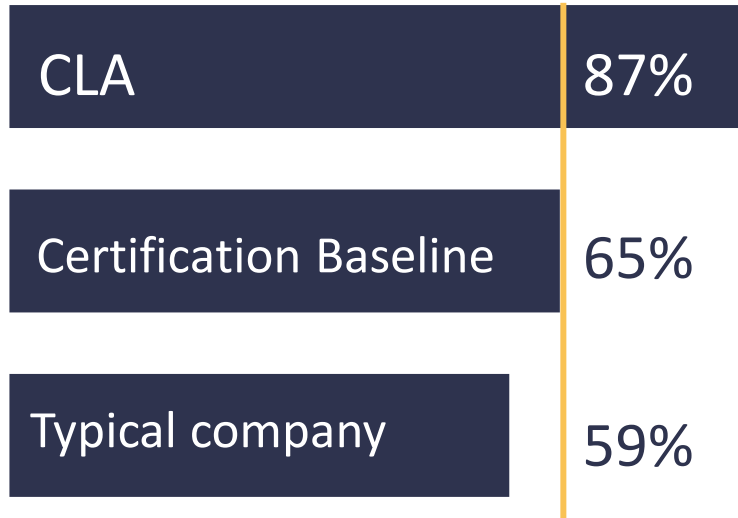
**Vibe**



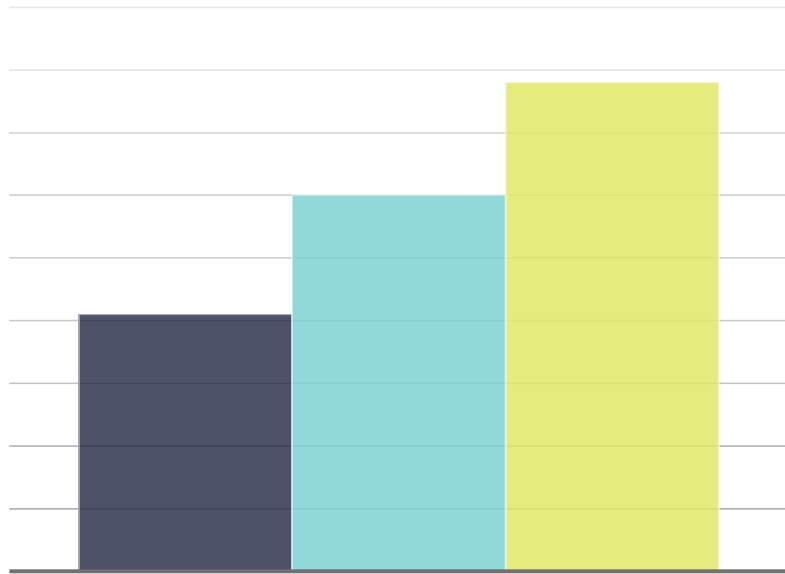
**Development**

*Is it working  
for us?*

# CLA is Certified as a Great Place to Work

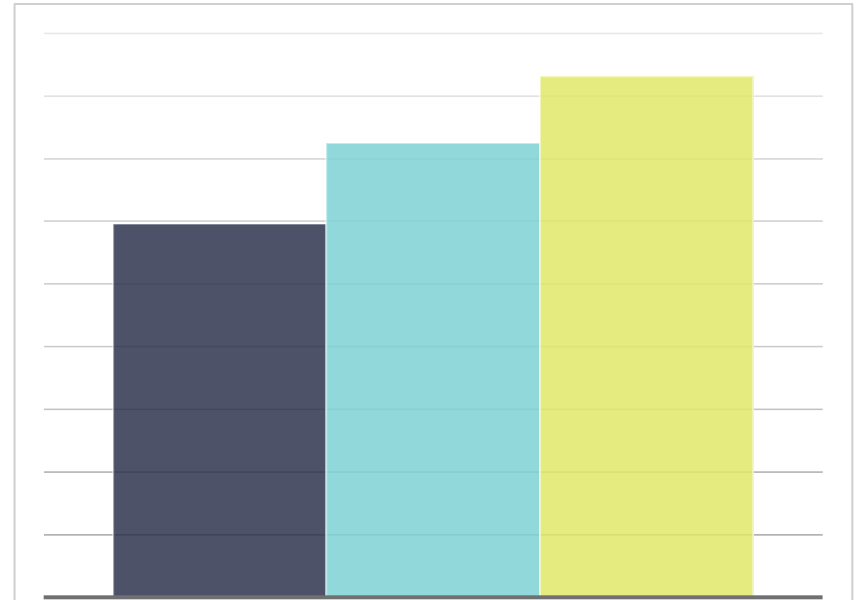


# CLA Results



**% OFFICES > BUDGET**

■ 2020 ■ 2021 ■ 2022



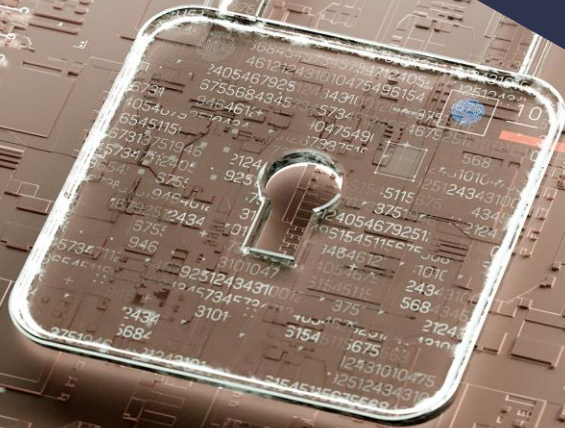
**REVENUE**

■ 2020 ■ 2021 ■ 2022

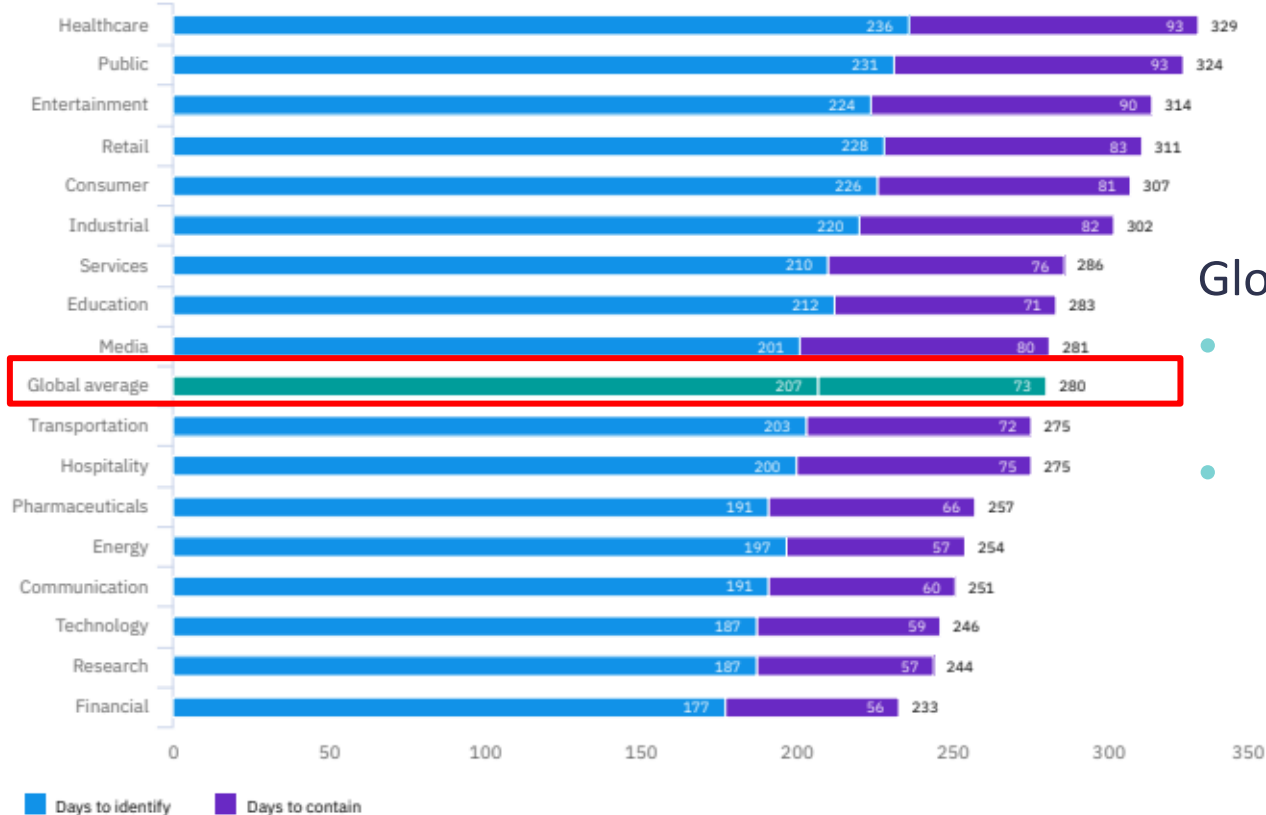




# Cybersecurity



# Average Days to Identify & Contain a Data Breach



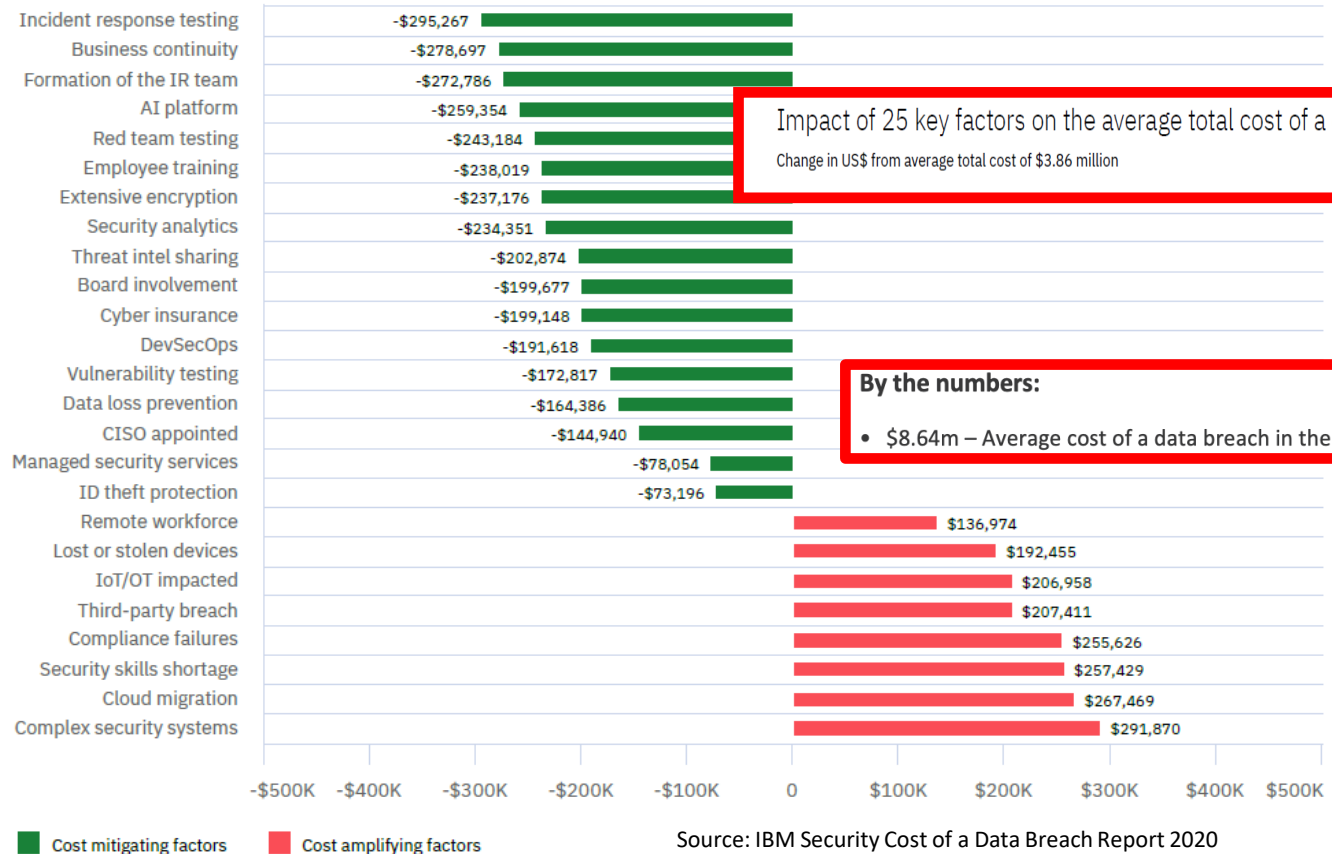
Global average is **280 days**

- **207** days to identify a breach
- **73** days to contain the attack

Source: IBM Security Cost of a Data Breach Report 2020



# Incident Response Preparedness- Cost Savings



Source: IBM Security Cost of a Data Breach Report 2020



- **Never** use your work userid or email address to login to non-work-related accounts
- **Never** reuse passwords
- **Always** use Multi Factor Authentication
- **Always** keep your devices up to date – use auto updates
- Consider identity protection & credit monitoring services
- If you work from home even occasionally, secure your home network!
  - Change your default router password
  - Use a guest network



# ESG

# Global



# Thank you!



CLAconnect.com



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# Cyber Risks and IT Internal Control Strategies





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# Learning Objectives

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

- Recognize the latest current events impacting governments and nonprofits
- Identify how an IT department assessment can help address IT security risks and plan for future security efforts

# Cyber Security Services at CLA

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 (HIPAA, GLBA/FFIEC, NIST, CMMC, CIS, etc.)
- PCI-DSS Readiness and Compliance Assessments (PCI-DSS)
- Incident response and forensics
- Independent security consulting
- Internal audit support



**HITRUST**  
Authorized CSF Assessor



# 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

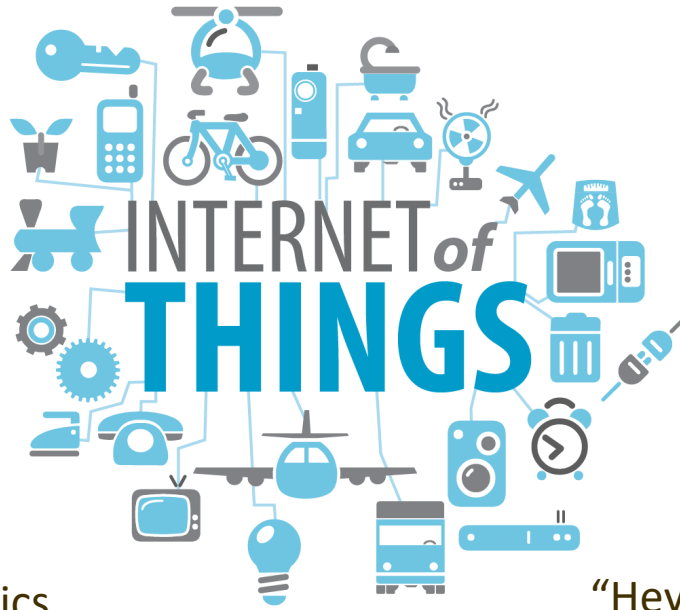




# The Current Threat Landscape

# Raise Your Hand If You Work for a Tech Company

- Security Cameras
- Motion Sensors
- Logistics Tracking
- Print Vendors
- Smart TV Displays
- Temperature and Humidity
- Digital Assistance
- Cloud Applications & Analytics
- Bio-Medical Care & Monitoring
- **“Presence”**



*Are You Prepared?*

Security cameras  
Garage door  
Home thermostat  
Cable TV remote  
Smart TV  
Sleep number bed  
Roomba  
“Hey Siri, what’s my balance?”  
Apple Watch or FitBit  
“Presence”



# 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
    - ePHI, PII, PFI, account profiles, etc.
    - Log-in Credentials
  - Ransomware and interference w/ operations

➤ To the Hackers, we all look the same...

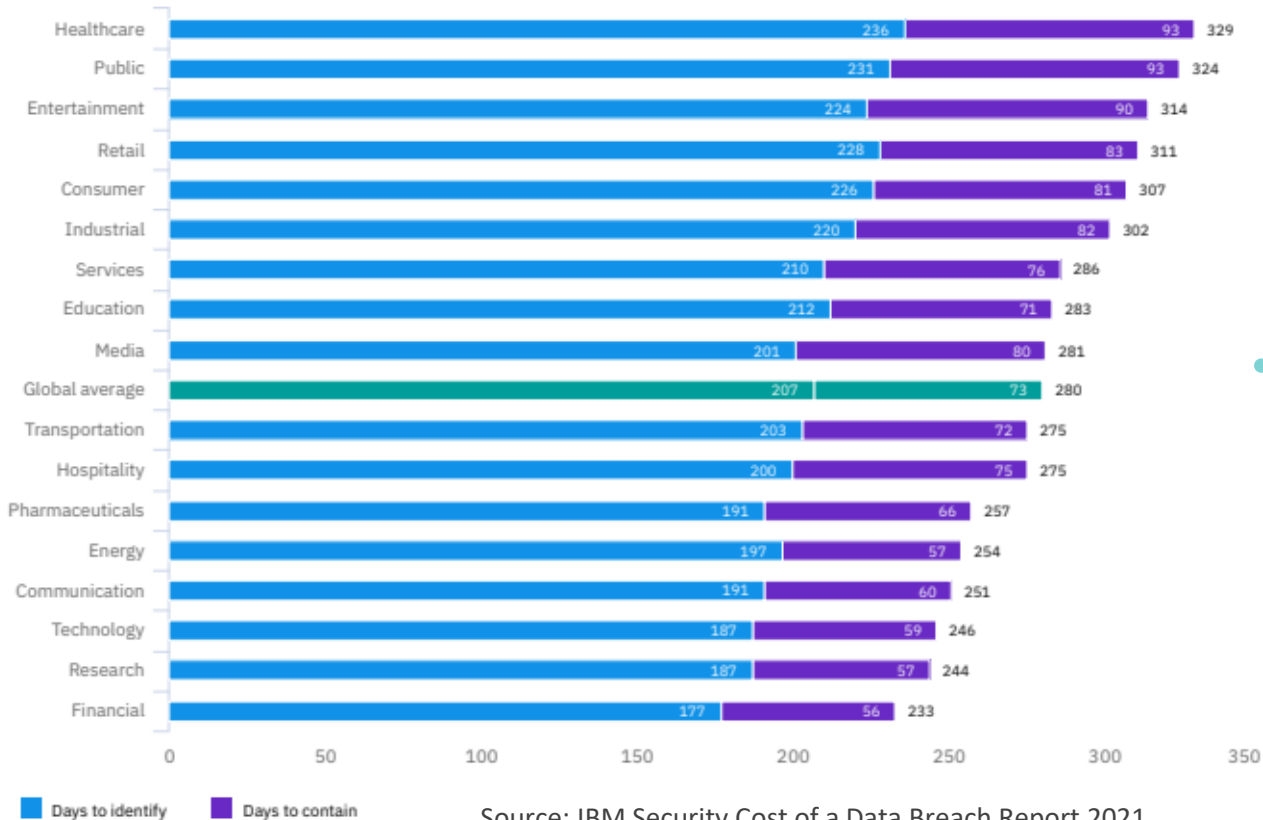


They will hit you with any or all of the following:

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



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

Source: IBM Security Cost of a Data Breach Report 2021



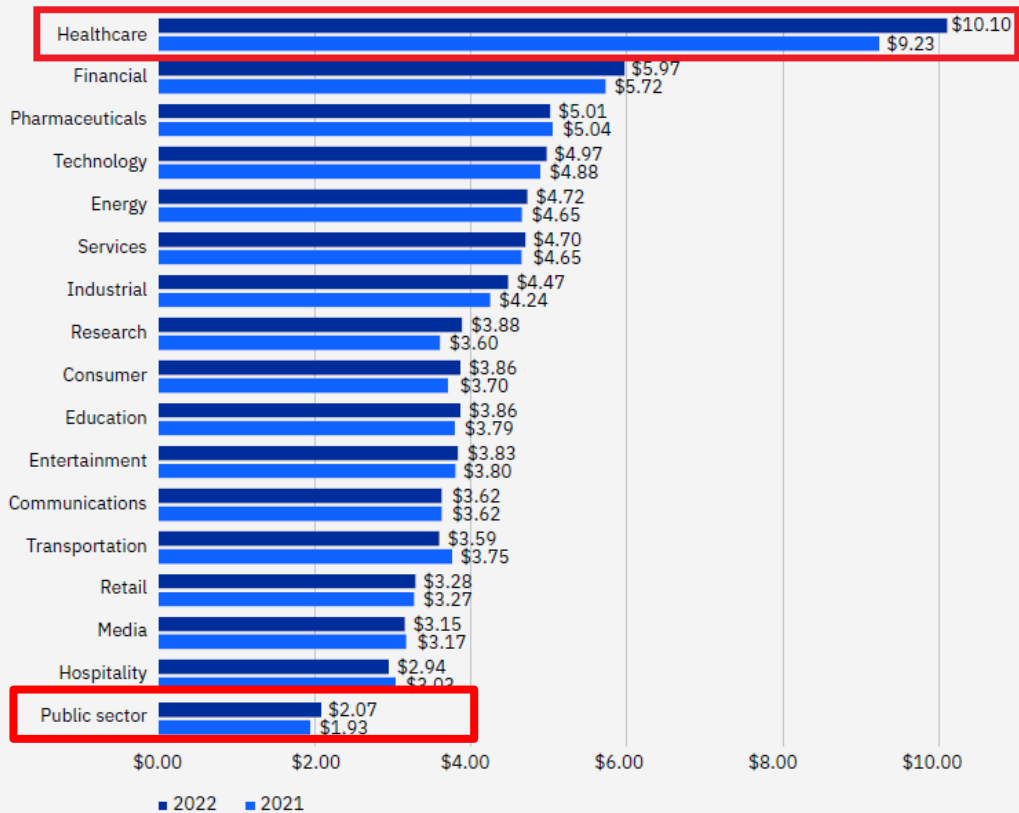


# Behind the Statistics

- ***What are they doing while they are inside???***
  - Learn everything about your institution
  - 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



## Average cost of a data breach by industry



## 2022 IBM Data Breach Study:

What does a breach cost?

