

CARES Compliance Update and Strengthening Internal Controls in an Era of Increased Remote Work

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Create Opportunities

Disclaimer

- *This presentation is for educational purposes only. It should not be construed or relied on as legal advice or to create any client, advisory, fiduciary, or professional relationship between you and CLA.*
- *This presentation considers guidance provided by the US Department of the Treasury and OMB through January 15, 2021. Additional guidance is being provided on a regular basis, please refer to the US Department of the Treasury website (<https://home.treasury.gov/policy-issues/cares/state-and-local-governments>) for recent updates.*

Learning Objectives

By the end of this session, you will be able to -

- Discuss the latest guidance on CARES funding.
- Distinguish how state and local governments can strengthen their internal controls in a time where many employees are working remotely.



CARES Act Related Governmental Funding

RELIEF FUND

\$150 billion in direct aid specifically for COVID-19 related expenses to states, tribal governments, and others with population greater than 500,000 people.

FEDERAL RESERVE MUNICIPAL LIQUIDITY FACILITY

The Federal Reserve will purchase up to \$500 billion of short-term notes directly from U.S. states, counties and cities.

EDUCATION

\$30 billion to be distributed to entities providing education services.

CENTERS FOR DISEASE CONTROL

\$1.5 billion for the (CDC) State and Local Preparedness Grants.

\$100 billion to reimburse eligible health care providers for health care related expenses.



FEMA

Public Assistance Grants

TRANSPORTATION

\$25 billion for COVID-19 related operating and capital costs are eligible.

JUSTICE

\$850 million for the Coronavirus Emergency Supplemental Funding (CESF) grant program to assist state and local law enforcement and jails prevent, prepare for, and respond to COVID-19.

FEDERAL AVIATION ADMINISTRATION

\$9.9 billion in total available to commercial airports through the Airport Improvement Program (AIP). \$9.4 billion for airports to prevent, prepare for, and respond to COVID-19.



Create Opportunities

Coronavirus Response and Relief Supplemental Appropriations Act of 2021 – Signed into law on December 27, 2020 (CRRSA Act)

- Coronavirus Relief Fund
 - Extension thru 12/30/2021
- Education –
 - Governor Emergency Education Relief Fund - \$4+ billion
 - ESSER 2 - \$54+ billion
 - Higher Ed ER Fund \$22+ billion
- Transportation
 - Transit \$14 billion
 - State highways \$10 billion
 - Airports \$2 billion
- Unemployment
 - \$120 billion
- Rental assistance
 - \$25 billion
- Water
 - Low-income Water Utility \$638 million
- FEMA
 - \$2 billion
 - Including funeral assistance



Coronavirus Relief Funds (CRF)

- \$150 billion for the Coronavirus Relief Fund
 - Administered by U.S. Department of Treasury
 - \$3 billion reserved for territories and DC
 - \$8 billion reserved for tribes
- Amounts were paid based on 2019 population data.
- Each state and local government over a population of 500,000
- Each state received a minimum of \$1.25 billion.

Direct Payment for Specific Use - Financial assistance provided directly to individuals, private firms, and other private institutions to encourage or subsidize a particular activity by conditioning the receipt of the on a particular performance by the recipient. This does not include solicited contracts for the procurement of goods and services for the Federal government.



Interpreting the Guidance for CRF

Title VI – Coronavirus Relief Fund, CARES Act

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress with overwhelming, bipartisan support and signed into law by President Trump on March 27th, 2020.

Title VI – Coronavirus Relief Fund

- a. Appropriation
- b. Authority to make payments
- c. Payment amounts
- d. **Use of funds**
- e. Certification
- f. Inspector General oversight, recoupment
- g. Definitions

Guidance for State, Territorial, Local, and Tribal Governments

Document created by U.S. Treasury.

The purpose of this document is to provide guidance to recipients of the Coronavirus Relief Fund (the “Fund”)

September 2, 2020 version

Frequently Asked Questions (FAQ)

The answers to frequently asked questions supplement Treasury’s Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments.

Amounts paid from the Fund are subject to the restrictions outlined in the Guidance and the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”).



