

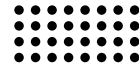
# AI Risks & Considerations

Forvis Mazars' Nonprofit, Public Sector and Healthcare Seminar – Colorado

August 21, 2025

# Introductions

## Meet Your Presenters



**Kurt Eshleman**

Senior Consultant | IT Risk & Compliance

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[Kurt.Eshleman@us.forvismazars.com](mailto:Kurt.Eshleman@us.forvismazars.com)

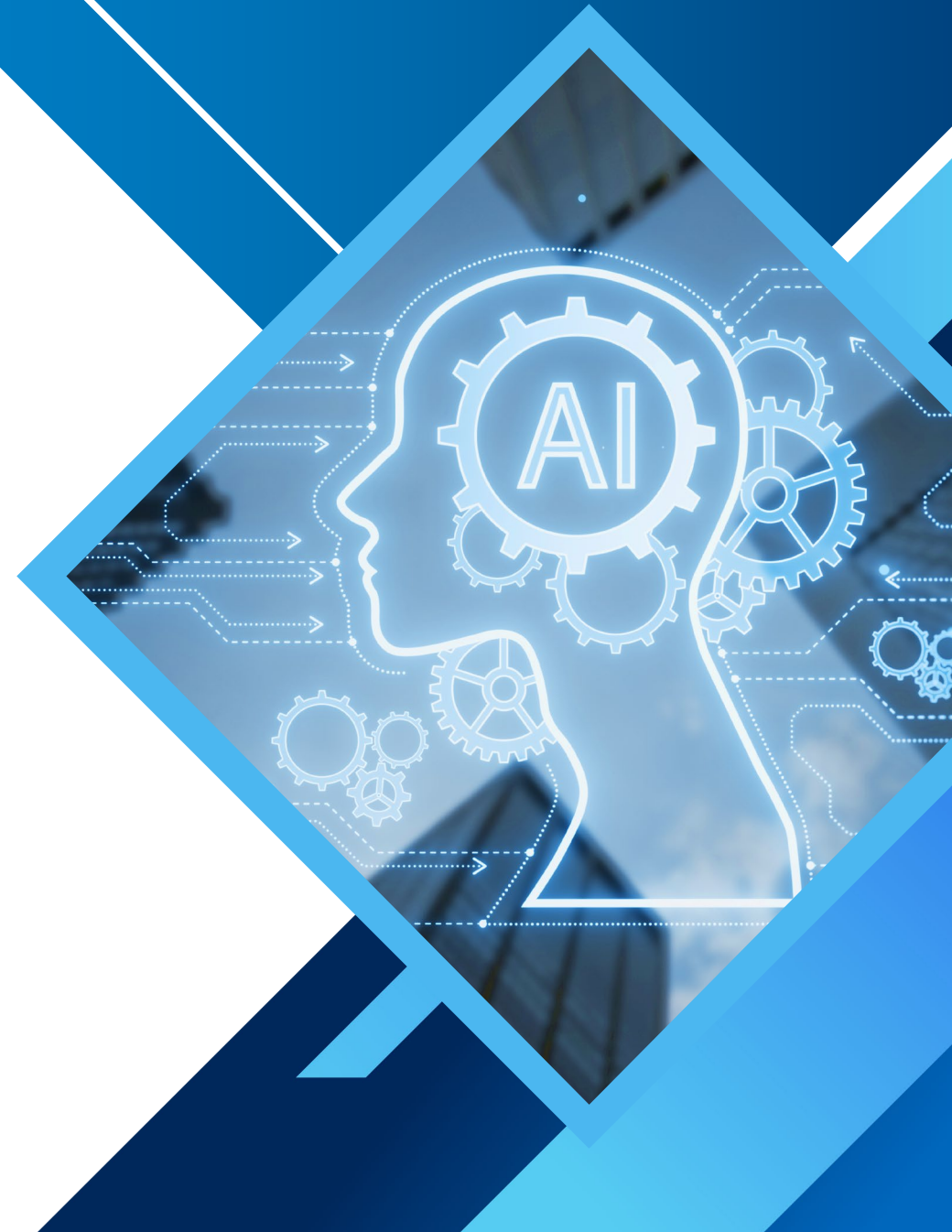


**Sean Andrews**

Manager | IT Risk & Compliance

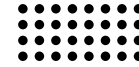
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[Sean.Andrews@us.forvismazars.com](mailto:Sean.Andrews@us.forvismazars.com)





# Learning Objectives



1

## Educate

- Recognize the evolution of cyber security and the impacts of emerging technologies across all industries

2

## Plan

- Identify how to position your organization as an innovator of technology, utilizing current processes