Measured in USD millions

Source: IBM Security Cost of a Data Breach Report 2022

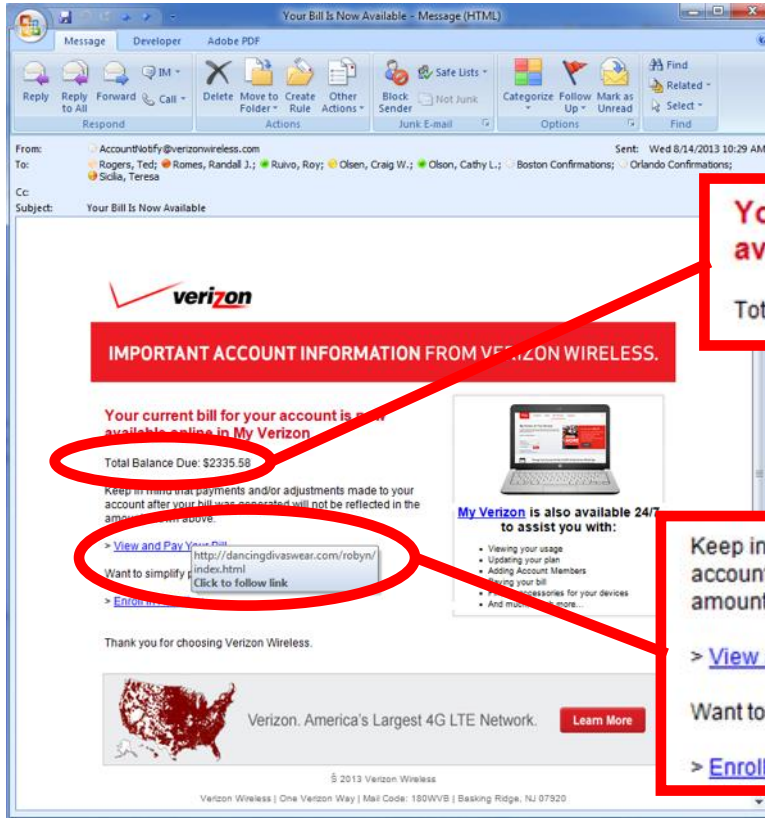




# Email Spear Phishing

The Root Cause For More Than 85% of Breaches

# Spear Phishing



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

Total Balance Due: \$2335.58

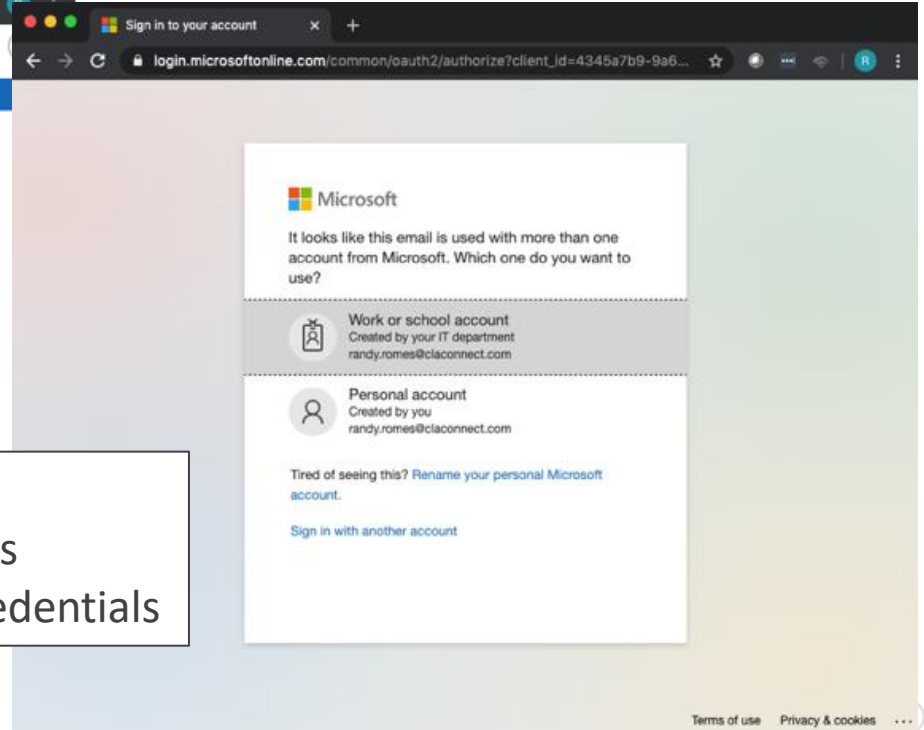
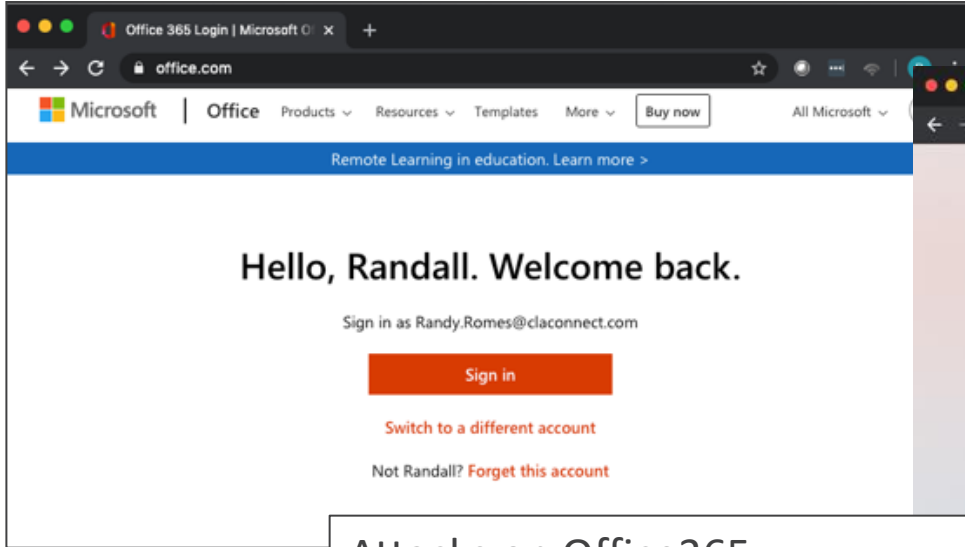
Keep in mind that payments and/or adjustments made to your account after your bill was generated will not be reflected in the amount shown above.

> [View and Pay Your Bill](http://dancingdivaswear.com/robyn/index.html)  
http://dancingdivaswear.com/robyn/index.html  
Click to follow link

> [Enroll in Auto Pay](#)



# Credential Harvesting and Password Guessing:



Attacks on Office365

- Password guessing attacks
- Phishing that harvests credentials

# Business Email Compromise

- Fraudsters impersonate employees, service providers, or vendors via email in an attempt to...
  - EXAMPLE
    - Finance person phished
    - ...gift cards...
    - IT staff “investigated...”
    - IT staff “shut it down”
    - We are good (right?)

## Fw: Commission Payment



o Dwayne Pearse <[dwayne@vendor.com](mailto:dwayne@vendor.com)>

To: o 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 Pearse**  
[dwayne@vendor.com](mailto:dwayne@vendor.com)  
549-555-2232

---

**From:** Dwayne Pearse <[dwayne@vendor.com](mailto:dwayne@vendor.com)>  
**Sent:** Thursday, December 12, 2019 2:15 PM  
**To:** William Bergson <[william@vendor.com](mailto:william@vendor.com)>; Barb Rogers <[barbara@vendor.com](mailto:barbara@vendor.com)>  
**Subject:** FW: Commission Payment

---

**From:** Brian Johnson <[bjohnson@company.com](mailto:bjohnson@company.com)>  
**Date:** Thursday, December 12, 2019 at 2:14 PM  
**To:** Dwayne <[dwayne@vendor.com](mailto:dwayne@vendor.com)>, William Bergson <[william@vendor.com](mailto: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](mailto:bjohnson@company.com)

# Business Email Compromise - Examples

- FOUR EXAMPLES in the last 3 weeks...
- Finance person's email account is compromised....
  - Finance person phished
  - ...gift cards...
  - IT staff "investigated..."
  - IT staff "shut it down"
  - We are good (right?)
- Issues
  - Retention time and data storage limits
  - IT is not equipped to perform incident response



# 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...**







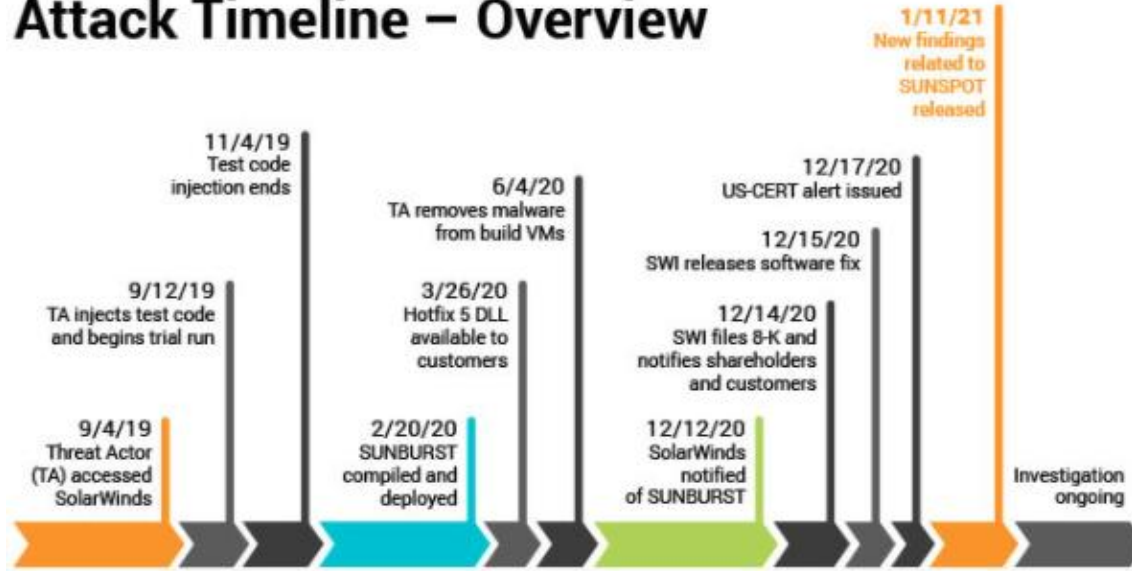
# Attacking the Supply Chain Enterprise Software

SolarWinds Orion and MS Exchange

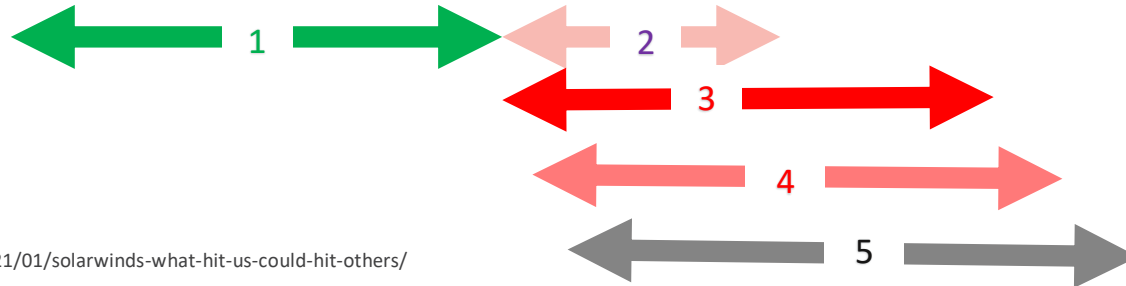
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# Timeline of Events

## Attack Timeline – Overview



All events, dates, and times approximate and subject to change, pending completed investigation.



Krebs on Security

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



# Take-Aways and to-Dos (Ie. on the Fly 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



# 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?
    - What impact does this software have on the institution...
      - If it is hacked/breached?
      - If it is down for... 2 hours? 2 days? 2 weeks? 2 months?



# Take-Aways and to-Dos (I.E., IR)

- Have a plan
  - Incident Response Play Book(s)
  - Disaster Recovery Plan and Procedures
  - Business Continuity Plan supported by Business Impact Analysis
- Know how the vendors fit into and support the plan
  - Service provider responsibility matrix
- Practice the plan
  - Tabletop exercises
  - Live exercises
  - Regularly review and update the Plan(s)





# The Supply Chain Exposing Us Embedded / Open-source Software

Log4j and Other Imbedded Software Components

# Software Vendor/Supply Chain Risk Management

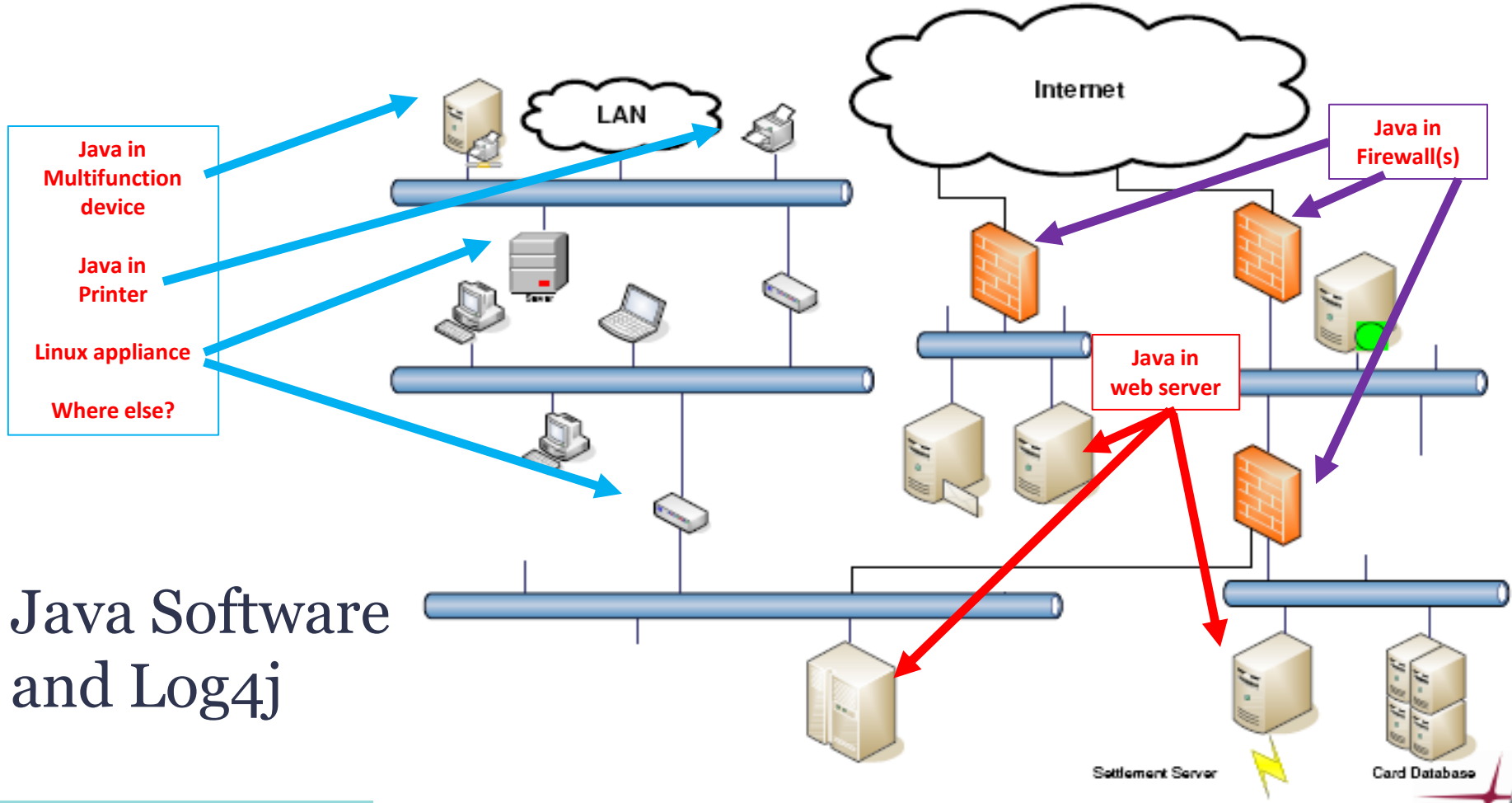
## Recent Significant Issues:

- Common software components with exploitable vulnerabilities.
- Recent examples include
  - “**Log4j**” Java vulnerabilities...
  - **Pkexec** - CVE-2021-4034 (PwnKit)
  - **Python** – CVE-2007-4559
    - September 2022
    - 15-Year-Old Python Flaw Slithers into software worldwide
    - An unpatched flaw in more than 350,000 unique open source repositories leaves software applications vulnerable to exploit.

Google:  
Log4j vulnerabilities



# Java Software and Log4j





# Software Vendor/Supply Chain Risk Management

- Inventory
- Controlled use of Administrative Access
- Secure Standard Builds
- Vulnerability Management
- Logging, Monitoring and Alerting
  
- Vulnerable API Interfaces and Web Services





# Interference With Operations & Extortion

Ransomware is not going away...

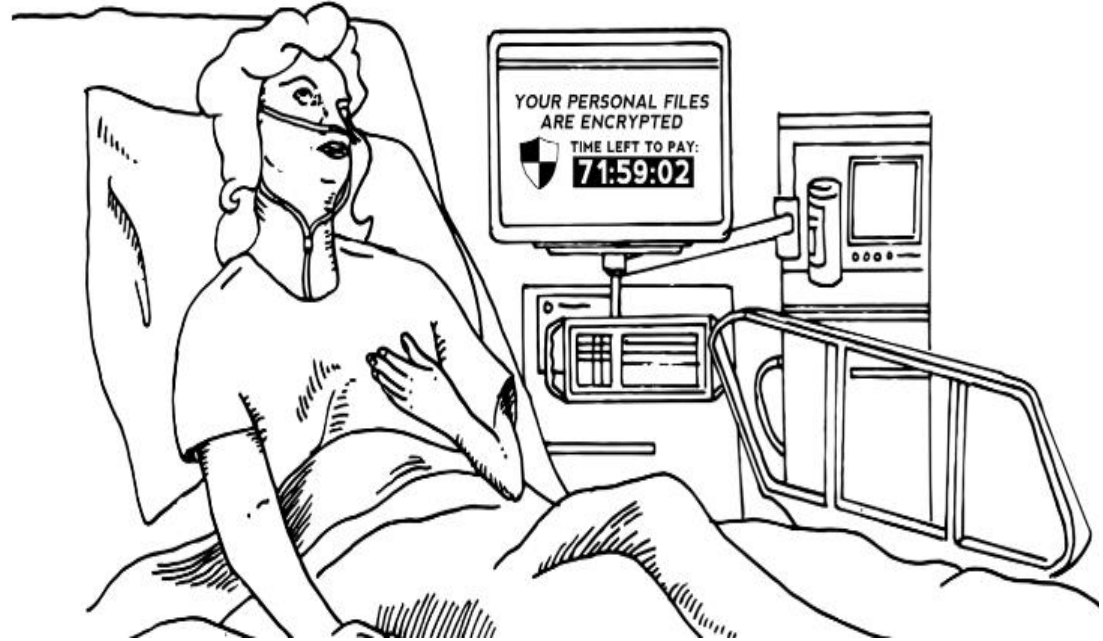
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# Ransomware

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

## Hospital ransomware: A chilling wake-up call

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



# Ransomware

## Jackson County government gives in to hackers and pays \$400,000

Paying up is cheaper than the alternative

By [Isaiah Mayersen](#) on March 10, 2019, 11:27 AM | [20 comments](#)



**Recap:** A little over a week ago government computer systems in Jackson County, Georgia were hit with one of the most sophisticated ransomware attacks attempted in the US. After a week with their entire computer and internet network down, they've decided to cough up \$400,000 to regain control of their systems and to retrieve stolen files.