Guidance Released in Federal Register

Issue January 15, 2021

The Code of Federal Regulations (CFR) is the codification of the general and permanent rules published in the Federal Register by the departments and agencies of the Federal Government produced by the Office of the Federal Register (OFR) and the Government Publishing Office.



4182

Federal Register / Vol. 86, No. 10 / Friday, January 15, 2021 / Notices

ADDRESSES: Direct all written comments to Kinna Brewington, Internal Revenue Service, room 6526, 1111 Constitution Avenue NW, Washington, DC 20224.

FOR FURTHER INFORMATION CONTACT: Requests for additional information or copies of the form should be directed to Kerry Dennis, at (202) 317-5751 or Internal Revenue Service, Room 6526, 1111 Constitution Avenue NW, Washington DC 20224, or through the internet, at Kerry.Dennis@irs.gov.

SUPPLEMENTARY INFORMATION: *Title:* Sales of Business Property.

OMB Number: 1545-0184.

Form Number: Form 4797.

Abstract: Form 4797 is used by taxpayers to report sales, exchanges, or involuntary conversions of assets used in a trade or business. It is also used to compute ordinary income from recapture and the recapture of prior year losses under section 1231 of the Internal Revenue Code.

Current Actions: There is no change in the paperwork burden previously approved by OMB. The forms are being submitted for renewal purposes only.

Type of Review: Extension of a currently approved collection.

Affected Public: Business or other for-profit organizations, individuals or households, and farms.

Estimated Number of Respondents: 325,000.

Estimated Time per Response: 50 hours, 38 minutes.

Estimated Total Annual Burden Hours: 16,454,750.

The following paragraph applies to all the collections of information covered by this notice.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information

quality, utility, and clarity of the information to be collected; (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology; and (e) estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

Approved: January 12, 2021.

Chakinna B. Clemons,
Supervisory Tax Analyst.

[FR Doc. 2021-00841 Filed 1-14-21; 8:45 am]

BILLING CODE 4830-01-P

DEPARTMENT OF THE TREASURY

Coronavirus Relief Fund for States, Tribal Governments, and Certain Eligible Local Governments

AGENCY: Department of the Treasury.

ACTION: Coronavirus Relief Fund program guidance.

SUMMARY: The Department of the Treasury (Treasury) is re-publishing in final form the guidance it previously made available on its website regarding the Coronavirus Relief Fund for States, tribal governments, and certain eligible local governments.

FOR FURTHER INFORMATION CONTACT: Stephen T. Milligan, Deputy Assistant General Counsel (Banking & Finance), 202-622-4051.

SUPPLEMENTARY INFORMATION: Section 601 of the Social Security Act, as added by section 5001(a) of Division A of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") established the Coronavirus Relief Fund (the "Fund") and appropriated \$150 billion

601(d), the amount equal to the amount of funds used in violation of such subsection shall be booked as a debt of such entity owed to the federal government.

The guidance published below is unchanged from the last version of the guidance dated September 2, 2020,¹ and the frequently asked questions document dated October 19, 2020,² each of which was published on Treasury's website, except for the following changes. The introduction of the guidance and frequently asked questions have been modified to reflect this publication in the **Federal Register**; the guidance and frequently asked questions have been revised throughout to reflect that the end date of the period during which eligible expenses may be incurred has been extended to December 31, 2021;³ footnote 2 of the guidance has been revised to reflect additional restrictions imposed by section 5001(b) of Division A the CARES Act; FAQ A.59 has been updated to correct the cross-reference to Treasury OIG's FAQs; and the application of FAQ B.6 has been clarified. Treasury is also adding to the guidance instructions regarding the return to Treasury of unused Coronavirus Relief Fund payments.

Administrative Procedure Act

The Administrative Procedure Act (APA) provides that the notice, public comment, and delayed effective date requirements of 5 U.S.C. 553 do not apply "to the extent that there is involved . . . a matter relating to agency management or personnel or to public property, loans, grants, benefits, or contracts." 5 U.S.C. 553(a). The rule



Use of Funds Under Title VI, CRF – The CARES Act

Governments shall use the funds to cover only those costs of the state, tribal government, or unit of local government that meets all three (3) requirements.