3

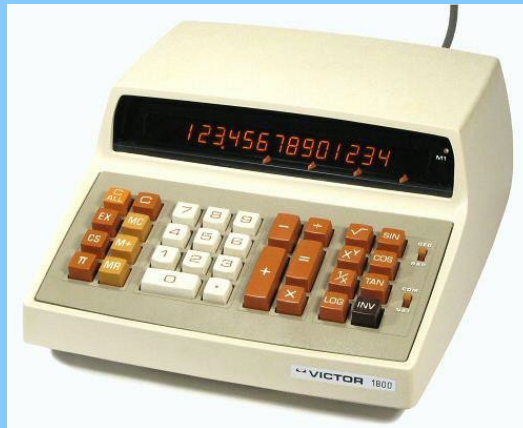
## Develop

- Describe key considerations for integrating your governance strategy into normal operations

**“This invention has sparked a heated debate among educators, economists and lawmakers”**

**“Already we are seeing people**

**“Some see this as a useful tool that**




The invention of the modern calculator | Mid-1970s

**for good purposes, not for entertainment. We need to safeguard our education system, our economy and our society from the dangers of this technology”**

**What surprised us all is how quickly it caught fire in the consumer market”**



A close-up shot of a middle-aged man with short brown hair, wearing a red crewneck sweater over a light-colored collared shirt. He is looking slightly upwards and to the left, with his mouth open as if speaking. A microphone with a logo that includes the number '2' is positioned in front of him. The background is out of focus, showing what appears to be an indoor setting with some structural elements.

If I eat here long enough  
I'll be able to buy a  
pickup truck.

The average hospital room contains from **fifteen to twenty connected medical devices**

The number of Internet devices worldwide is forecast to almost triple from **9.7 billion in 2020** to more than **29 billion in 2030**.

The Internet of ransomware things...

**HUNGRY?**  
PAY UP AND  
I'LL UNLOCK  
MY DOOR!

**ON STRIKE**  
UNTIL YOU  
SEND MONEY  
TO MY  
HACKERS.

**20 BUCKS**  
IN MY PAYPAL  
ACCOUNT  
OR I'LL ONLY  
BREW  
**DECAF!**

**I'LL BE**  
BURNING THE  
TOAST IF YOU  
DON'T GET  
ME SOME  
**DOUGH!**

**THE NEXT TIME**  
YOU LEAVE, IT'LL  
COST YOU 100  
BUCKS TO GET  
BACK INTO THE  
HOUSE, UNLESS  
YOU GIVE ME  
**\$75 NOW!**

**30 BUCKS IN**  
BITCOIN, OR NEXT  
TIME I SMELL  
SMOKE, I MIGHT  
JUST LET YOU  
SLEEP.

**MY ALARM**  
SYSTEM IS  
GOING TO GO  
OFF RANDOMLY  
THROUGHOUT  
THE NIGHT,  
UNLESS YOU  
"DONATE".

**YOUR DIRTY**  
DISHES CAN  
WAIT, I'M  
BUSY MINING  
BITCOINS.

**EXCUSE US**  
WHILE WE  
PARTICIPATE  
IN A **DDOS**  
ATTACK.

**I'M TURNING**  
OFF THE  
HEAT UNTIL  
YOU WARM UP  
MY BANK  
ACCOUNT!

**WIRE MY**  
HACKER \$100  
OR I'LL REVERSE  
MY MOTOR AND  
BLOW DIRT ALL  
OVER THIS  
PLACE!

**I'LL START**  
YOUR CAR, BUT  
ONLY TO TAKE  
YOU TO YOUR  
BANK TO MAKE  
A TRANSFER.

**SEND ME \$25 OR**  
I'LL TELL EVERYONE  
ON YOUR SOCIAL  
NETWORK THAT YOU  
WERE STUPID ENOUGH  
TO BUY AN INTERNET-  
CONNECTED BROOM!

**IF YOU DON'T**  
SEND US **CASH**,  
YOUR REPUTATION  
WILL BE IN THE  
**TRASH.**

Source: <https://iotnewsletter.org/fintech-internet-of-things-the-internet-of-ransomware-things-iot>



Institutions of all sizes are looking to harness the power of AI to help increase efficiency, enhance processes, & empower their teams. At Forvis Mazars, we help organizations revolutionize their business by developing tailored AI frameworks, infrastructure, & solutions in a structured & controlled manner for sustainable growth.