Employees first noticed that government computers, websites and even email addresses had stopped functioning sometime on March 1. While fortunately 911 emergency calls were still operational, every internet connected device was inoperable and it is possible that the hackers were able to steal police and county records, too.

"Everything we have is down," Sherriff Janis Mangum told [StateScoop](#). "[But] we've continued to function. It's just more difficult."



# Ransomware

## BOS chairman speaks about the county cyber attack

By Staff Reporter May 6, 2019 0



File photo



**IMPERIAL COUNTY** — "We apologize for the inconvenience and disruption associated with the recent cyber-attack," Board of Supervisor chair Ryan Kelley said in a recent press release.

The Imperial County network is operational, Kelley went on to say, and communications have been restored. A few information systems are experiencing hiccups that are being addressed daily.

"Believe me, we are not keeping secrets from the public," Kelley said in the release. "At the advice of our cyber security firm in consultation with our insurance carrier, we did not share the ransom demand amount nor the ransom attack details. Once we made a decision to rebuild, we did not want the hackers to know and potentially cause further damage."

Kelley said it was safe to reveal the details of the ransom, saying the hackers demanded over \$1.2 million dollars in bitcoin for a keycode to defragment the information. The ransom payment would require the same network rebuilt as being completed today to ensure the hacker group no longer had access to county systems. The release said the estimated cost of this option was \$4 million.

"Our board decided to not pay the ransom demand and, instead, rebuilt our network," Kelley said in the release. "To date, the County of Imperial has expended \$1.4 million dollars to rebuild the network, and additional costs are expected. The release said insurance coverage will provide reimbursement for the majority costs associated with the rebuild.

Over the past two weeks, federal law enforcement was able to share the Imperial County ransomware attack with other public and private agencies across the country, per the release. The county said it has released information when possible with the main purpose of protecting Imperial County from any additional attacks and any other agencies being targeted by this group.

"We have identified the county computer that initiated the spread of this attack; however, there is no need to identify the individual," Kelley said in the press release. "It is not fair to the individual or county employees to single out an individual for a sophisticated attack that could fool any of us."

The county said that the information services unit, in collaboration with specialized assistance, have done exceptional work to bring the county network back to the public and county employees. The unit has installed firewalls and intrusive detection systems to block any additional intrusions and will continue monitoring the system. In addition, Imperial County Information Services is building a training platform for staff education and identifying malicious emails.



# Ransomware Attacks Continue to Evolve

- Earliest versions attack consumer availability
- 2<sup>nd</sup> 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**



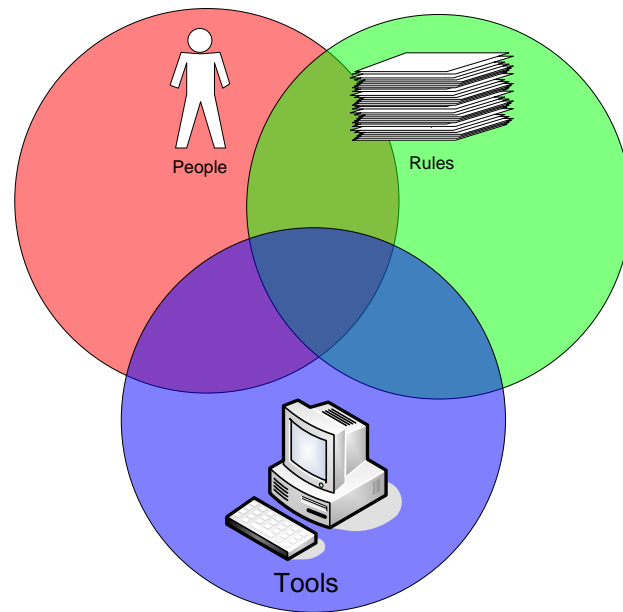


# Standards Based Operations

“People, Rules, and Tools”

# 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:
  - HIPAA, GLBA, (State Laws?) ----- *Regulatory*
  - PCI – DSS, CMMC ----- *Contractual*
  - CIS Critical Controls, NIST ----- *Operational standards*





## 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



← → ↻ ciscurrency.org/cis-benchmarks/ 🔍 ☆ ⚙️ 🌐 🏠

# CIS Benchmarks™



JORDAN KAMOSKE  
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.

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[Register for the Webinar](#)  
 Thu, Nov 4, at 1:30pm EDT  
 Tue, Nov 16, at 11:00am EDT

[CIS Benchmarks FAQ](#)

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## CIS Benchmarks

Checklists and How-to guides for just about everything

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

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

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

Cloud Providers	<b>Alibaba Cloud</b> Expand to see related content ↓	<a href="#" style="background-color: #70ad47; color: white; padding: 5px 10px; text-decoration: none;">Download CIS Benchmark →</a>
Operating Systems	<b>Aliyun Linux</b> Expand to see related content ↓ Linux	<a href="#" style="background-color: #70ad47; color: white; padding: 5px 10px; text-decoration: none;">Download CIS Benchmark →</a> <small>Build Kit also available</small>
Operating Systems	<b>Amazon Linux</b> Expand to see related content ↓ Linux	<a href="#" style="background-color: #70ad47; color: white; padding: 5px 10px; text-decoration: none;">Download CIS Benchmark →</a> <small>CIS Hardened Image and Build Kit also available</small>
Cloud Providers	<b>Amazon Web Services</b> Expand to see related content ↓	<a href="#" style="background-color: #70ad47; color: white; padding: 5px 10px; text-decoration: none;">Download CIS Benchmark →</a>
Server Software	<b>Apache Cassandra</b> Expand to see related content ↓ Database Server	<a href="#" style="background-color: #70ad47; color: white; padding: 5px 10px; text-decoration: none;">Download CIS Benchmark →</a>



# 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.
- **Logging is based on license level.**

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Microsoft 365 | Solutions and architecture | Apps and services | Training | Resources

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

## 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		✓



# Operational Discipline

- Disciplined change management
- Consistent exception control and documentation
  - Should include risk evaluation and acceptance of risk
  - Risk mitigation strategies
  - Expiration and re-analysis of risk acceptance



# Passwords

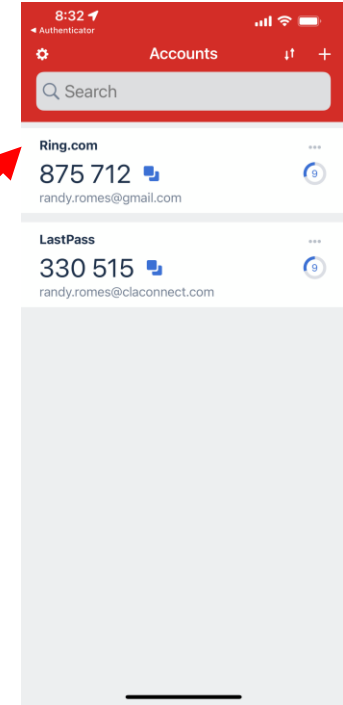
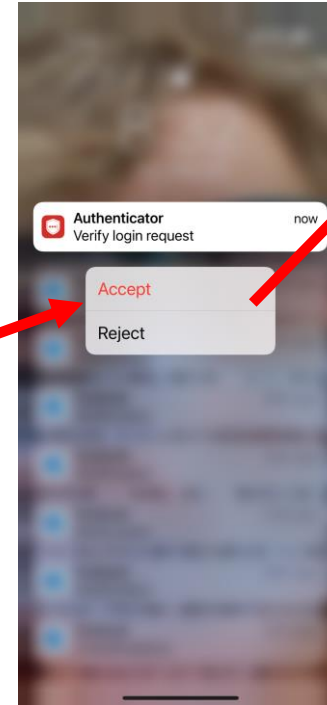
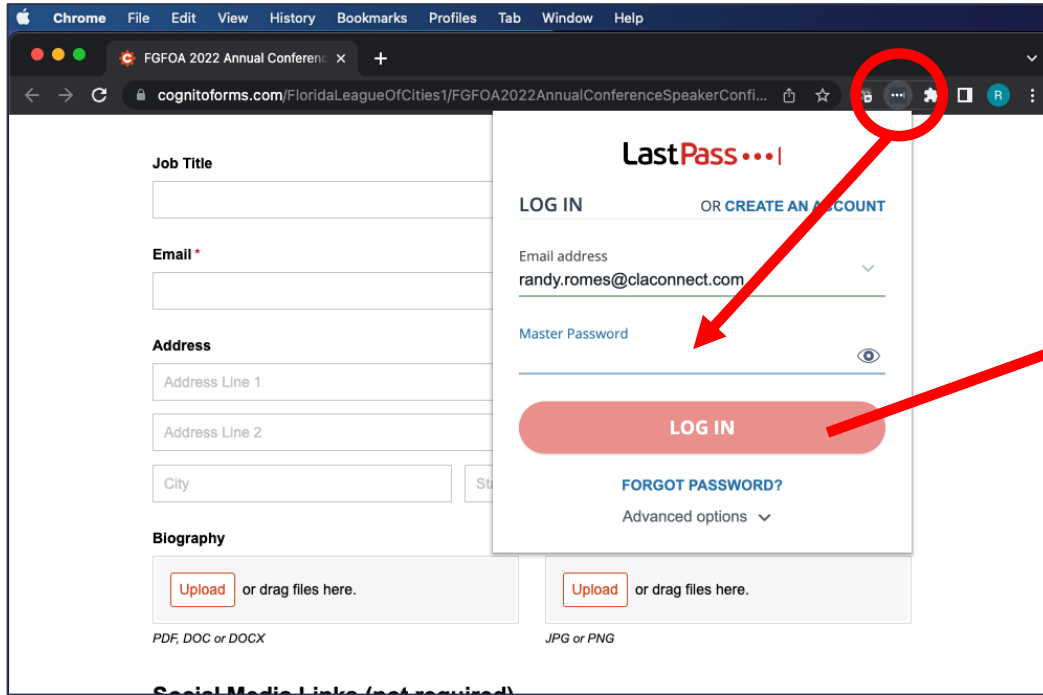
- Old Rules (NIST – 2005?)
  - Length (8+ characters)
  - Complexity (Aa4@)
  - Forced expiration (every\_\_\_\_\_)
- New Guidance (NIST – 2018?)
  - Looooooooong Passwords
  - No expiration
  - Especially important for administrative accounts (CIS 4)

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
<b>Passwords that were a word with numbers appended to it</b>	<b>200</b>
Passwords that were the same as the username	6
Passwords that do not meet Windows complexity	584



# Password Strategies:

➤ Password tools: MFA and Password Managers are needed



# Password Strategies:

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

*Password21* <----- **Unforgiveable!**

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

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

Wallet Painting lamp <-- **GOOD**

**The Packers always beat the Bears! ← BEST**

- Audit your passwords



# Disaster Recovery & Business Continuity

- Inventory of assets and results of risk assessment are crucial
  - Hardware and software
  - Critical data elements (“the crown jewels”)
    - Data Retention policies and standards
    - Where is the data (if we know where it is, we know where to apply controls)
  - Critical business processes
- **Business impact analysis** with definition of recovery point objectives
  - This is another name for a specialized type of risk assessment
  - Defines priority for restoration
- Disaster Recovery is periodically practiced
  - Need to make sure it works the way you expect





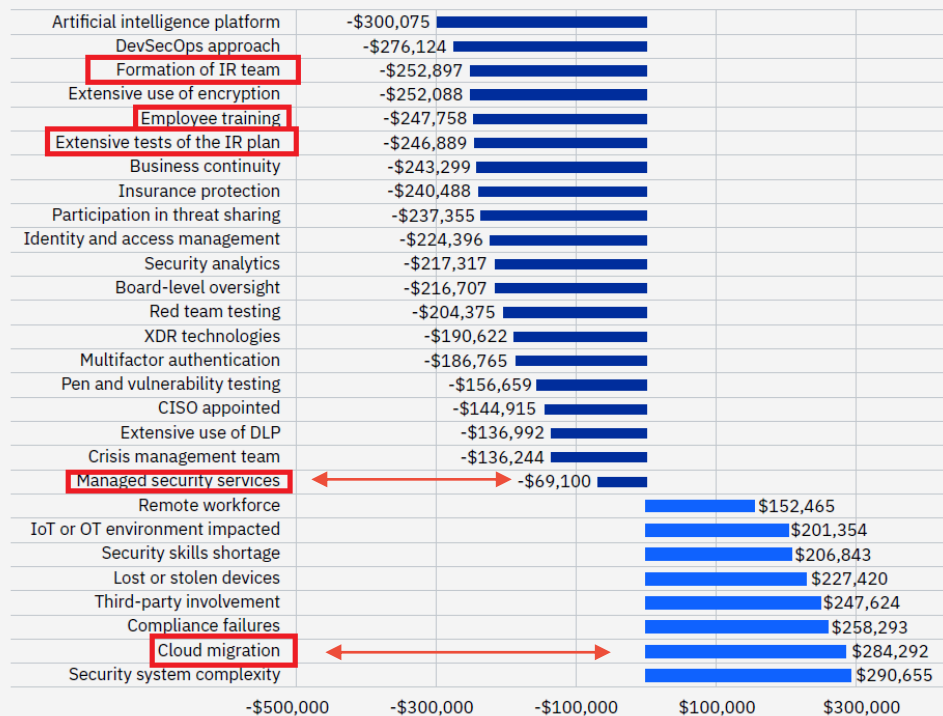
# Practice the Plan

- 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 key factors on the average total cost of a data breach



The impact of 28 factors on the average cost of a data breach

\$4.35 Million – The average cost of a data breach in the US



Measured in USD

Source: IBM Security Cost of a Data Breach Report 2022





# Boy Scouts Motto: Be Prepared...

Prepare

Operate

Test

- Standards Based Operations and Exception Management  
*Daily Operational DNA*
- Regular/periodic risk assessment:  
*Daily Business as Usual*
- 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
  - Test new systems and after significant change*PROVE IT*





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*We'll get you there.*

CPAs | CONSULTANTS | WEALTH ADVISORS

# Twenty Minute Break



*We'll get you there.*

CPAs | CONSULTANTS | WEALTH ADVISORS

# Grants Management: Current Events and Best Practices

Allison Slife and Molly Quinn



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# Learning Objectives

- At the end of the session, you will be able to:
  - Identify lessons learned and success stories that can be applied to future programs
  - Discuss the latest guidance for the American Rescue Plan Act of 2021 and other federal grant programs







# The Importance of Effective Grant Compliance

# Grant Lifecycle: The Entire Process of a Grant



# Effective Grant Compliance

Effective grant compliance relies on having:

An in-depth understanding of the grant requirements

Proper policies and procedures in place

Strong internal controls

Resources and personnel



# Grant Compliance Responsibility





# Grants Management Best Practices

# Grants Compliance

Read through  
grant  
agreement for  
terms and  
conditions

Read through  
Uniform  
Guidance &  
OMB  
Compliance  
Supplement

Obtain Proper  
Training



# Checklists

Develop checklists for all aspects of the grant process, such as:

Procurement

Grant application process

Preparation for the single audit

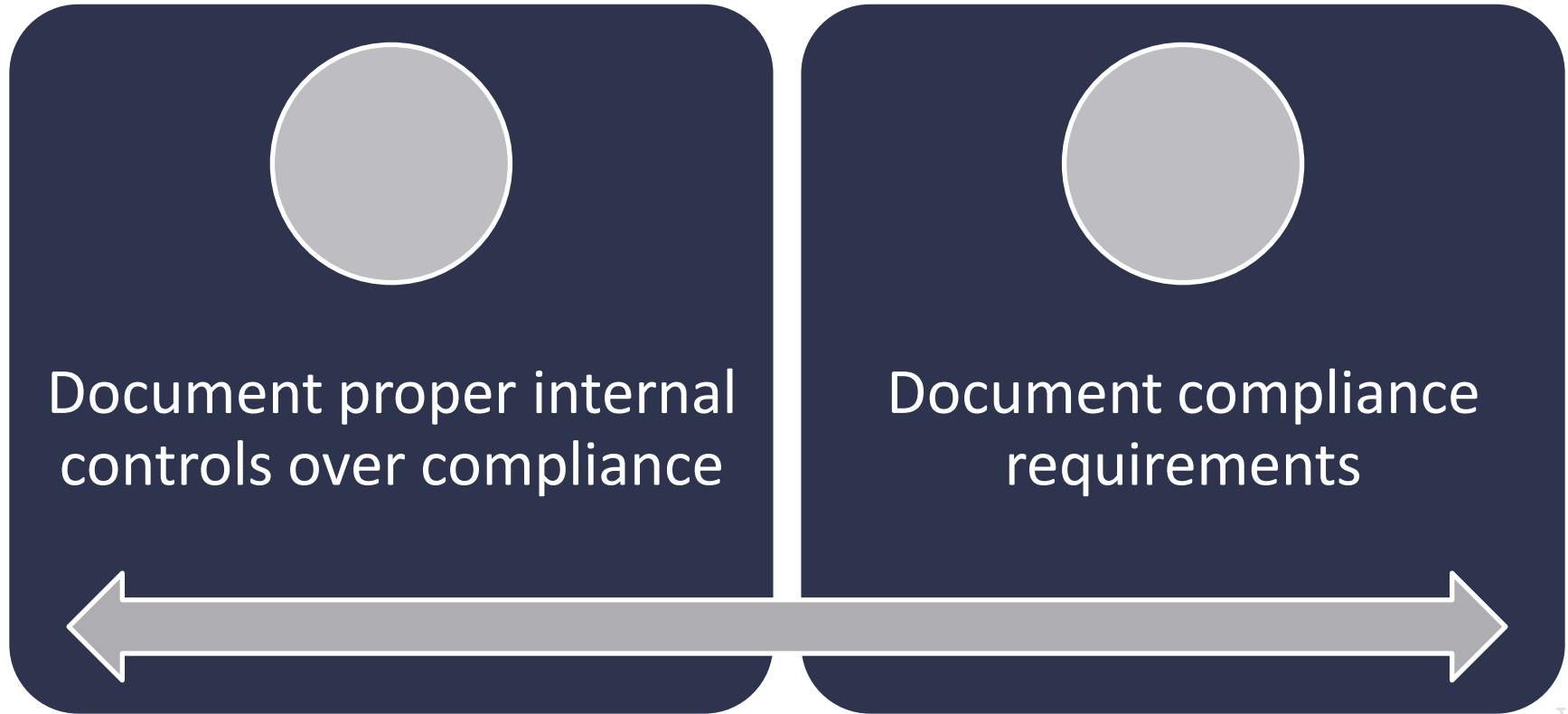
Subrecipient risk assessment and monitoring

Submission of financial and program reports

Grant close-out

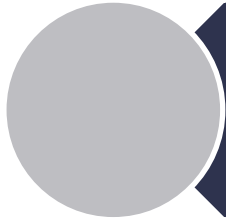


# Policy Review and Revisions

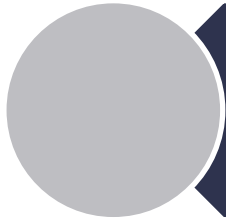




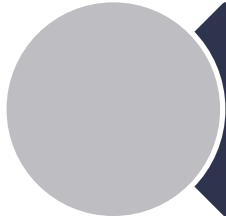
# Policy Review and Revisions



Designate key individual or team to monitor your policies over federal programs.



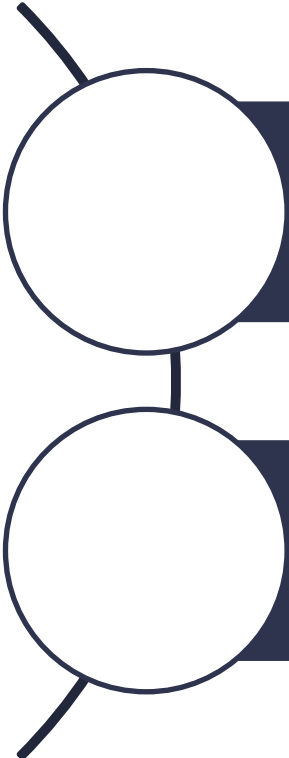
Regularly review policies for compliance and educate employees on changes to policies. Encourage open dialogue regarding questions and decision making.