Costs are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19)



Cost were not accounted for in the budget most recently approved as of March 27, 2020 for the State or government



Cost were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020

Inspector General Oversight; Recoupment

Oversight authority

- Conduct monitoring and oversight of receipt, disbursement, and uses of funds.

Recoupment

- If Inspector General determines noncompliance, a liability to the Federal government should be recorded.

Appropriation

- \$35,000,000 allocated to Inspector General to oversee these funds. (e.g. funded mandate)

Authority of Inspector General

- Nothing in this subsection shall be construed to diminish the Inspector General's authority.

Desk Review Procedures Released

- **OIG-CA-21-004**
 - October 26, 2020
- **Generally, the methodology includes –**
 - GrantSolution submissions
 - Other audit reports (i.e., single audit, etc.)
 - Professional association issues
 - Sample of contracts
 - Review quarterly submissions
 - Interview prime recipients
 - Interview State auditors
 - Conduct site visits, as necessary



Uniform Guidance – Single Audit

- Timing concerns
 - Compliance Supplement issued in later than normal.
- Program coverage and risk assessment
 - Type A threshold increasing on many audits
 - Program selection is difficult and in flux
- Changing internal control environments
- Remote work is a challenge for many clients particularly at the program administration level



Compliance Supplement for CRF

- Activities allowed or unallowed
 - COVID-19 related and not already covered by other Federal funding
- Cash management
 - Reconciliation of receipts of funding to expenditures
 - Short-term cash borrowing is okay
- Eligibility
 - Sub-recipients - Beneficiaries
- Period of performance
 - March 1 to December 30, 2020
- Reporting
 - Quarterly submission
- Sub-receipt monitoring



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Journal Entries

- Entities are recording journal entries to reclassify/apply expense to CARES funding.
- It should be no surprise –
 - Auditor will be testing the underlying expenditures for allowable activities



Findings, Comments, Etc.

- Currently, we are concerned about more findings and comments related to the new and additional funding.
- Coronavirus Relief Fund specific concerns –
 - Undocumented and poorly supported cost eligibility determinations
 - Decision pressure, money, and remote work
 - Significant changes (personal, work-challenges, emotional, etc.)
 - Poor communication (Federal, state departments, local government)
 - Creativity and odd rationale
 - \$35,000,000 US Treasury IG budget

Challenges

- Changing guidance and communication from US Treasury and others
- Competing professional judgement and undocumented positions
 - Possible abuse considerations
- Pressure to spend
- Slow procurements
- Lack of resources for distribution and oversight
- Poor documentation supporting expenditures
- Overlapping funding



Challenges (cont.)

- Program development
 - Economic support
 - Beneficiary or sub-receiptent
 - ◇ Eligibility determines compliance
- Beneficiary concerns
 - Ability to provide information
 - Poor support and records
 - Eligibility and legitimacy concerns
- New questions being raised –
 - Where has the funding gone? What are we doing with excess reserves from the savings during this time?

Maintaining Internal Controls During Remote Work Environments

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Create Opportunities

Learning Objectives

- Understand the impact COVID-19 may have on internal controls
- Identify risk to address as a result of COVID-19 and remote work environments
- Understand ways to address risks that are identified
- Obtain best practices related to internal controls during a remote work environment for both manual controls and automated controls
- Understand the importance of maintaining a secure remote working environment





How COVID-19 has impacted operations

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Impact on Operations

- It was immediate
- Remote work – governments weren't ready and are still not fully ready
- IT issues – lack of resources, security breaches
- Resources deployed to higher priority focus areas
- No Pandemic Plan in place
- Unknown end

Impact on Employees

- Reductions in Workforce
- Retirements
- Sick leave
- Work-life balance
- Additional job duties
 - Training may be needed
 - Knowledge of CARES if performing CARES related work

Impact of Others

- Outside service providers may be impacted
 - SOC Reports
- Entities requesting electronic payments
- Invoices submitted electronically