**forvis  
mazars**

# Artificial Intelligence (AI) Solutions



## Defining Your AI Strategy

- Current State
- Evaluation & Readiness
- AI Identification & Design
- Analysis for Operational Efficiencies
- Strategic Roadmap
- Specific Use Cases



## Enterprise Preparation

- Training & Awareness
- Executive Buy-In Support
- Bias & Fairness Screening
- Implementing Governance
- Acceptable User

## Evaluate



- AI Risk Assessment
- Regulatory Matrix & Compliance
- AI Inventory & Reporting
- Control Identification & Testing

## Audit



- Data Privacy
- Cyber Risk & Testing
- Third Party Risk (TPRM)
- AI Model Risk

## Implement



- RAG Implementation
- Machine Learning Model Development
- Agentic AI Tooling
- GenAI Application Integration

## Develop & Pilot



- Program Management
- Security & Access Control
- Use Case Evaluation
- Data Set Ingestion
- Continuous Monitoring

## Process & Governance



- Regulatory Matrix & Compliance
- Control Identification
- ROI Measurement & Tracking
- Bias & Fairness Screening
- Governance Development & Integration
- Regulatory Matrix & Compliance
- Model Risk Management

## Data & Technology



- Infrastructure Readiness
- Data & IT Architecture
- Data Lineage
- Data Engineering
- AI Data & Technology Assessment
- Unstructured & Structured Data Preparation



# DEFINING YOUR AI STRATEGY

Defining an AI strategy is a critical step for organization looking to adopt artificial intelligence in a way that aligns with their current business goals. This is an essential process for turning AI from a buzzword into a practical, value-driving capability.



## → Align With Business Goals

Start with a clear objective “WHY” —revenue growth, cost reduction, innovation, etc.

## → Start Small & Scale

Use pilot projects to test value before expanding AI initiatives. Quick wins build momentum and value.

## → Data Readiness

AI Runs on Data. Ensure access to high-quality, accessible, clean data, and well governed.

## → Build or Buy

Decide whether to develop in-house capabilities or partner with vendors.

## → Governance & Ethics

Define responsible AI principles early in the strategy.

## → Upskill Teams

Invest in AI literacy across technical and non-technical teams blending business acumen with technical skills.





# AI Development Lifecycle & Stakeholders

Developing an AI use case is an iterative process that involves defining objectives, collecting data, building & training models, testing & evaluating results, & refining these approaches based on business feedback. Internal audit should consider the full AI lifecycle to comprehensively capture the risk involved.

## 1. Use Case Definition

- Identification of business needs & ROI
- Definition of objectives, KPIs
- Cartography of project resources, constraints & risks (budget, IT, compliance, risk appetite, etc.)
- Identification of data available & their constraints (e.g., frequency, privacy, etc.)

## 2. Data Analytics

- Data collection
- Data architecture setup
- Data quality review (missing values, outliers, biases, etc.)
- Data exploration: analyze distributions, dependencies with target, correlations, etc.
- Feature Engineering: create, transform & select variables

## 3. Modelling & Learning

- Model development: build models, define hyperparameters, setup modelling pipeline for experimenting
- Model calibration & evaluation: define training & validation process, e.g., cross-validation, define performance metrics
- Model selection based on performance, complexity, interpretability, computational efficiency, etc.

## 4. IT Deployment

- Set up IT environments for training models, testing, & production
- Define DevOps processes to automate the deployment of code & testing
- Manage databases, computing resources, etc.
- Set up user interface to access model outputs
- Develop release plan, e.g., stage implementation
- Define maintenance process

## 5. Transfer to Business

- Conduct beta testing
- Transfer model ownership to business unit
- Train users: educate about limitations, confidence of results, model requirements, etc.
- Develop monitoring process: define KPIs, thresholds to retrain the model or escalate issues

Performing comprehensive review with controls identified throughout full AI lifecycle

# ENTERPRISE PREPARATION

Preparing your enterprise for AI involves more than adopting new tools—it requires aligning **people, processes, technology**, and data with your business goals.

## Education

- Offer training to both technical and non-technical staff.
- Educate leaders on AI capabilities and limitations.
- Encourage a culture of experimentation and learning.

## Technology

- Cloud computing for scalability and speed.
- AI/ML platforms for model development and deployment
- Data warehouses /lakes to centralize data access.

## Measure

- Define KPIs for each initiative.
- Use feedback loops to improve models and processes.
- Scale successful pilots across teams or departments.