Make sure policies are easily accessible for all employees involved and they know that they are responsible for reviewing these.



# Documentation is your friend



Retain documentation throughout the year supporting any judgments on why a cost was reasonable, allocable, allowable and necessary

Prepare a summary sheet for each award with all pertinent information (award period, amount, matching provisions and any special terms and provisions) for your program and accounting staff



# Schedule of Expenditures of Federal Awards (SEFA) Tips & Completeness

# Schedule of Expenditures of Federal Awards (SEFA)

## Assistance Listing Number

- Replaces Catalog of Federal Domestic Assistance (CFDA) Number

## Clusters

- Include sub-total for the cluster

## Pass-Through Grants

- Identify pass-through agency
- Include identification number

## Totals

- Total by Assistance Listing Number
- Total by Federal agency

## COVID-19 Awards

- Must be separately identified



# SEFA Presentation

Example: Assistance Listing No. 14.218 Community Development Block Grant with COVID-19 funding and regular entitlement funding.

Presentation would be as follows:

<u>Federal Grantor/Pass through Grantor/ Program or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
<b><u>Federal Awards</u></b>				
<b>U.S. Department of Housing and Urban Development</b>				
COVID-19 Community Development Block Grant	14.218		\$ 1,000,000	\$ -
Community Development Block Grant	14.218		3,000,000	500,000
Total Community Development Block Grant			<u>\$ 4,000,000</u>	<u>\$ 500,000</u>

COVID-19 notations should also be included in the Data Collection Form.



# Common SEFA Errors to look out for

- COVID programs not properly identified or separated
- New programs missing
- SEFA does not tie to financial statements – may contain mathematical errors
- Non-monetary programs not properly reported
- Formatting issues



# Properly Formatted SEFA Example

ORGANIZATION NAME  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2021

Federal Agency/Program/Cluster	Assistance Listing Number	Pass-Through Entity	Pass-Through / Grantor Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>Department of Commerce</b>					
Coastal Zone Management Estuarine Research Reserves	11.420	Department of Natural Resources	P06-PY20-A-432	\$ 890,000	\$ 890,000
<b>Total Department of Commerce</b>				<u>890,000</u>	<u>890,000</u>
<b>Department of Defense</b>					
Community Economic Adjustment Assistance for Advance Planning and Economic Diversification	12.614	Economic Recovery Center	436799	375,000	375,000
<b>Total Department of Defense</b>				<u>375,000</u>	<u>375,000</u>
<b>Department of Labor</b>					
WIOA Cluster					
WIOA Adult Program	17.258	N/A		458,800	355,450
WIOA Adult Program	17.259	State Department of Labor	P00P94-SQ-PY18-Y, P06-SQ-PY19-Y	255,000	27,555
Dislocated Worker Formula Grants	17.278	State Department of Labor		700,050	625,380
WIOA Cluster total				<u>1,413,850</u>	<u>1,008,385</u>
<b>Total Department of Labor</b>				<u>1,413,850</u>	<u>1,008,385</u>
<b>Department of Treasury</b>					
COVID-19 - Coronavirus Relief Fund	21.019	Department of Budget	2050-2021-A45	2,675,000	-
<b>Total Department of Treasury</b>				<u>2,675,000</u>	<u>-</u>
<b>Department of Housing and Urban Development</b>					
Housing Voucher Cluster					
Section 8 Housing Choice Vouchers	14.871	N/A		58,000	-
Mainstream Vouchers	14.879	N/A		178,000	-
Housing Voucher Cluster total				<u>236,000</u>	<u>-</u>
CDBG Entitlement Grants Cluster					
COVID-19 - Community Development Block Grants/Entitlement Grants	14.218	N/A		313,094	-
Community Development Block Grants/Entitlement Grants		N/A		466,657	-
Total Community Development Block Grants/Entitlement Grants				<u>779,751</u>	<u>-</u>
CDBG Entitlement Grants Cluster total				<u>779,751</u>	<u>-</u>
<b>Total Department of Housing and Urban Development</b>				<u>1,015,751</u>	<u>-</u>
<b>Total Expenditures of Federal Awards:</b>				<u>\$ 6,369,401</u>	<u>\$ 2,173,385</u>





# Procurement Requirements per the Uniform Guidance – Key Reminders



# Must vs. Should

When the Uniform  
Guidance References:

MUST = Requirement

SHOULD = Best Practice,  
Suggestion,  
Recommendation



# 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

# I – 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.



# Suspension and Debarment

Checks for contracts over \$25,000 should be made on the EPLS site – ([www.sam.gov](http://www.sam.gov))



Or add in the clause in the procurement contract



Keep documentation



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



# Procurement Records (200.318(I))

For ALL procurements:

- 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



# 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.

---



# §200.320 Methods of Procurement (5 methods)

Method	Dollar Threshold
Micro-purchase	Not to exceed micro-purchase threshold (\$0 - \$10,000)
Small purchase procedure	Greater than micro-purchase, not to exceed the Simplified Acquisition Threshold (\$10,001 - \$249,999)
Sealed bid	Greater than the Simplified Acquisition Threshold (\$250,000 and greater)
Competitive proposal	Greater than the Simplified Acquisition Threshold (\$250,000 and greater)
Noncompetitive proposal (Sole Source)	Greater than micro-purchase threshold (\$10,000 and greater)







# Subrecipient vs. Contractor Determination

# Subrecipient Monitoring and Management (200.330-332)



Subaward is for the purpose of carrying out a portion of a federal award and creates a federal assistance relationship



Subrecipient: determines eligibility, has performance measured in relation to objectives of program, has responsibility for programmatic decision making; and uses the Federal funds to carry out a program for a public purpose



# Subrecipient Monitoring and Management (200.330-332)



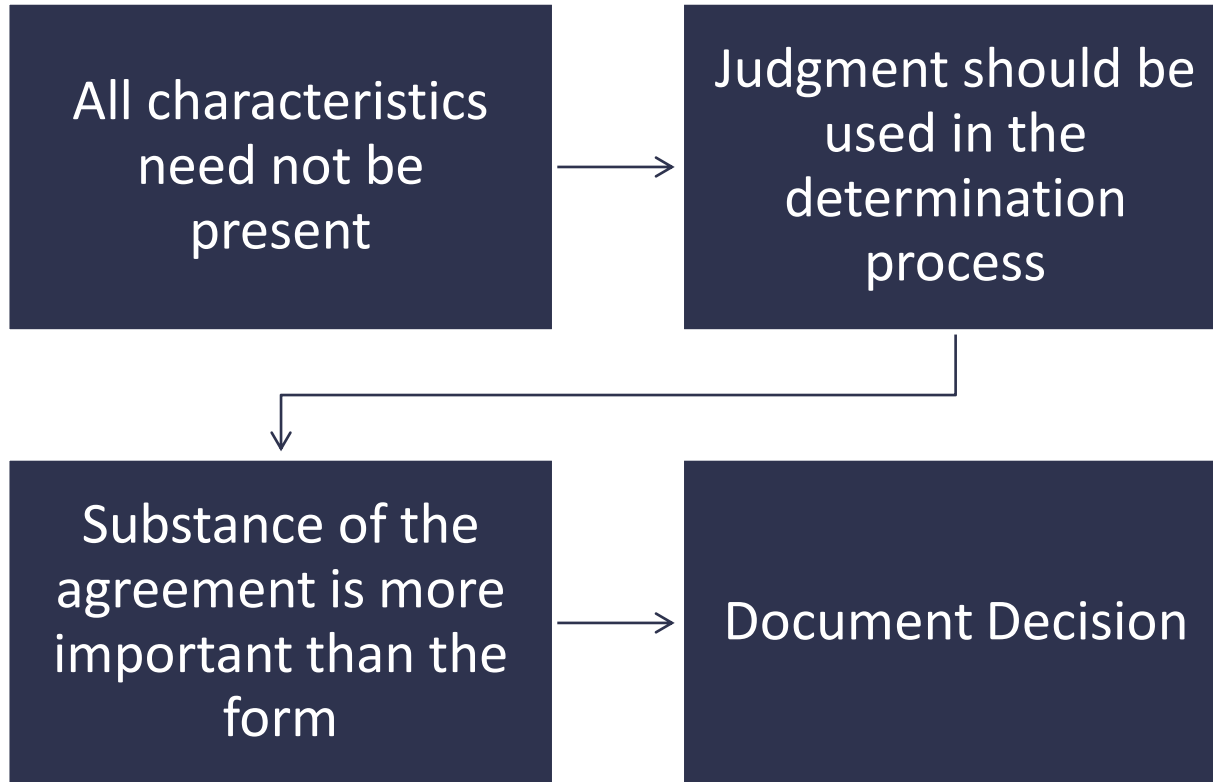
Contract is for the purpose of obtaining goods and services for the non-federal entity's own use and creates a procurement relationship



Contractor: Provides the goods and services normally, provides similar goods or services to many different purchasers; provides goods or services for the benefit of the pass-through entity



# Subrecipient/Contractor Determination





# Common Single Audit Findings

# Procurement

- Inadequate support for sole source vendor
- Lack of supporting documentation in the vendor file
- Lack of documentation to support contractor's suspension and debarment status



## PROCUREMENT CHECKLIST

To comply with CLIENT NAMESs 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:**

- Adequate price competition
- Catalog/market pricing
- Historical pricing
- Other. \*
- Comparison to similar items \*
- Cost/benefit analysis \*
- Award specifically identifies

\* 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?*

- Small
- Minority
- Women-owned
- 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: \_\_\_\_\_





# Subrecipient Monitoring

Subaward does not contain required information



Subs are not monitored timely



Lack of written procedures over subrecipient process



Inadequate monitoring documentation maintained



Lack of proper identification of noncompliant subrecipients and noncompliance remedies



# Time and Effort

Lack of written procedures for budgetary reporting of time and effort process

Lack of documentation to support allocation of hours/pay (COVID-19)

Lack of documentation to support adjustments to employee hours charged to the grant



# Internal Control

Internal control structure is not documented or consistently performed

Lack of written procedures

Lack of documentation to support review and approvals (electronic process)





# ARPA CSLFRF Updates

# American Rescue Plan Act (ARPA) Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)

- \$1.9 Trillion Covid Aid Bill. Signed into law on March 11, 2021
- Final Rule took effect on April 2022
- Period of Performance: Funds must be used for costs incurred on or after March 3, 2021, funds must be obligated by December 31, 2024, and expended by December 31, 2026
- <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds>



## Support Public Health Response

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



## Replace Public Sector Revenue Loss

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



## Water and Sewer Infrastructure

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



## Address Negative Economic Impacts

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



## Premium Pay for Essential Workers

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

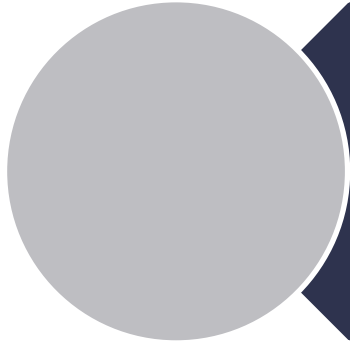


## Broadband Infrastructure

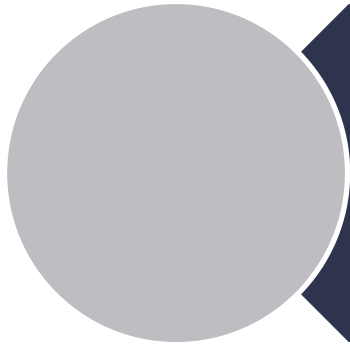
Make necessary investments to provide unserved or underserved locations with new or expanded broadband access



# ARPA SLFRF Update: “ARPA Flex”



In Dec. 2022, Congress passed the final 2023 budget through the Consolidated Appropriations Act of 2023, which included a significant provision to make the SLFRF program more flexible, “ARPA Flex”



## What’s changing:

- Treasury has decided to keep the Standard Allowance election (of up to \$10M, not to exceed the award allocation) portion of the reporting portal open for recipients through April 2023, which will permit recipients to update their prior revenue loss election.



# ARPA SLFRF Update: “ARPA Flex” (continued)

The ARPA Flex provision provides additional flexibility for states, tribes, and local units of government to spend up to \$10 million or 30% of the total ARPA funds received on the following newly eligible SLFRF grant expenditures:

- **Emergency relief from natural disasters**, including temporary emergency housing, food assistance, financial assistance for lost wages, or other immediate needs.
- **Transportation infrastructure** eligible projects and matching funds.
- Any program, project, or service that would also be eligible under HUD’s **Community Development Block Grant program**.

CAUTION: The U.S. Department of Treasury was expected to finalize these changes in February and issue more guidance, but we still haven’t seen this...we advise to wait for the guidance for any major decision making or changes to your ARPA spending plans.

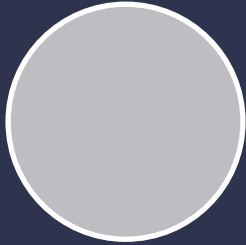
Some recent articles & resources:

<https://www.naco.org/resources/featured/legislative-analysis-counties-state-local-tribal-and-territorial-fiscal-recovery>

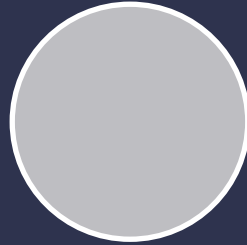
<https://www.nlc.org/article/2023/01/13/congress-gives-cities-more-flexibility-for-recovery-funds/>



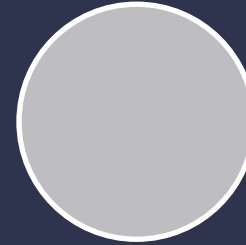
# Subrecipient vs. Beneficiary vs. Contractor – Common Issues with CSLFRF



Subawards usually are silent about whether the entity receiving the funds is a subrecipient, beneficiary, or contractor



Subaward originally states that the entity is a subrecipient and then the Pass-Through-Entity (PTE) informs the entity (sometimes much later) that it really is a beneficiary (or vice versa)




Subaward states that the entity is a subrecipient, but the entity believes it is really a beneficiary based on the facts and circumstances





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



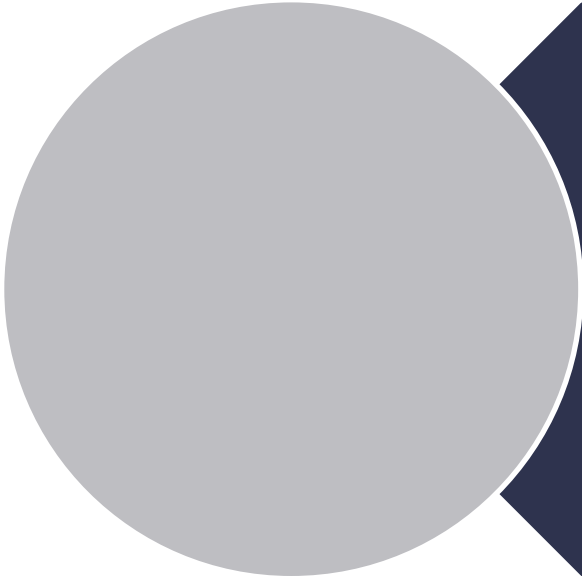
Auditees should go back to PTE to make the determination if none has been made

Auditees should get something in writing form from the PTE, especially if the PTE is changing the designation such that the potential exists for the wrong major program to be tested or affect whether a single audit is even required

If the PTE does not provide the designation or tells the auditee to make designation – review auditee’s analysis • Documentation of the process and conclusion reached is critical for both auditees and auditors



# Another Quick Federal Grant Update



## DUNS is done!

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



# Resources and Links

- CLA's State and Local Government website:  
<https://www.claconnect.com/en/industries/state-and-local-government>
- CLA's Nonprofit website:  
<https://www.claconnect.com/en/industries/nonprofit-overview>
- CLA's Higher Education website:  
<https://www.claconnect.com/en/industries/education-overview>
- 2 CFR Part 200, Uniform Guidance, link:  
<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200>
- Treasury's website for COVID-19 related programs:  
<https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments>





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create opportunities —  
for our clients, our people,  
and our communities.

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# Lunch and networking



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# GASB Update



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# Learning Objectives

- Describe provisions of recent GASBs and the implementation impact on financial reporting and disclosures
- Identify GASB projects on the horizon







# GASB 96 – Subscription-Based Information Technology Arrangements

# 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, alone or in combination with tangible IT assets
- SBITA is accounted for as a right-to-use subscription asset (capital 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, Public-Private and Public-Public Partnerships (PPP)
- Any licensing arrangements providing the entity a perpetual license to use a vendor's computer software
- Short-term SBITAs



# Common SBITAs

- Enterprise Resource Planning (ERP) systems
  - SAP, Oracle, Microsoft Dynamics 365, etc.
- Microsoft Office 365
- Cloud Computing Services
- Data storage and backups
- Educational software (School Districts)
- Licensing and Permitting, Sales Tax (Municipalities)
- Hosted websites



# Common Exclusions

- Annual software agreements (short-term)
- One-time purchase software agreements (perpetual)
- Immaterial software agreements
- IT Support Services agreements



# Similarities with Leases Under GASB 87

- Determination of Term
- Treatment of Optional Terms
- Short-term exclusion ( $\leq 1$  year)
- Incremental Borrowing Rate
- Net Present Value Calculations
- Full Accrual Asset and Liability
- Principal and Interest Payments
- Accrued Interest
- Included in capital asset footnote with separate caption
- Treatment and Disclosure of Variable Payments
- Depreciation of SBITA Asset
- Expenditure and Other Financing Source for modified accrual during commencement
- Excludes fiscal funding cancellation clauses (TABOR)
- Remeasurement

# Differences from Leases Under GASB 87

- “Lessor” SBITA arrangements (where government receives payment) are excluded
- Costs are divided into phases, with costs either capitalized or expensed depending on the phase

# Subscription Term

The subscription term is the period during which a government has a **noncancelable right** to use an underlying IT asset, plus the following periods, if reasonably certain of being or not being exercised:

---

Periods covered by a government's option to extend the SBITA

---

Periods covered by a government's option to terminate the SBITA

---

Periods covered by the SBITA vendor's option to extend the SBITA

---

Periods covered by a SBITA vendor's option to terminate the SBITA





# Subscription Term

## Summary

- Include:
  - Option periods where **one** party (either government or SBITA vendor) has the option to extend or terminate
- Exclude:
  - Option periods where **both** parties have the option to extend or terminate

# Short-Term SBITA Determination (Excludable)

- Short-term SBITA – Excludable
  - At the commencement of the subscription term, has a maximum possible noncancellable term under the SBITA contract of 12 months or less, including any options to extend.
- Noncancellable
  - Only one party (either government or SBITA vendor) have the option to extend or terminate.
  - If both parties have the option, it is considered cancellable.



# Termination Provisions

- For the purposes of determining the subscription term, only the **unconditional** right to terminate a SBITA contract.
- If a termination provision exists only in certain circumstances or upon occurrence of certain events, the option is excluded from determining the subscription term.