Impact on IT Systems

- Implementation of new systems delayed or implemented quicker leading to problems
- Change management and user access
 - Current process is shortcut for faster response
 - Testing of changes inadequate
- Review of automated interfaces
- Lack of proper infrastructure



FRAUD ALERT



Fraud Impact

- Fraudsters are drooling at the opportunities!
- Pressure to disburse funds quickly to those in need
- Unemployment, PPP, Business grants/loans
- Increased internal fraud potential
 - Financial Hardship
 - Opportunity



Effect of these impacts on controls

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Perform Risk Assessments

- Consider new risks and impacts
- Include individuals at all levels from various departments
- Consider manual and automated process
- Reassess project priorities



Effect on Internal Controls

- Need to reassess how controls are performed
 - Manual vs Automated
- Continued review of procedures and effectiveness of controls
- Implementation of new controls



DOCUMENT

DOCUMENT

DOCUMENT

Document

- Any changes to current controls
- New policies or internal controls
- Remote Work Plan
- New risk assessments
- New or temporary job descriptions
- Any electronic controls (i.e. E-mail approvals)

Best Practices to Consider

- Cross train employees to perform controls if manual and need to be done in the office
 - Don't sacrifice segregation of duties
- Schedule video meetings to discuss questions from reviews as a follow up, more effective than email
- Consider having reviewers maintain a review log



Best Practices to Consider

- Controls based on comparison of financial data (budget to actual, PY to CY, etc.) will need to be adjusted
- Communicate with external auditors and governance
- Maintain commitment to integrity and ethics

TIMELINESS

Timeliness

- Internal control procedures must be performed timely to be deemed effective
- Consider if a backlog exists and how to address
- Timely availability of reliable information may impact the effectiveness of the controls
- Timely processing of transactions to allow for timely review



Financial Reporting Concerns

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Financial Reporting Impact

- Prepare for a virtual close (again)
- Reassess financial reporting deadlines and calendar
- Data:
 - Completeness of data (is everything there)
 - Availability of data
 - Accuracy of data
 - Access to data and sharing of data/documents



Financial Reporting Impact

- Finance staff ability to perform additional duties plus financial reporting tasks
- Component Units:
 - Timing of reports
 - Confidence in accuracy
 - Going concern issues

Impact on Financial Statements

- When calculating and reviewing significant estimates consider:
 - New uncertainties
 - Temporary or new policies
 - Market conditions
- New accounts and reclassifications
- Schedule of Expenditures of Federal Awards



Impact on Financial Statements

- Consult with External Auditors
- Communicate with management, governance, and oversight agencies



Remote (Mobile) Workforce

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Remote Work Culture

- Change happened quickly but we are in the “new normal”
- Video conference, video webinars, video board meetings, video happy hours, video everything

- Security before →



- Security now →



Planning Remote Access

Who is permitted to connect remotely?

What are they permitted to access?

When are they permitted remote connectivity?

Where are they allowed to connect from?

How are they permitted to connect?

Securing Your Remote Workforce

Organization Connectivity

- Ensure the connection is secure (i.e. disallow use of public Wi-Fi)
- Restrict remote access to only those **needed timeframes** (business hours or current network time restrictions)
- **MFA** required on any type of access
- Monitoring capability for remote access communications as well as the ability to **disable quickly** if an issue arises
- Capability to log remote access communications (including date, time, user, user location, duration, and activity), analyze logs in a timely manner, **updated IDS and firewall alerts**, and follow up on anomalies.
- Strong **encryption** on all communications (SSL or TLS 1.2 or higher)



Securing Your Remote Workforce

Organization-owned Devices

- Company owned devices should be encrypted if they can contain sensitive data
- Application **whitelisting** on company-owned devices
- Ensure support/functionality for all other in-office security/technology like patch management including antivirus/antimalware updates, vulnerability scanning, event logging/collection, etc