# Subscription Term – Fiscal Funding Clause

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

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

# Subscription Costs

On-Going Subscription Costs

- Capitalized

Subscription Costs Paid Prior to Commencement

- Capitalized (asset only)

Variable Payments

- Capitalized if fixed in substance or based on an index

Subscription Incentives

- Reduction in capitalized costs



# Outlays Other Than Subscription Payments

Preliminary Project Stage

- Expensed

Initial Implementation Stage

- Capitalized

Operation and Additional Implementation Stage

- Expensed unless meeting capitalization criteria

Training Costs

- Expensed, regardless of stage



# Stages of Implementation

- Preliminary Project Stage (*expensed as incurred*)
  - Costs relating to conceptual formulation and evaluation of alternatives, determination of existence of needed technology, and final selection of alternatives.
  - Includes all costs prior to all of the following events occurring:
    - Determination of the specific objective of the project and nature of the service capacity of the subscription asset
    - Demonstration of the technical or technological feasibility that the subscription asset will provide
    - Demonstration of the current intention, ability, and presence of effort to enter into a SBITA contract



# Stages of Implementation

- Initial Implementation Stage (*capitalized*)
  - Costs relating to design, configuration, coding, testing, installation, and other ancillary charges necessary to place the subscription asset into service
  - Phase is completed when the subscription asset is placed into service





# Stages of Implementation

- Operation and Additional Implementation Stage  
*(expensed unless meeting capitalization criteria)*
  - Costs relating to on-going operations, maintenance, troubleshooting, other activities relating to on-going access to the underlying IT assets, and additional implementation activities such as adding new modules.
  - Capitalization Criteria:
    - Increase in the functionality of the subscription asset - meaning the software can perform tasks that it could not previously perform
    - Increase in the efficiency of the subscription asset or increase in the level of service provided by the subscription asset



# Subscription Asset

- The SBITA asset (capital asset) is recognized at the end of the initial implementation phase (when the subscription asset is placed in service).
- Costs incurred during the implementation phase prior to the subscription asset being placed in service should be recognized as **prepaid items** until the subscription terms begins and then reclassified to capital assets.
  - Example: For a government with a 12/31/23 year end, implementation phase costs incurred in November would be shown as prepaid items on the 12/31/23 financial statements until the software is capitalized in February



# Variable Payments

## Included:

- Variable payments based on an index or rate, such as CPI
- Variable payments fixed in substance

## Excluded:

- Variable payments based on future performance or usage
- **Variable payments based on the number of users**
  - Unless fixed in substance (i.e.. minimum number of users)

# SBITA Liability Discount Rate

1. Use the interest rate explicit or implicit in the SBITA agreement.
  2. If interest rate cannot be determined from the agreement, then the incremental borrowing rate should be used.
- Incremental Borrowing Rate
    - An estimate of the interest rate that would be charged for borrowing the subscription payment amounts during the subscription term

# SBITA Liability Discount Rate

## Incremental Borrowing Rate:

- Cannot be zero
- Document methodology for determining incremental borrowing rate
- Lower rate = higher lease asset/lease liability



# Remeasurement

- Remeasurement = increasing or decreasing both the existing SBITA asset and SBITA liability by an equal amount based on changes in the SBITA agreement
- The SBITA asset and liability should be remeasured if:
  - There is a change in the subscription term
  - There is a change in the estimated amounts for subscription payments
  - There is a change in the interest rate that the SBITA vendor charges the government, if the interest rate is explicit in the agreement



# SBITA Modifications

- SBITA Modification = Reported as a new/separate SBITA asset and liability
- A SBITA Modification occurs if both:
  - More underlying IT assets are added to the agreement that were not previously included
  - The increase in subscription payments for the additional subscription assets are reasonable
    - Meaning that the additional cost relates to the additional subscription asset and not something else



# SBITA Termination

- SBITA Termination = Reduce SBITA asset and SBITA liability to zero and record gain/loss for any difference.
- A SBITA Termination occurs if:
  - The government no longer has access to the underlying IT asset



# Contracts with Multiple Components

- Contracts may contain multiple components such as:
  - Software subscription
  - IT services
  - IT assets
  - Perpetual licenses
  - Maintenance services for IT assets
- Judgment Required – Best estimate for allocating costs to components. If not practicable, then account for all components in a single SBITA



# Disclosures

- General description of the SBITA and the related terms and conditions
- Total amount of subscription assets and related accumulated amortization, disclosed separately from other capital assets
- Variable payments incurred during the reporting period that were not previously included in the subscription liability
- Principal and interest requirements to maturity, presented separately, for each of the five subsequent years and in five-year increments thereafter (in aggregate for all SBITAs)
- Commitments under SBITAs before commencement of the subscription term
- Impairment loss on a SBITA, if applicable



# Costs Incurred Prior to Implementation of GASB 96

## GASB 96

64. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. If applied to earlier fiscal years, those assets and liabilities should be recognized and measured using the facts and circumstances that existed at the beginning of the earliest fiscal year restated. Governments are **permitted, but are not required**, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

**\*If elected, capitalization of these costs will mean a restatement of beginning net position\***



# Example:

Colorado County is implementing GASB 96 for the year ended 12/31/23 and implemented a new ERP during 2023. The County paid \$20,000 to consultants in selecting the ERP. As part of implementing the new ERP system, the County incurred \$150,000 in design, configuration, and testing costs, as well as \$30,000 to train employees on the new system. The ERP went live in December 2023 with a base annual subscription cost of \$100,000 per year and \$1,000 per user, both of which are due in December of each year at the beginning of the subscription. The County estimates that it will have an average of 50 users per year or \$50,000. The software agreement is for five years with an optional five-year extension but both sides can cancel at any point during the extension period.



# Example: Determine subscription term

## Include:

- Initial five-year term
  - Neither side has the option to cancel

## Exclude:

- Optional five-year extension
  - Considered “cancelable” since both sides can cancel at any time

# Example: Determining capitalizable costs

## Capitalized to SBITA Asset

- Design, Configuration, and Testing
  - ✓ \$150,000 one-time
- Annual Subscription Fee
  - ✓ \$100,000 per year

## Expensed as Incurred

- ERP Selection Consulting Fees
  - \$20,000 one-time
- Training Fee
  - \$30,000 one-time
- Annual Per User Fee (Disclose Variable Costs)
  - \$1,000 per user



# Example: Determine SBITA Asset and Liability

		Discount Rate	3.50%
Payment Date	Payment #	Payment	Present Value
12/1/2023	1	(100,000.00)	100,000.00
12/1/2024	2	(100,000.00)	96,618.36
12/1/2025	3	(100,000.00)	93,351.07
12/1/2026	4	(100,000.00)	90,194.27
12/1/2027	5	(100,000.00)	87,144.22
	<b>Total</b>	<b>(500,000.00)</b>	<b>467,307.92</b>
		<b>SBITA Liability</b>	<b>\$ 467,307.92</b>
		<b>Capitalizable Implementation Costs:</b>	<b>\$ 150,000.00</b>
		<b>SBITA Asset</b>	<b>\$ 617,307.92</b>



# Example: Create SBITA Liability Debt Service Schedule

	<b>Discount Rate</b>	3.50%		
<b>Date</b>	<b>Balance</b>	<b>Interest</b>	<b>Principal</b>	<b>Total Payment</b>
12/1/2023	467,307.92	-	100,000.00	100,000.00
12/1/2024	367,307.92	12,855.78	87,144.22	100,000.00
12/1/2025	280,163.70	9,805.73	90,194.27	100,000.00
12/1/2026	189,969.43	6,648.93	93,351.07	100,000.00
12/1/2027	96,618.36	3,381.64	96,618.36	100,000.00
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 32,692.08</b>	<b>\$ 467,307.92</b>	<b>\$ 500,000.00</b>





# Example: Create SBITA Asset Amortization Schedule

## Subscription Asset Depreciation

Subscription Asset Value	\$	617,307.92
Depreciable Life		5 years
Subscription Commencement Date		12/1/2023
Annual Depreciation Amount	\$	123,461.58

Year #	FY Ending:	Depreciation Amount
1	12/31/2023	\$ 10,288.47
2	12/31/2024	123,461.58
3	12/31/2025	123,461.58
4	12/31/2026	123,461.58
5	12/31/2027	123,461.58
6	12/31/2028	113,173.12



# Example – Full Accrual Journal Entries

## ***Initial Recording:***

- Debit to “SBITA Asset” based on calculated amount
- Debit to “SBITA Expenses” for non-capitalizable costs
- Credit to “SBITA Liability” based on calculated amount
- Credit to “Cash” for payments made

## ***Recording Subscription Payments:***

- Debit to “SBITA Liability” based on SBITA Liability payment schedule
- Debit to “Interest Expense” based on SBITA Liability payment schedule
- Credit to “Cash”



# Example – Full Accrual Journal Entries

## ***Recording Amortization/Depreciation:***

- Debit to “Depreciation Expense” based on amortization schedule
- Credit to “Accumulated Depreciation”

## ***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



# Example – Modified Accrual Journal Entries

## 7. Modified accrual entries (*governmental funds*)

### *Initial Recording:*

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

### *Recording Subscription Payments:*

- Debit to “Principal – SBITA” based on the SBITA Liability payment schedule
- Debit to “Interest Expense” based on the SBITA Liability payment schedule
- Credit to “Cash”

**IMPORTANT: Budgetary impact when the software subscription term commences**



# Final Thoughts - Anticipated Challenges

- Identifying all software to be evaluated under GASB 96
- Identifying whether costs should be capitalized or expensed based on the project phase and determination of when each phase ends and a new phase begins



# Other Upcoming GASB Pronouncements

# Upcoming GASB Pronouncements

- GASB Statement No. 91, *Conduit Debt Obligations* (fiscal years beginning after December 15, 2021)
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (fiscal years beginning after June 15, 2022)
- GASB Statement No. 100, *Accounting Changes and Error Corrections* (fiscal years beginning after June 15, 2023)
- GASB Statement No. 101, *Compensated Absences* (fiscal years beginning after December 15, 2023)



# GASB Statement No. 91, *Conduit Debt Obligations*

- A conduit debt obligation is defined as a debt instrument having **all** the following characteristics:
  - There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee
  - The issuer and the third-party obligor are not within the same financial reporting entity
  - The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer
  - The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance
  - The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments)





# GASB Statement No. 91, *Conduit Debt Obligations*

- Effective for fiscal years beginning after December 15, 2021 (12/31/22 & 6/30/23)
- Eliminates the existing option for issuers to report conduit debt as liabilities (issuers do not recognize a liability for conduit debt)
- 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 Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

- Effective for fiscal years beginning after June 15, 2022 (12/31/23 & 6/30/23)
- Established standards of accounting and financial reporting for public-private and public-public partnerships (PPPs) and availability payment arrangements (APAs)
- A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time (noncancellable period) in an exchange or exchange-like transaction

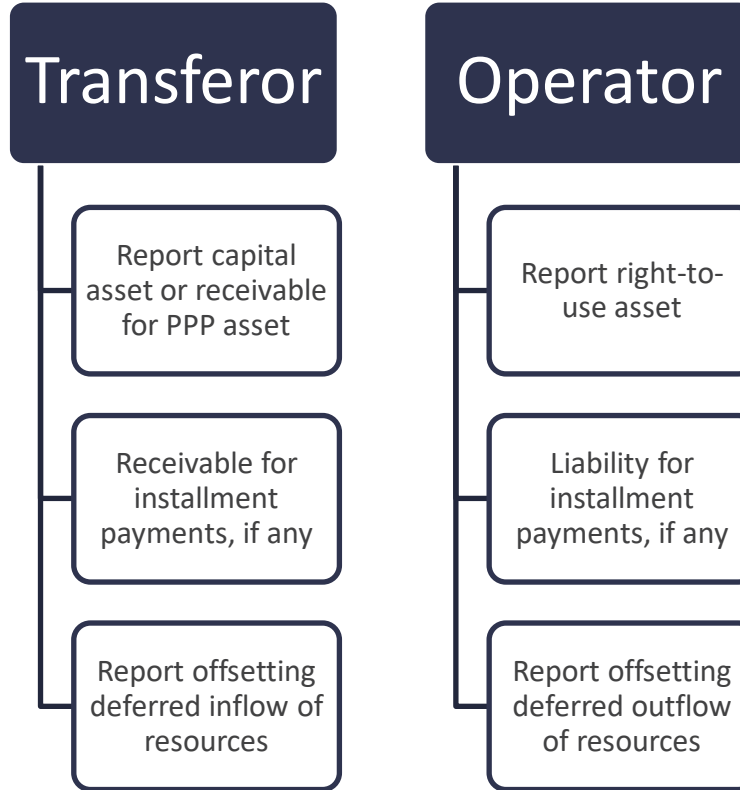


# GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

- Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines within GASBS No. 94 as a PPP in which:
  - (1) the operator collects and is compensated by fees from third parties;
  - (2) the transferor determines or can approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; **and**
  - (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.
- GASBS No. 94 applies to PPPs that meet above definition of a SCA or that fall outside of the scope of GASBS No. 87, *Leases*



# GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*



# GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

## Required Notes to Financial Statements:

### Transferors

- General description of PPP arrangements
- Nature and amounts of assets and deferred inflows
- Discount rate(s) applied to measurement of receivable for installment payments, if any
- Amount of inflows recognized for variable payments
- Nature and extent of rights retained or granted

### Operators

- General description of PPP arrangements
- Nature and amounts of assets, liabilities and deferred outflows
- Discount rate(s) applied to measurement of liability for installment payments, if any
- Amount of outflows recognized for variable payments
- Nature and extent of rights retained or granted
- Components of impairment loss, if any



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

- Effective for fiscal years beginning after June 15, 2023 (12/31/24 & 6/30/24)
- Three types of accounting changes:
  1. Changes in accounting principles (reported retroactively – restate prior period beginning balances)
  2. Changes in accounting estimates (reported prospectively – recognize change in current period)
  3. Changes to or within the financial reporting entity (adjust beginning balances of current period – no prior period restatement)
- Error correction (reported retroactively – restate prior period beginning balances)



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

- Required Disclosures

1. Changes in accounting principles

- Nature of change (identify financial statement line items that changed) and rationale for adoption (if a new pronouncement, then identify adoption)
- For comparative financials, rationale if prior periods are not restated

2. Changes in accounting estimates (required if change to an input has a significant effect on the accounting estimate)

- Nature of change (identify financial statement line items that changed)
- Rationale for change in measurement methodology, if applicable

3. Changes to or within the financial reporting entity

- Nature and rationale for change (quantitative changes to major funds excluded)
- Effects on beginning net position and/or fund balance



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

- Required Disclosures

- 4. Error Correction

- Nature of error and its correction (identify the periods affected and the financial statement line items that were affected)
    - Effect on the prior period's change in net position and/or fund balance
    - Effect on the current period's beginning net position and/or fund balance



# GASB Statement No. 101, *Compensated Absences*

- Effective for fiscal years beginning after December 15, 2023 (12/31/24 & 6/30/25)
- Examples of compensated absences: vacation leave, sick leave, paid time off (PTO), holidays (floating), parental leave, military leave, bereavement leave, and certain types of sabbatical leave.
- Liability for compensated absences recognized for:
  - (1) Leave that has not been used **and**
  - (2) leave that has been used but not yet paid in cash or settled through noncash means
- Liability for compensated absences that are dependent upon occurrence of a sporadic event that affects a small portion of employees (parental leave, military leave, and jury duty leave) should not be recognized until leave commences.



# GASB Statement No. 101, *Compensated Absences*

- Recognize a liability for leave that has not been used if:
  - The leave is attributable to services already rendered,
  - The leave accumulates, **and**
  - The leave is more likely than not (>50%) to be used for time off or otherwise paid in cash or settled through noncash means
- Relevant factors in determining if leave will be used:
  - Government's employment policies related to compensated absences
  - Whether leave that has been earned is, or will become, eligible for use or payment
  - Historical information about the use, payment, or forfeiture of compensated absences
  - Information known to the government that would indicate historical information may not be representative of future trends or patterns



## Questions?

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# Navigating Local Politics & Hot Topics

Sam Hellwege and Anna Jones



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# Learning Objectives

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

- Discuss topics impacting local governments at the State level
- Recognize the politically polarizing world of public meetings in Colorado and ways to navigate

# Goals of This Session

Navigating  
Public  
Meetings

Hot Topics in  
Local  
Government

Building  
Public Trust



# We All Need A Little Help Sometimes





# Times Are Changing

Discourse has become more rancorous

- Pandemic
- Political ideology impacting non-partisan issues

Generally, less willingness to compromise

Impatience with public sector

Impacts fiscal, educational and local government policies and procedures



# We Want to Hear from You!

What is an example of a hot topic that your organization has dealt with recently or foresee in 2023?

Education

Special  
Districts

Fiscal  
Policy

Land Use

Affordable  
Housing



What is the biggest challenge facing your organization today?



# Navigating Public Meetings



Communication is key



Drawing from a relational foundation



3 Minute public comment period – how to analyze effectively



Coach your board



Establish protocols – stick to them



Assign a facilitator/timekeeper



# How Can Government Earn Community Trust?

## Competence

- Is the government seen as capable of delivering on its promises to the communities it serves?

## Ethical behavior

- Is the government perceived to be working in good faith to do the 'right' thing for residents?



# Building Public Trust – Why Is This Important?

Greater  
compliance with  
public policies

Nurtures political  
participation

Strengthens social  
cohesion

Builds institutional  
legitimacy  
(competence)

Addressing long-  
term challenges  
and projects



# Collaborative Governance

Builds authentic, long-term, and trusting relationships  
with communities



## Characteristics

Level of  
collaboration with  
community

Inclusion and  
equity

Transparency

Responsiveness

Level of resources



# Building Public Trust – Key Takeaways



Requires significant time and a holistic perspective



Look internally before engaging externally



Accountability measures and feedback loops



Partner with third-party institutions



## Questions?

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# Twenty Minute Break



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# CLA Outlook 2023

## Economic, Market, Policy and Industry Insights

Stay the Course

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# Learning Objectives

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

- Discuss the current state of the U.S. economic and capital markets for the rest of 2023 for the U.S. and Colorado

# Agenda



Year in  
Review



CLA's  
Methodology



CLA's Outlook



Key  
Takeaways



Q&A



**Market Volatility**

**War in Ukraine**

# **Year in Review 2022**

**Inflation**

**Rising Interest Rates**

**Slower Economic  
Growth**



# Worst year for bonds and 7th worst for stocks

## Worst years for U.S. Bonds

Since 1926, total return for each period

Year	Return	Next 12 months
<b>2022</b>	-13.0	?
1994	-2.9	18.5
1931	-2.3	8.8
2013	-2.0	6.0
2021	-1.5	-13.0
1958	-1.3	-0.4
1999	-0.8	11.6
1969	-0.7	16.9
1955	-0.7	-0.4
1956	-0.4	7.8
<b>Avg.</b>	-2.6	6.2

## 7<sup>th</sup> worst ever year for U.S. Stocks

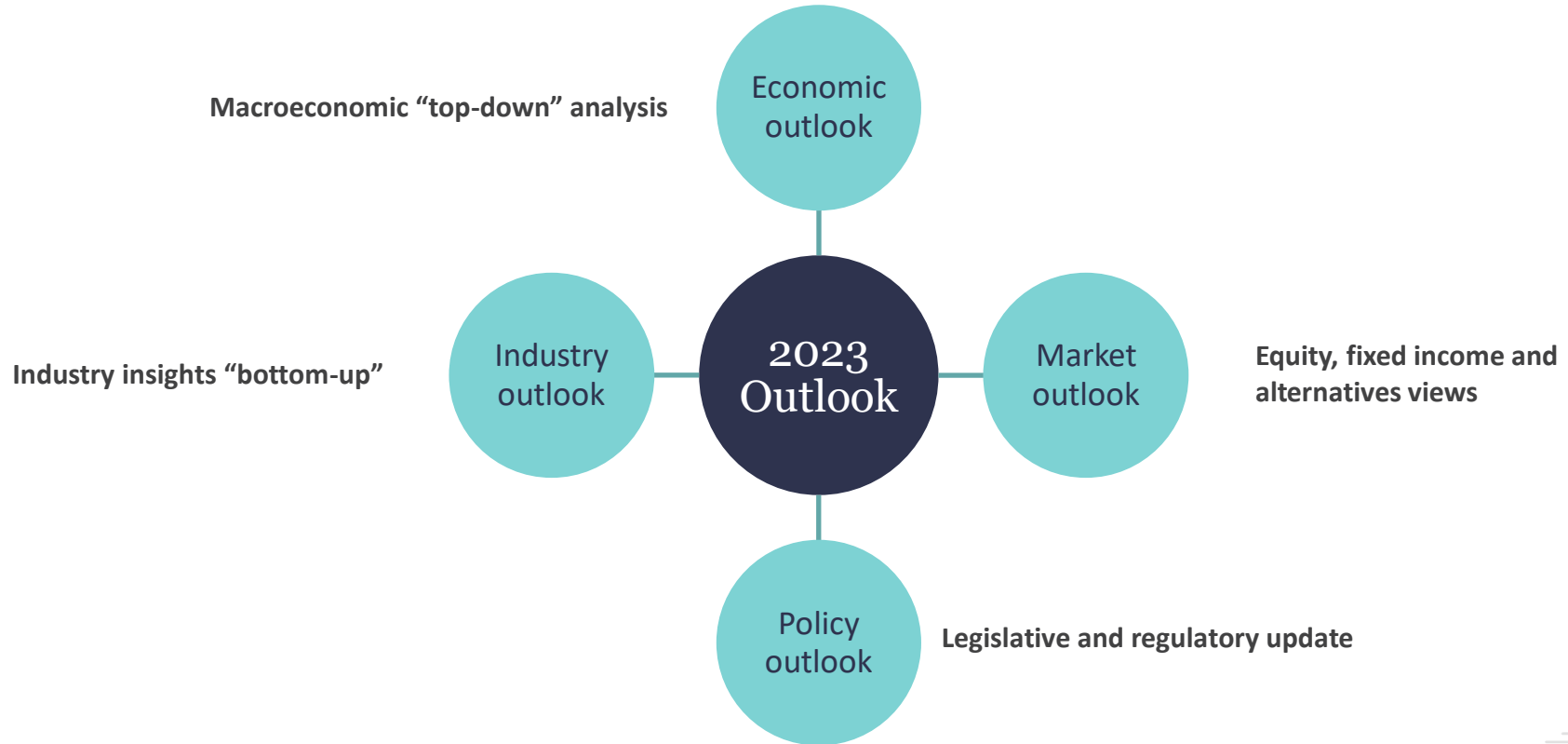
Since 1926, total return for each period

Year	Return	Next 12 months
1931	-43.3	-8.2
2008	-37.0	26.5
1937	-35.0	31.1
1974	-26.5	37.2
1930	-24.9	-43.3
2002	-22.1	28.7
<b>2022</b>	-18.1	?
1973	-14.7	-26.5
2001	-11.9	-22.1
1941	-11.6	20.3
<b>Avg.</b>	-24.5	4.9

Source: Morningstar as of 12/31/22. U.S. bonds represented by the IASBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 12/31/22. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 12/31/22 and the IASBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.



# CLA Outlook 2023 – Staying the Course



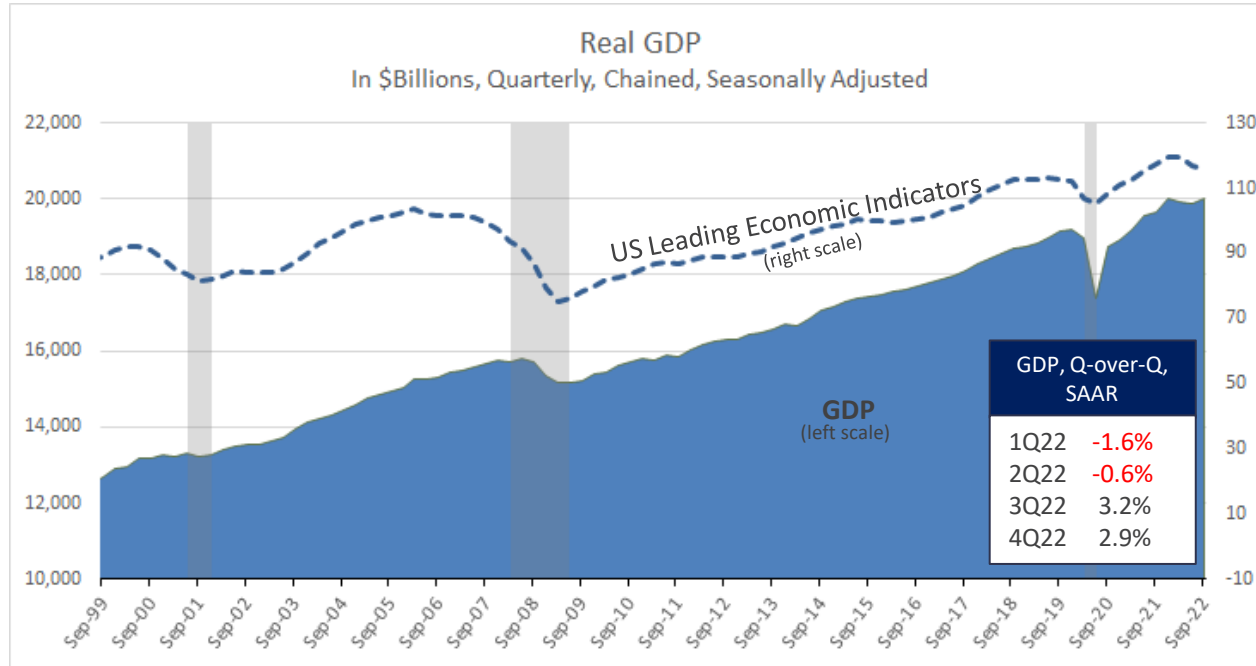


# CLA Outlook 2023 – Stay the Course



# Macroeconomy: GDP

*GDP growth is decelerating — but still resilient*



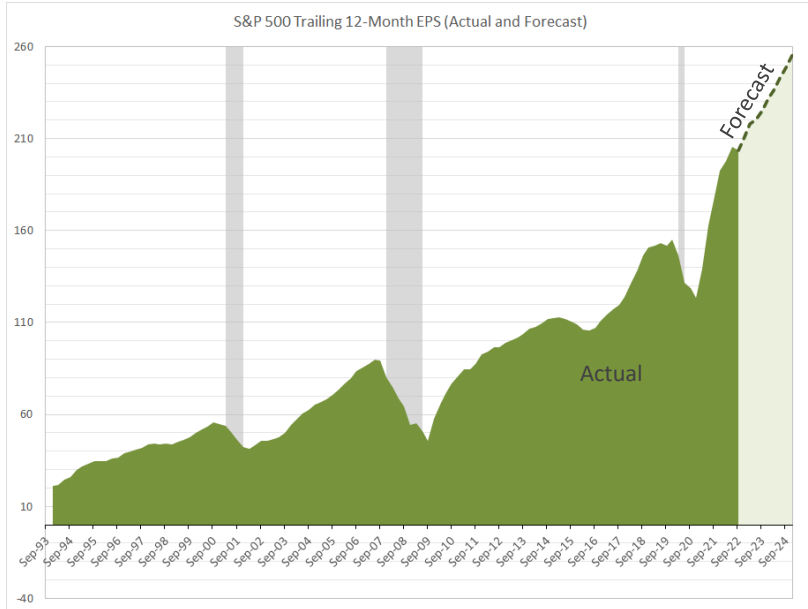
Grey areas denote recessions.

Source: US Bureau of Economic Analysis, Conference Board, National Bureau of Economic Research, Bloomberg, CLA Wealth Advisors



# Macroeconomy: Business Conditions

*Strong profits to continue though watch excess inventory building*



Grey areas denote recessions.

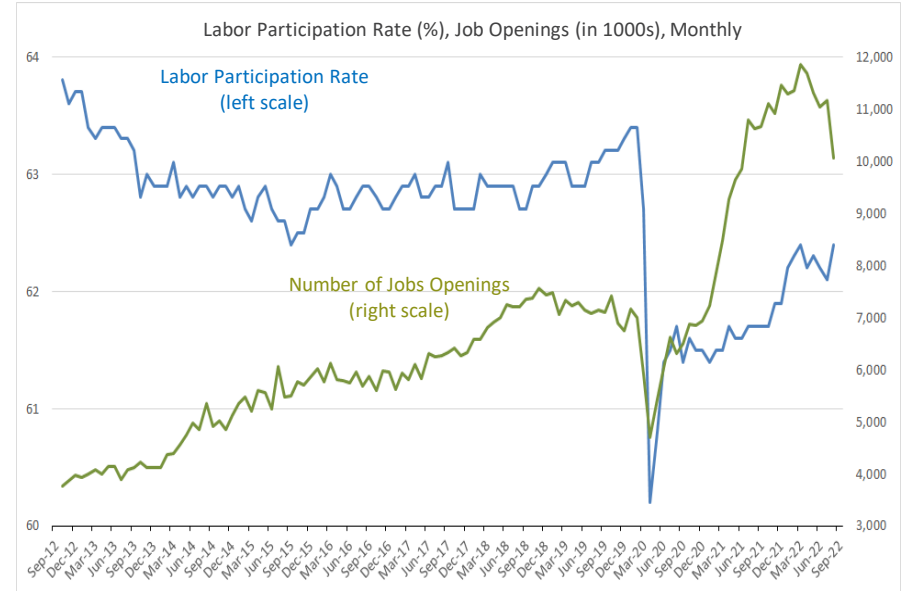
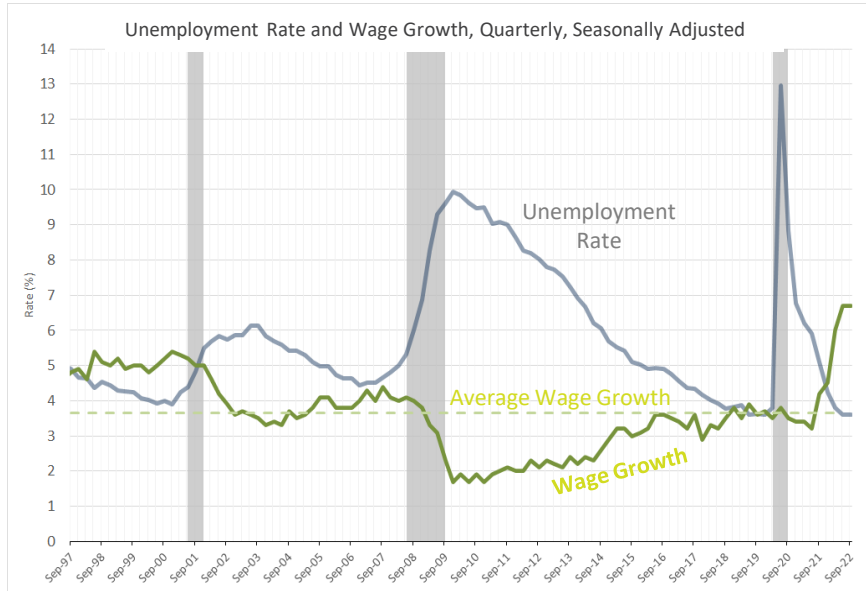
Source: Bureau of Economic Analysis, Institute of Supply Management, CLA Wealth Advisors

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# Macroeconomy: Employment

*Low unemployment remains, making it tough to find labor*



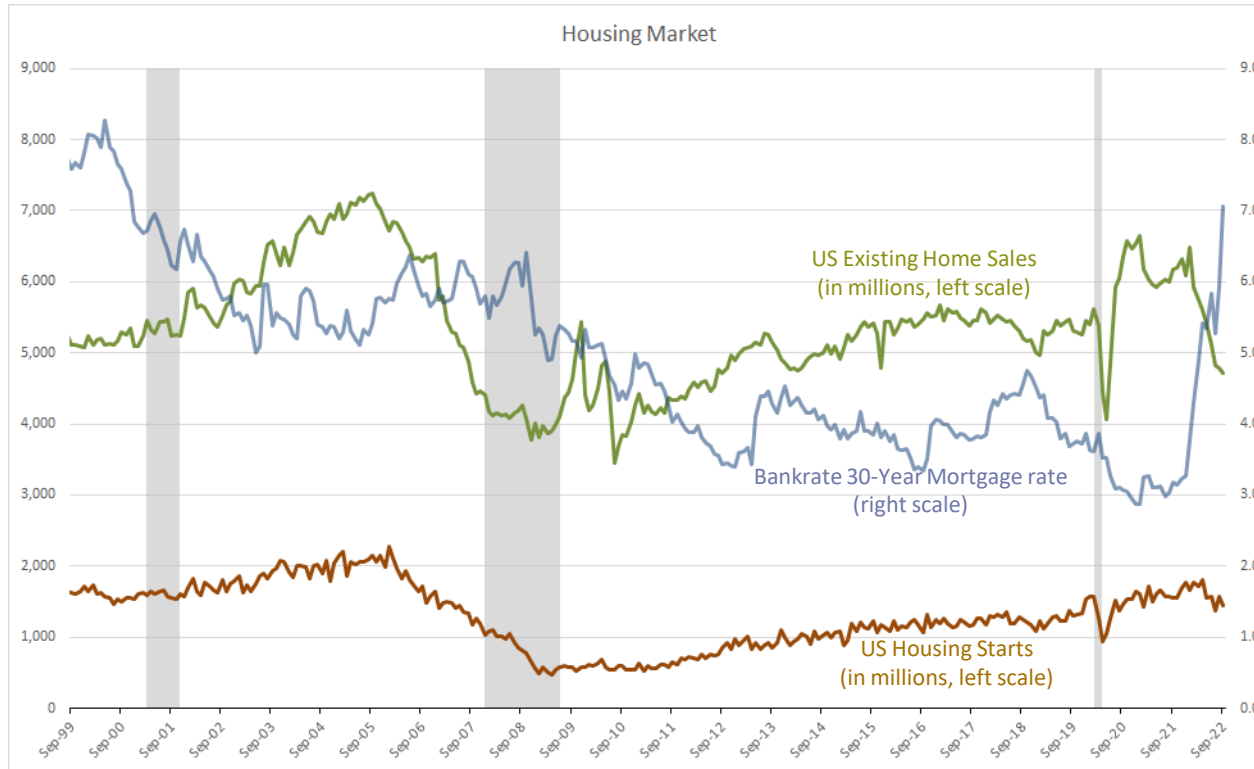
Grey areas denote recessions.

Source: U.S. Department of Labor, Atlanta Federal Reserve, Bloomberg, CLA Wealth Advisors



# Macroeconomy: Housing

*Home sales are starting to fall due to higher mortgage rates*



Grey areas denote recessions.

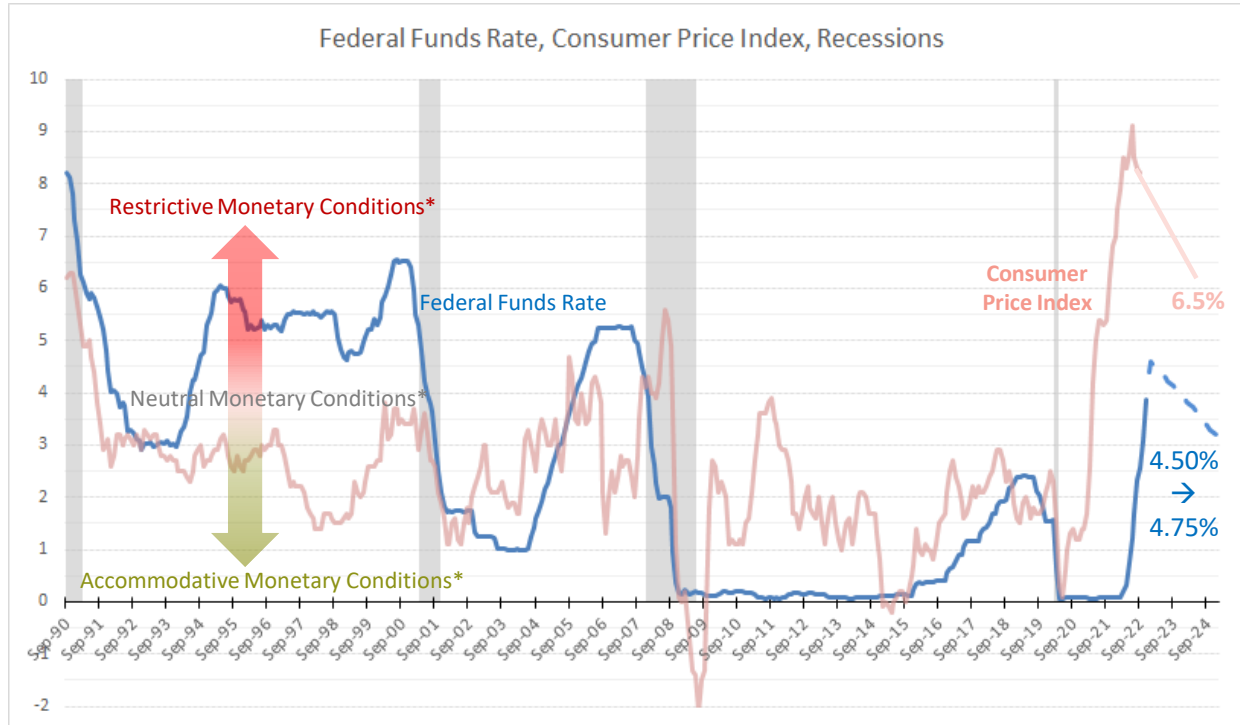
Source: Bankrate.com, National Assoc. of Realtors, U.S. Census Bureau, Bloomberg, CLA Wealth Advisors

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# Federal Reserve Policy

The Fed may raise rates from 0% in 2022 to ~ 5% in 2023



Grey areas denote recessions.

Source: Federal Reserve Board, Bloomberg, NBER, CLA Wealth Advisors

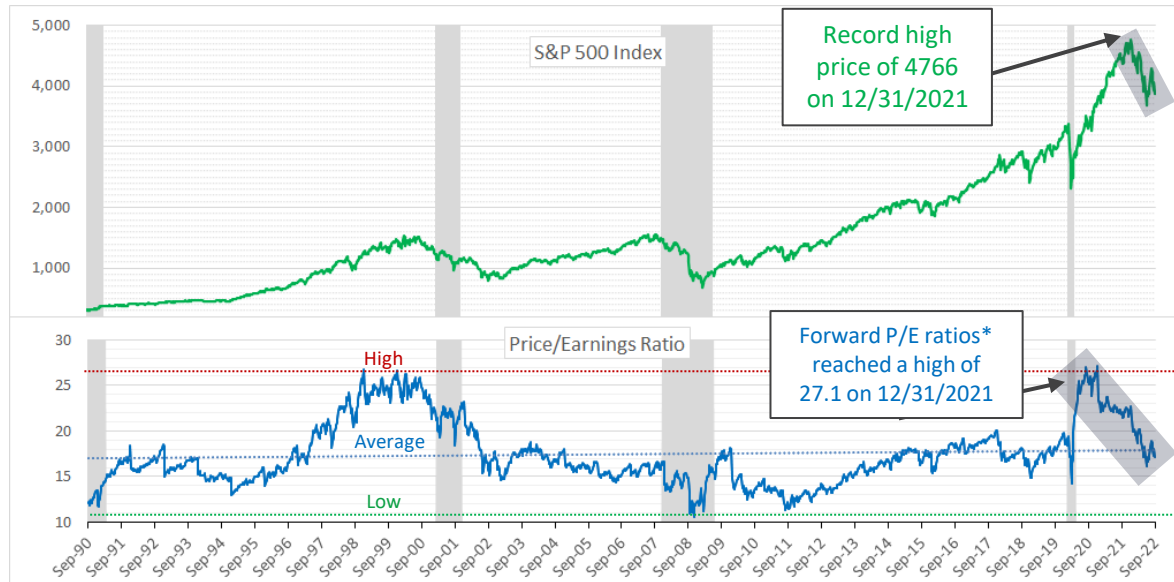


# CLA Outlook 2023 – Stay the Course



# Equity Markets

*The equity sell-off now returns valuations back to attractive levels*



Grey areas denote recessions.

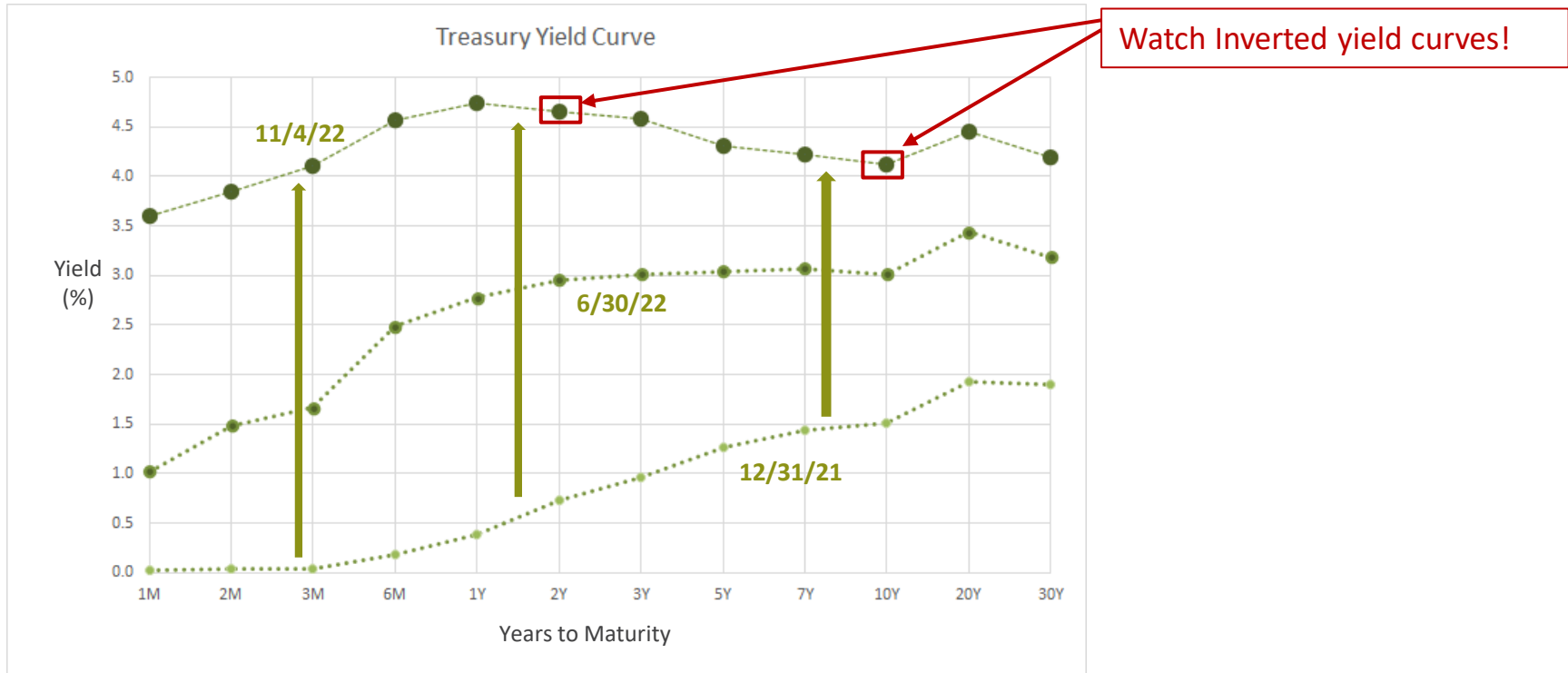
\* BEst P/E Ratios are used.