Securing Your Remote Workforce

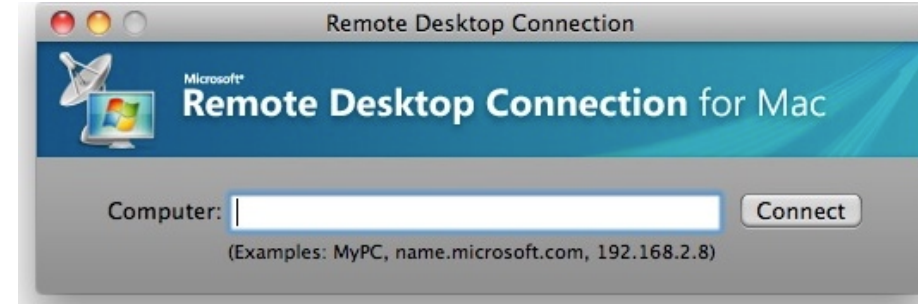
Employee-owned Devices

- Anti-malware protection (company provided or use device posture assessment)
- Enforce OS, application, utility & library patching (company provided or use device posture assessment) e.g. Mac OS, MS Office, Adobe Reader, Java Runtime.
- Mobile device management or posture-checking access gateway
- Some assurance that all other devices connecting to the network (i.e. personal devices) meet security and configuration requirements
- Employee owned devices should be restricted from storing company data
- Employee owned devices should be encrypted to protect sensitive information regarding access to the company network



Collaboration Software

1. Enterprise
2. Free
3. They all do largely the same/similar things
4. They all have pros and cons
5. They all have software vulnerabilities



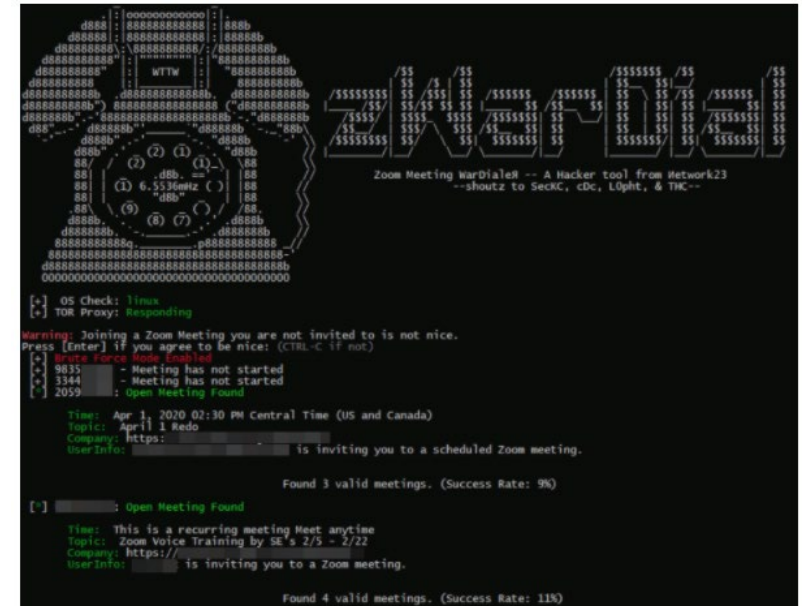
Zoom Collaboration Software

1. Zoombombing

- “Old is new again:” WarDialing
- Ability to guess/find meeting IDs
- 14% success rate
- **Easy to prevent**

2. Hacking exploitable vulnerabilities

- “Local exploits” allow privilege escalation
- “automatically inherit” any or all of Zoom’s access rights no additional prompts will be displayed, and arbitrarily record audio and video



Zoom Collaboration Software

Secure use of Zoom

1. Don't use personal meeting ID
2. Password protect the meeting(s)
3. Don't post meeting ID or PW on social media
4. Host/co-host allows participants in
5. Keep your software up to date

<https://support.zoom.us/hc/en-us/articles/360033331271-Account-Setting-Update-Password-Default-for-Meeting-and-Webinar>

Home Networks

- Monitoring, Data Loss Prevention, and Alerting
 - ◇ Your “internal network” may now have end points in your employees basement/bedroom/home office
 - ◇ Where possible you need visibility...
- Help desk/service desk challenges with remote work force
- What else is “out there”





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