Source: Standard & Poor's, Bloomberg, NBER, CLA Wealth Advisors





# Interest Rates – Yield Curve Changes

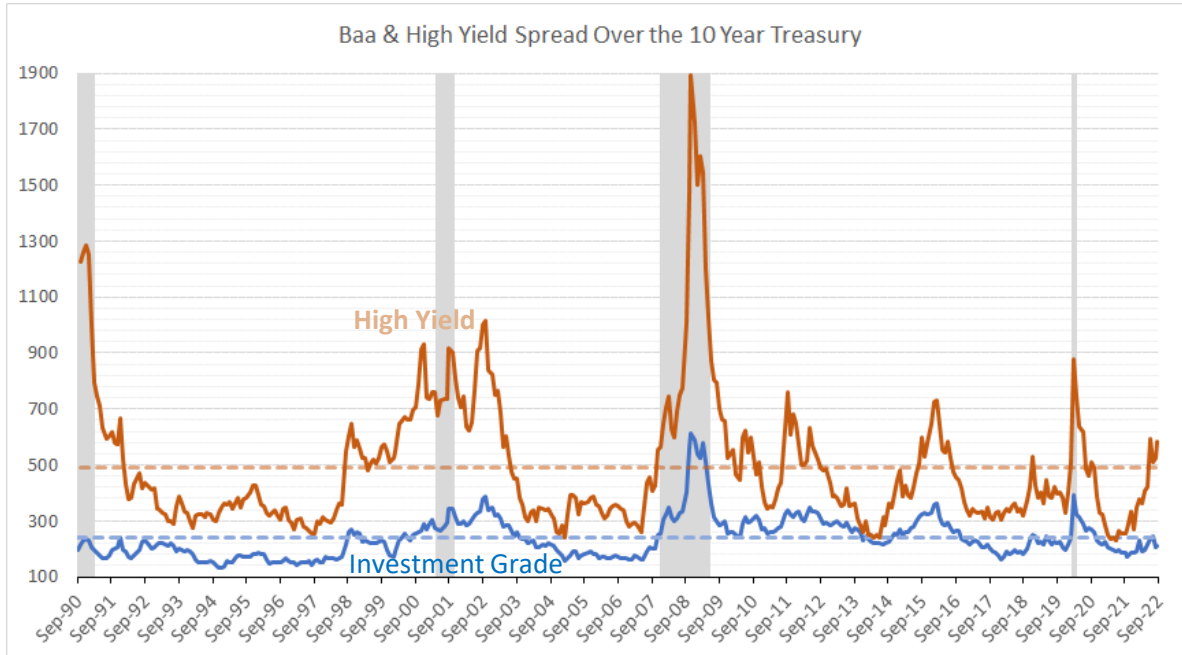


Source: Bloomberg, CLA Wealth Advisors



# Financial Markets

*Interest rates — credit markets do not show significant stress*



Grey areas denote recessions.

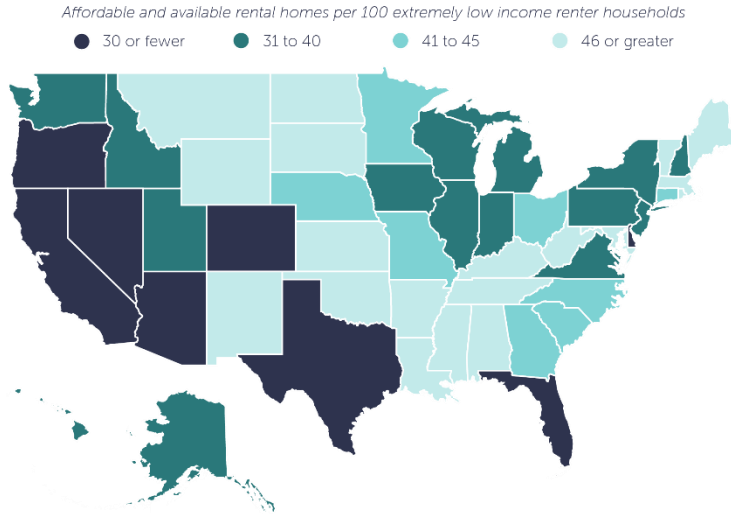
Source: Bloomberg, CLA Wealth Advisors



# Private Real Estate

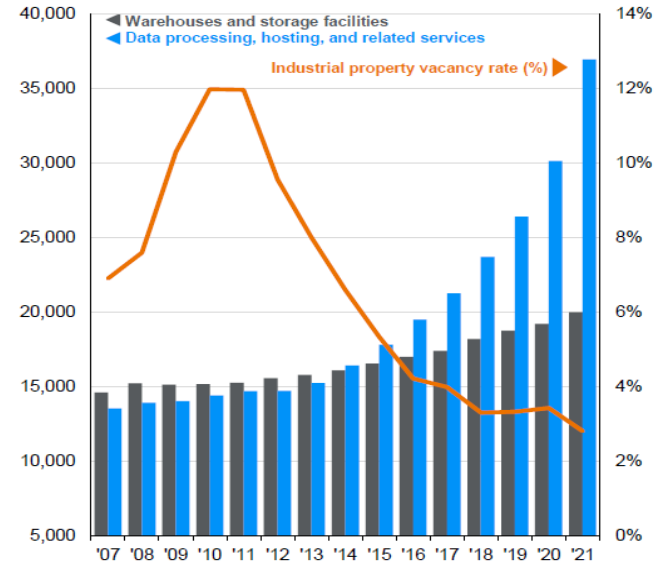
## Multi-family residential and industrial sectors look attractive

No state currently has an adequate supply of affordable housing.



### Industrial establishments and vacancy rate

Thousands of square feet, percent



Source: NCREIF, Case-Shiller, J.P. Morgan Asset Management

Source: BLS, J.P. Morgan Asset Management



# CLA Outlook 2023 – Stay the Course



# Manufacturing and Distribution

## Trends

Demand is leveling off

Reduced supply chain stress

Lower raw material costs

Higher inventory levels

## Actions

Review product mix & costs

Connect pricing with capacity

Review payment terms & price  
for customer flexibility

Optimize your balance sheet

# Real Estate

## Trends

Higher interest rates

Control your leverage

Slowing real estate activity

Sustainability

## Actions

Increased cash flow due diligence

Lock in fixed rates & optimize borrowing

Focus on specific geographies & assets

Embrace the Inflation Reduction Act



# Food and Beverage

## Trends

More in-person shopping

Heat & eat

Increased digital marketing

Food price inflation

## Actions

“Shrink-flation”

Flexible pricing for high volume, low complexity items

Target certain buyer groups

Limit pricing concessions & discounts





# Key Takeaways



# 2023 Outlook – Executive Summary



## Half Full

**Economy:** Robust consumer spending to continue.

**Industry:** Strong business profitability trends forecasted while the use of data insights and outsourcing should increase given labor shortages.

**Financial markets:** Attractive valuations in both equity, fixed income and alternative markets.

**Policy:** Congress and the Biden administration will work together on bipartisan and “must pass” legislation.

**Portfolios:** Well-constructed portfolios can participate in market upside while mitigating volatility to help achieve your goals.



## Half Empty

**Economy:** Slowing GDP growth expected in 2023.

**Industry:** Tight labor markets and rising cost of capital may challenge unprepared business owners.

**Financial markets:** Expect more restrictive credit conditions as the Federal Reserve continues to withdraw liquidity in a bid to fight inflation.

**Policy:** A divided government may result in gridlock.

**Portfolios:** Recoveries take time and reward patient long-term investors rather than market-timers.

# Focus on What You Can Control

1

Identify Goals and Objectives

2

Adjust Risk/Return Profile Through Diversification

3

Optimize Tax-Efficiency

4

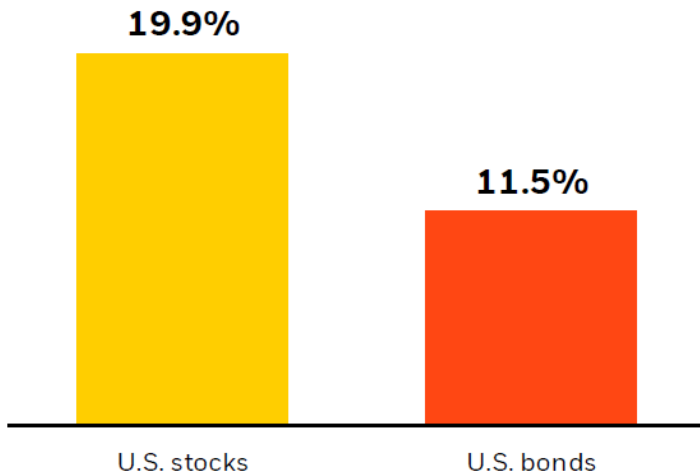
Limit Investment Expenses

# Returns following the last interest rate hike

The Federal Reserve raising rates for the last time in a cycle and U.S. stock and bond performance

## Average U.S. stock and bond performance 12 months following the last Fed hike

(2/4/94 – 12/31/22)



## Specific periods of higher interest rates

(2/4/94 – 12/31/22)

Last Federal Reserve rate Increase	U.S. Stocks	U.S. Bonds
	Next 12 months	Next 12 months
2/1/95	38.7%	17.0%
3/25/97	35.0%	11.5%
5/16/00	-13.0%	13.8%
6/29/06	22.8%	6.4%
12/20/18	16.1%	8.8%
Average	19.9%	11.5%

Source: Morningstar as of 12/31/21. U.S. stocks are represented by the S&P 500 index. U.S. bonds are represented by the Bloomberg US Agg Bond TR Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

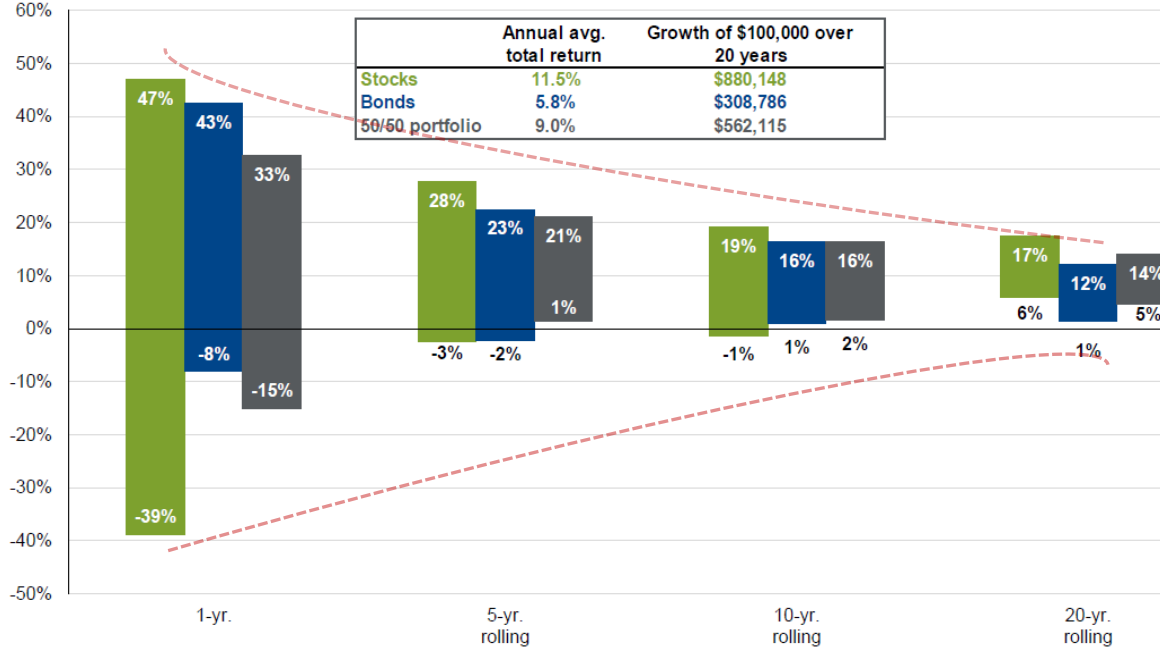


# Stay the Course as a Long-Term Investor

Align your risk/return targets with your financial plan

Range of stock, bond and blended total returns

Annual total returns, 1950 - 2021



Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.



# Portfolio Construction Themes for 2023

## Theme 1

**Macro** – Inflation appears to have peaked and should return to more reasonable levels during the latter half of 2023 and early-2024.

## Theme 2

**Equity** – Prices have returned to more reasonable price/earnings multiples – especially in small cap and international stocks. *Important:* Equity prices are based upon market expectations, approximately six months into the future. Therefore, equity prices tend to move well before any recovery in the macroeconomic data becomes evident.

## Theme 3

**Fixed income** – After suffering its worst performance in decades, fixed income has become reasonably attractive, especially in high quality, intermediate maturities.

## Theme 4

**Alternatives** – both public and private markets offer an illiquidity premium that diversifies client portfolios by increasing expected return and/or lowering expected risk (volatility).



# Stay the Course

## Financial Market Equity

- Overweight value stocks / underweight growth stocks.
- Small stocks are priced more attractively than large cap stocks.
- International equities are attractively priced relative to domestic equities.
- Low-cost passive ETF strategies can provide efficient access to the market.

## Financial Market – Fixed Income

- Investors seeking current income should consider short maturities (1-3 years).
- Total return investors should consider intermediate maturities (5-7 years).
- High quality credit (A-rated or higher) should be favored until credit spreads widen further.

## Financial Market – Private Market

- Private credit is a core holding due to its high current income potential, low interest rate risk, seniority in the capital stack and covenant protections.
- Multifamily housing has strong demographic tailwinds due to a lack of affordable housing.
- Industrial properties have strong underlying fundamentals.
- Consider high quality office space with an emphasis on innovation and amenities.
- Manager selection in private equity is of critical importance.





# Thank you!

Brian D’Orazio, Principal Wealth Advisory

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# Ethical Challenges in Business Decisions

Jenny Dominguez and Ayla Grady





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# Learning Objectives

- 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 21 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 10 years of audit, tax, and consulting experience serving state and local governments, nonprofits, and for-profit entities, including forensic accounting engagements, fraud investigations, and internal control assessments.



**Ayla Grady**

CPA, CFE





# Ethics in Business

# Ethical Leaders Start at Home

## Personal Ethics

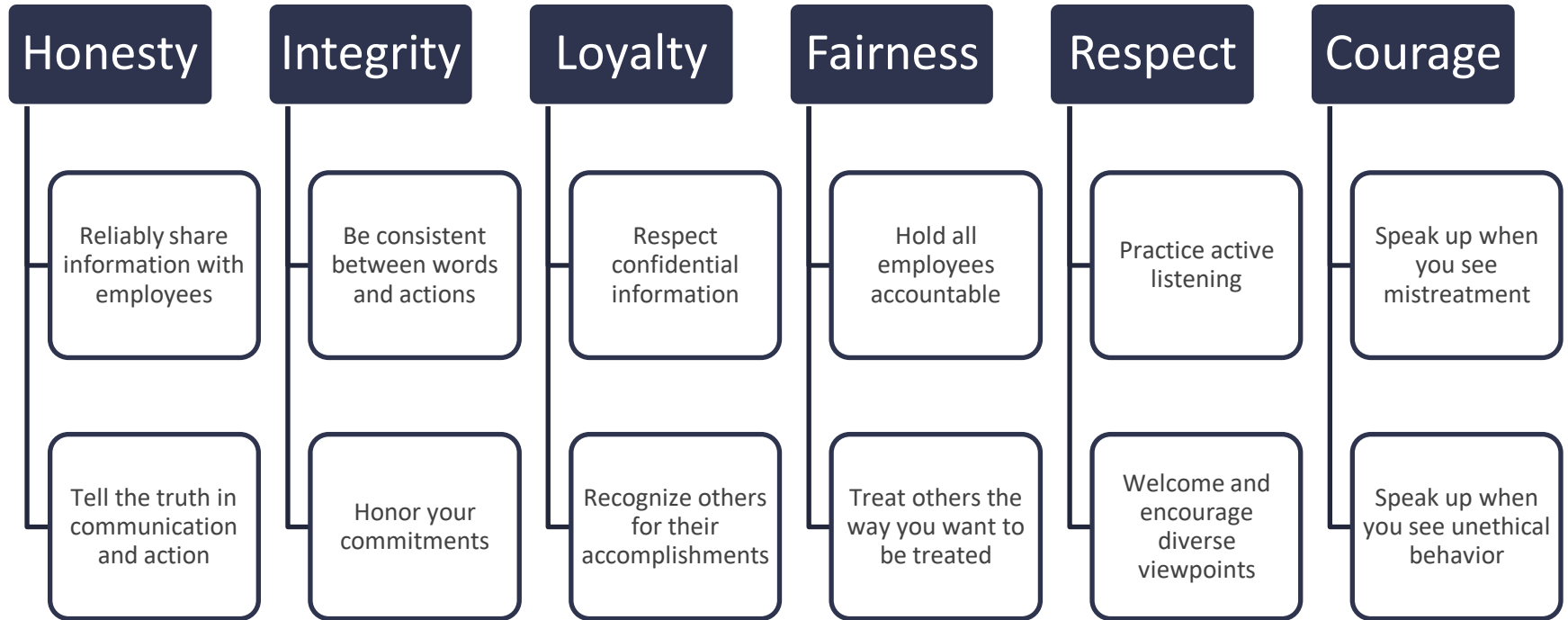
- Values
- Moral choices
- What we do when no one is looking
- Can change over time or by situation or role
- Defined by:
  - Faith, spirituality
  - Upbringing, family
  - Laws, civil rights, academia

## Business Ethics

- Personal Ethics
  - Values of the employees
- Organizational Culture
  - Tone at the top
  - History of the company
  - Perception of what is acceptable
- Organizational Systems
  - Policies and rules in place
  - Regulatory oversight
  - Code of ethics and how it's monitored and enforced



# Principles of Ethics in Business



# Why is Ethics Important in Business?

- Helps employees make good decisions; leads to happier, more satisfied employees
- Reduces liability
- Ensures high quality customer service
- Most importantly, keeps everyone off the front pages!



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# Breakdowns in Business Ethics

## Moral Muteness

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

## Ethical Fading

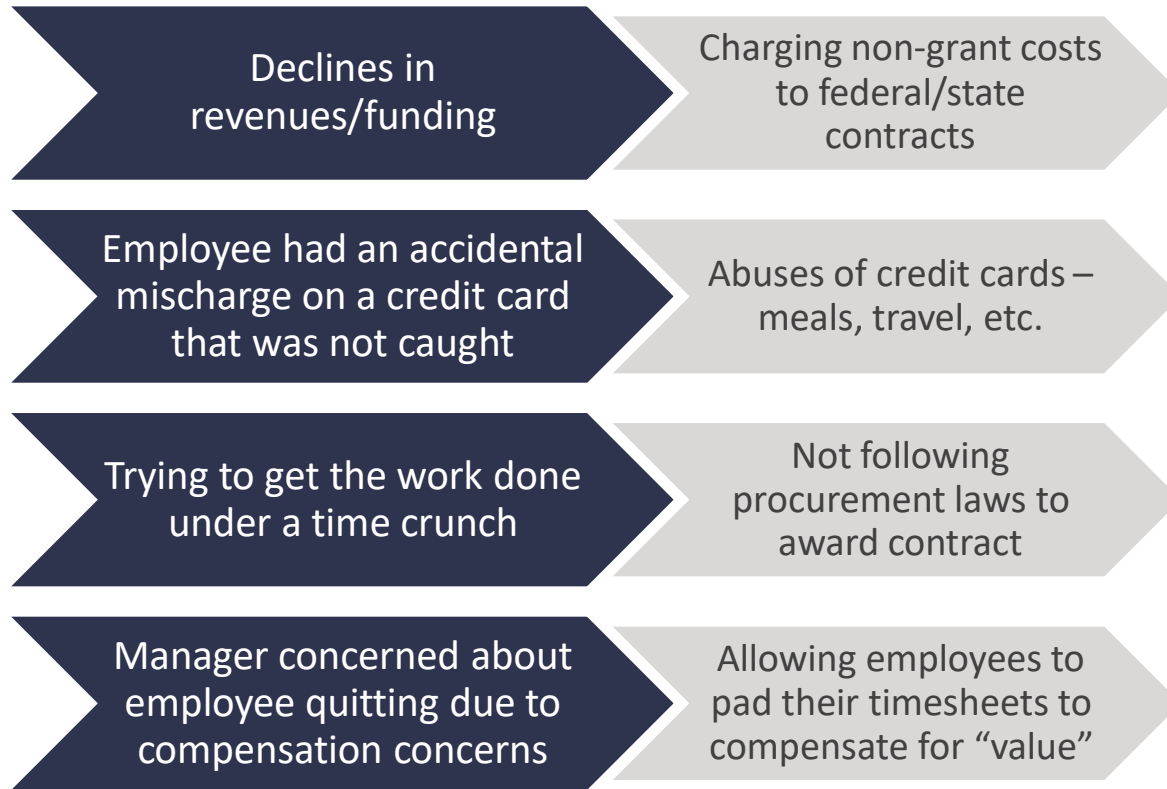
- Erosion of the ethical standard of a business in which employees become used to engaging in or condoning bad behavior

## Situational Influence

- Intent to please authority figure
- Focused on achieving a goal



# Examples of Ethical Challenges Leading to Fraud





# Case Example #1

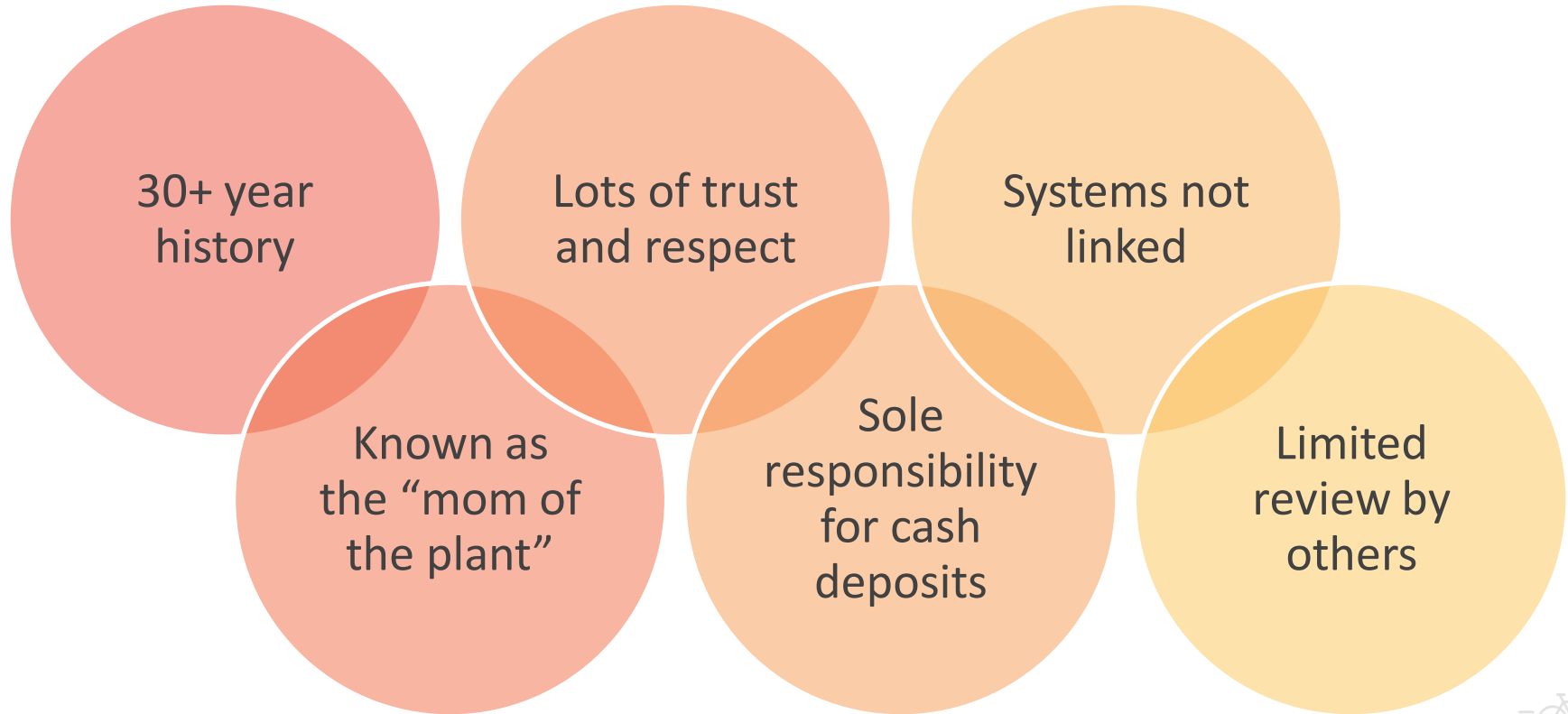
County Recycling Center

# Overview – County Recycling Center

- Joint venture between two neighboring Counties
- Oversight by both Counties, but Recycling Center also has its own employees
- One County operates as the fiscal agent for the Recycling Center
- Long-time employee, Supply Chain Coordinator, misappropriated over \$100,000 in 5 years (January 2018-November 2022)



# Factors Leading to Fraud



# Discovery of Discrepancies

Discovered when  
“something just didn’t  
seem right” with one  
deposit made

Upon closer inspection,  
found two days’ worth  
of collections missing  
from the deposit

Prompted investigation  
of historical deposits



# Forensic Investigation

Interview of staff at the Recycling Center

Analysis on cash collection reports and cash deposit records

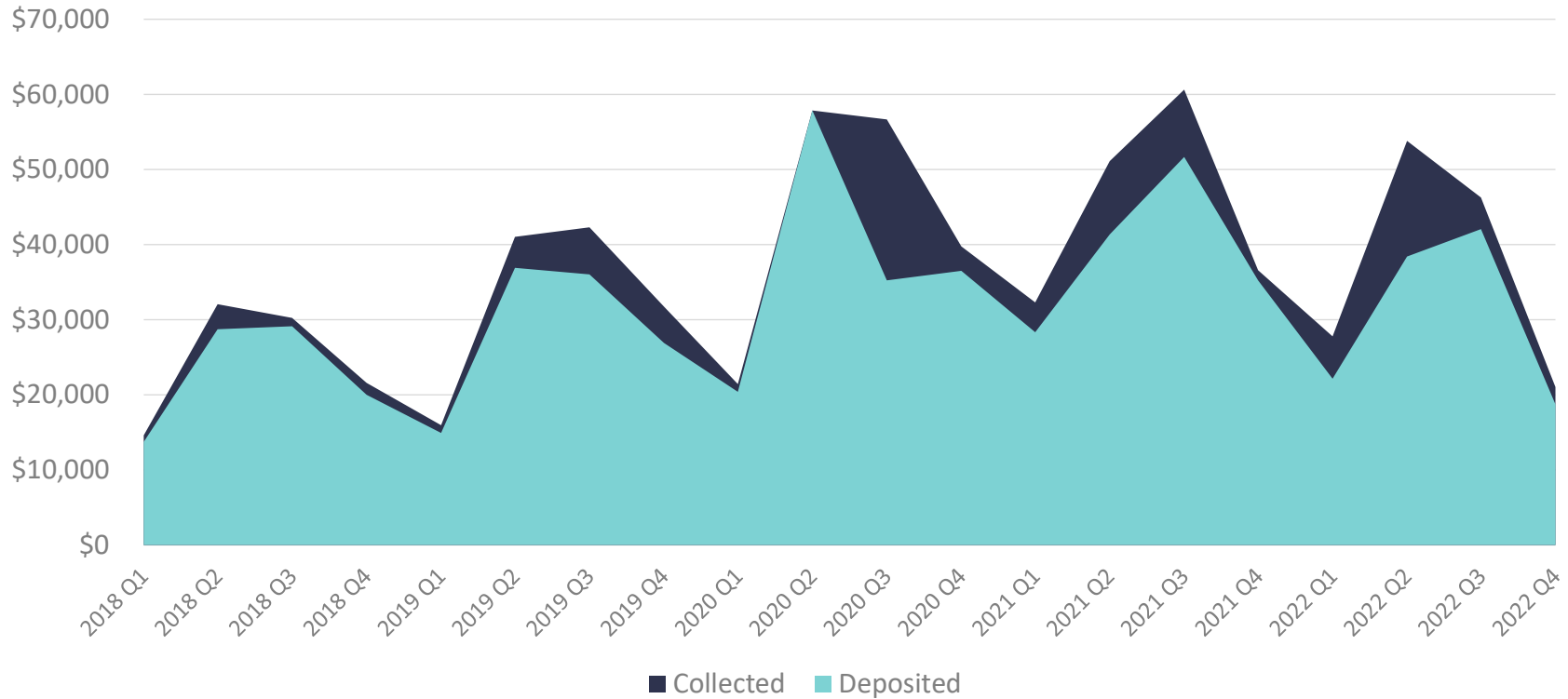
Identification of days of collections never deposited

Interview of subject

Report of findings, including recommendations

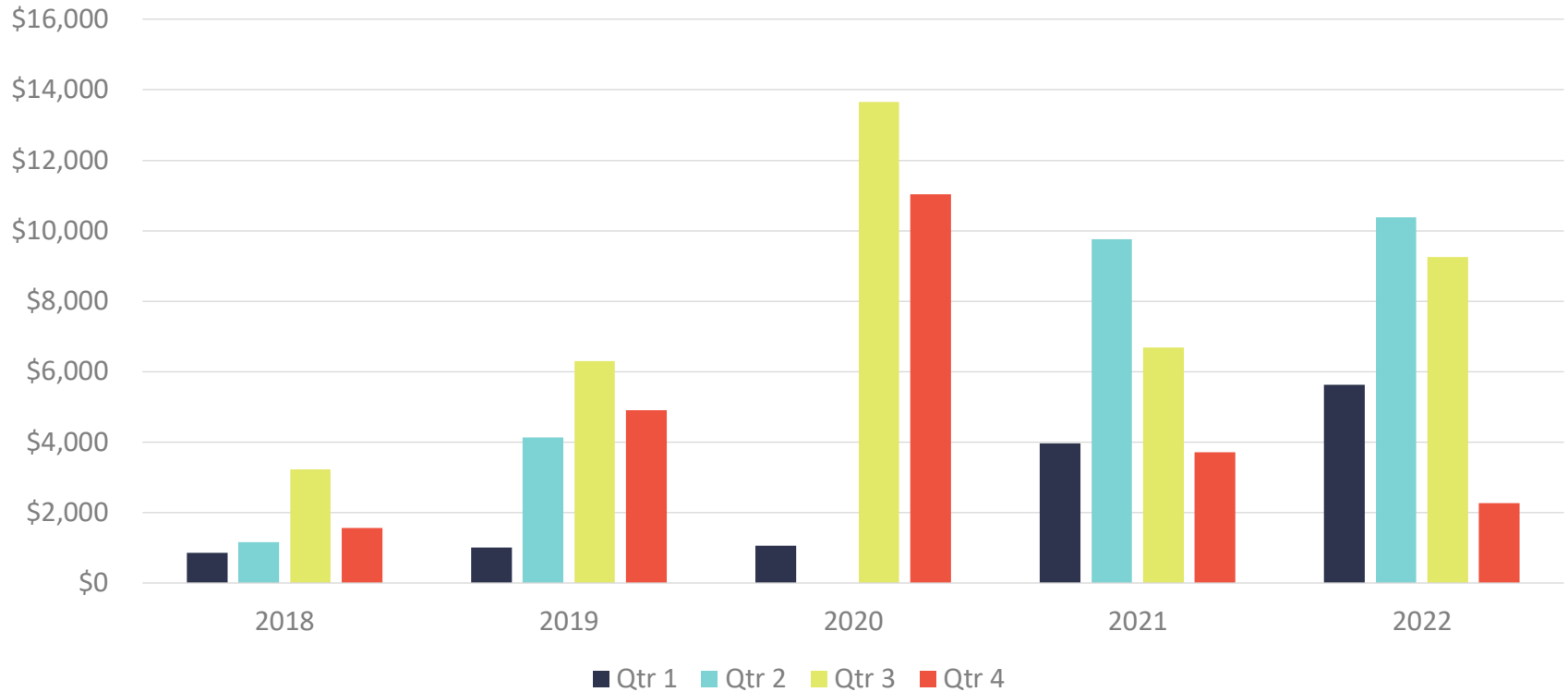


# Analysis on Cash Collections and Deposits

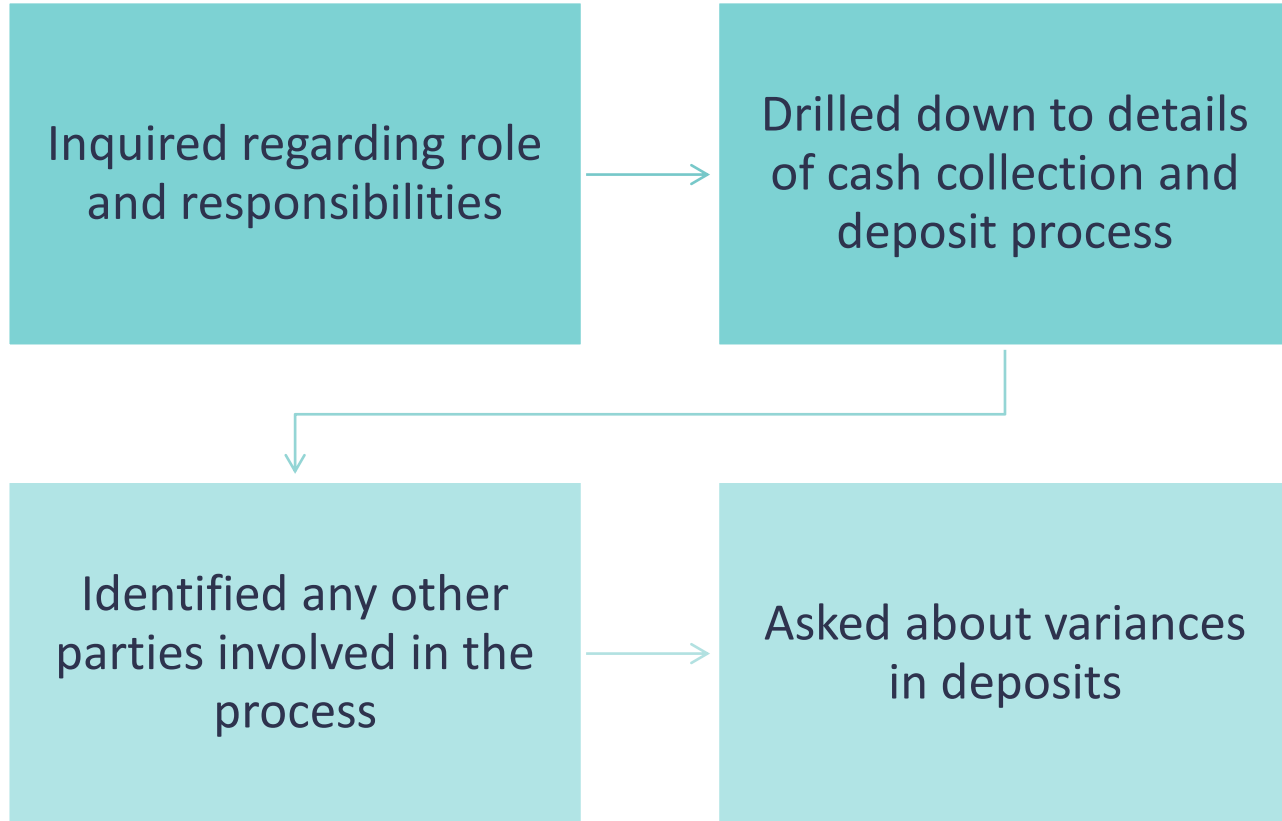




# Variance Between Cash Collections and Deposits



# Interview of Subject



# Conclusions

Identified over  
\$100,000 in  
misappropriated  
cash deposits

- Cash collected but not deposited
- No other subjects – access and knowledge
- Scope limited to 2018-2022

New procedures  
were  
implemented

- Third-party courier for cash transport
- Additional reconciliation of cash collections and deposits are performed





# Case Example #2

School District

# Overview – School District

- Small district in a rural county
- Turnover in business office
- 2018 – District first identified that payroll advances were being made
- 2022 – Identified additional concerns over payroll advances, vacation payouts, and use of the Revolving/Cash Clearing accounts
- Forensic examination of disbursements from Revolving Cash and Cash Clearing accounts – 1/1/2016 through 7/31/2022



# Forensic Investigation

Interviews of current and former District staff and consultants

Site visit to identify supporting documentation

Obtain and review email and Google Drive documents

Obtain and analyze bank statements, cleared check images, and other relevant documentation

Full reconciliation of payroll advances (2016 – 2022)



# Findings

## Payroll advances not repaid

- As of 2018, \$41k not paid back; as of 2022, \$10k not paid back
- Payroll advances to SO were not documented or paid back as of 2018
- Payroll advances to mother were not documented or fully paid back

## Improper Use of Funds

- Payroll advances prohibited by state Ed Code
- Improper disbursements from Cash Clearing account

## Improper Signatures

- Business Manager was not added as signer to bank accounts
- Checks were signed using name of former Business Manager
- Several individuals signing checks were not authorized signers

## Overpayment of Vacation Payout

- Former employee overpaid by \$7,900 due to improper payroll accrual
- HR accrued 3 full years of vacation when employee worked partial years
- Same employee retained access to district email after termination



# Ethical Breakdown

## Payroll Advances

- Payroll advances were a precedent of the District for many years, prior to 2016
- No formal process to request, approve, or document repayment
- Employees never notified District that repayments were not withheld from pay

## Improper Use of Funds

- No one appeared aware of prohibition, including former Superintendents
- No oversight or 2<sup>nd</sup> review of accounts
- Same person issued checks and reconciled accounts

## Improper Signatures

- No transition process in high turnover environment
- Disregard for check signing authority by several former employees

## Overpayment of Vacation Payout

- No oversight/review of vacation accruals; manual process
- Friendly relationship between HR and employee







# Attributes of Highly Ethical Organizations

# Attributes of Highly Ethical Organizations

- ❑ Person or office responsible for anti-fraud, ethics, and compliance
  - ✓ Empowered by management and governance
- ❑ Lead by example (“tone at the top”)
  - ✓ Management and governance promote an environment of integrity
- ❑ Encourage transparency and accountability
  - ✓ Review, oversight, monitoring
- ❑ Well-developed anti-fraud and ethics policy and/or code of conduct
  - ✓ In writing, communicated to and acknowledged by employees
- ❑ Well-developed and updated written policies and procedures
  - ✓ Kept current and acknowledged by employees



# Attributes of Highly Ethical Organizations

- ❑ Regular technical training of employees on policies, procedures, applicable laws, ethics, fraud awareness, etc.
  - ✓ Internal or external instructors
- ❑ Strong compliance/internal audit programs
  - ✓ Internal, outsourced, or combination – prioritized by management and governance
- ❑ Established fraud and ethics hotline
  - ✓ Anonymous, confidential, protect whistleblowers – prioritized by governance
- ❑ Reinforce good behavior and don't reinforce bad behavior
  - ✓ Follow through on reports of misconduct – encourages people to come forward





# Questions?

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# Appendix 1

## Code of Conduct – Recommended Components

# Code of Conduct

- Definitions of what is considered unacceptable
- Consequences of any breaches
- Example topics:
  - Conflicts of interest
  - Outside activities, employment, directorships
  - Relationships with clients/customers, suppliers/vendors, and other 3<sup>rd</sup> parties
  - Gifts, entertainment, favors
  - Kickbacks and secret commissions
  - Handling of organization records, communications, funds, and other assets





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# Closing Remarks