## Change Management

- Involve business process owners early.
- Redesign workflows where needed to incorporate AI output.
- Communicate changes clearly and manage cultural resistance

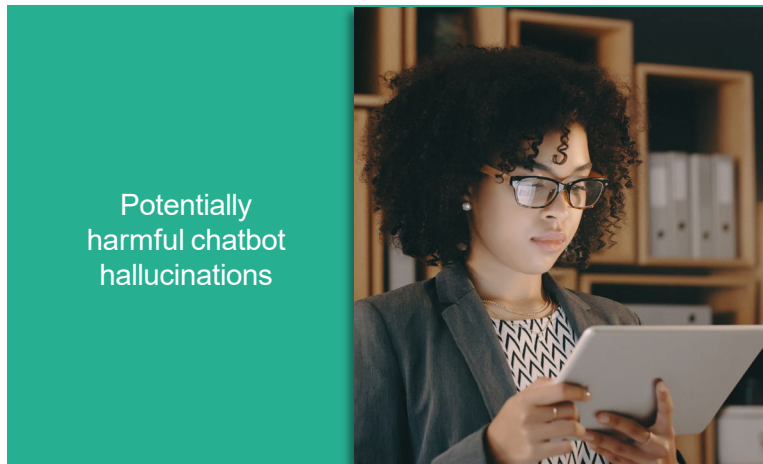
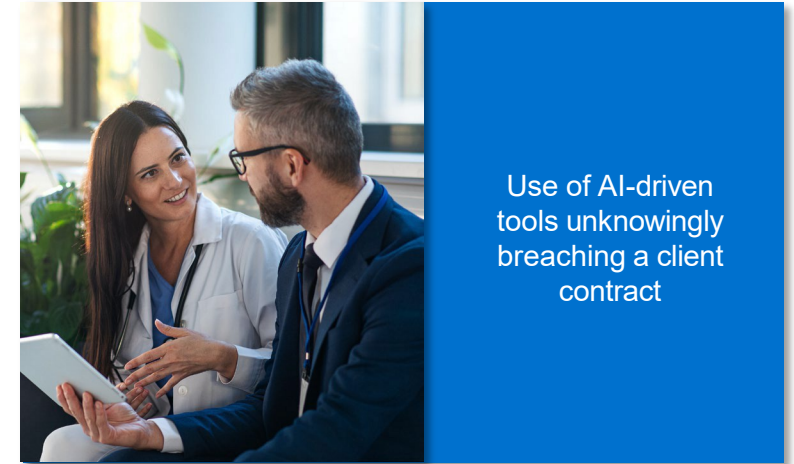
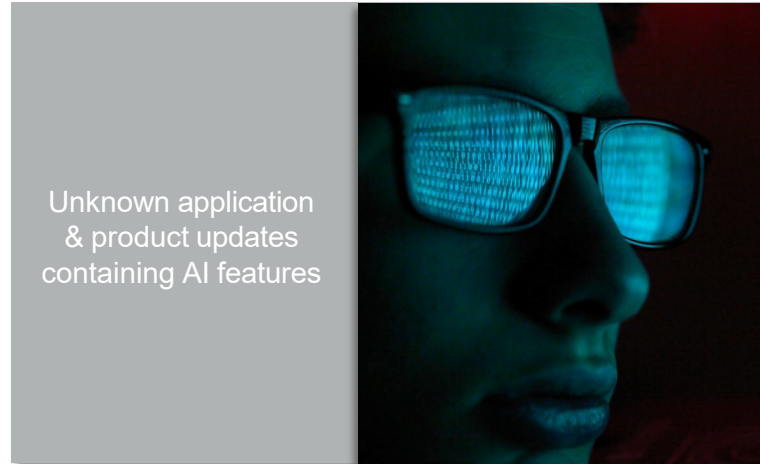
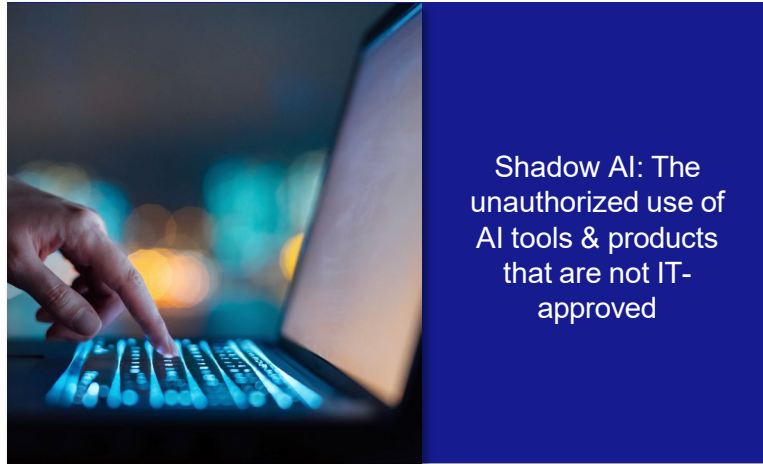
## Stakeholders

- Involve C-suite in AI strategy development.
- Show ROI and risk mitigation plans.
- Celebrate and share wins internally.



# Hidden AI Risk

The use of AI presents additional third-party, legal, compliance, & reputational risks when being used or relied upon unknowingly.

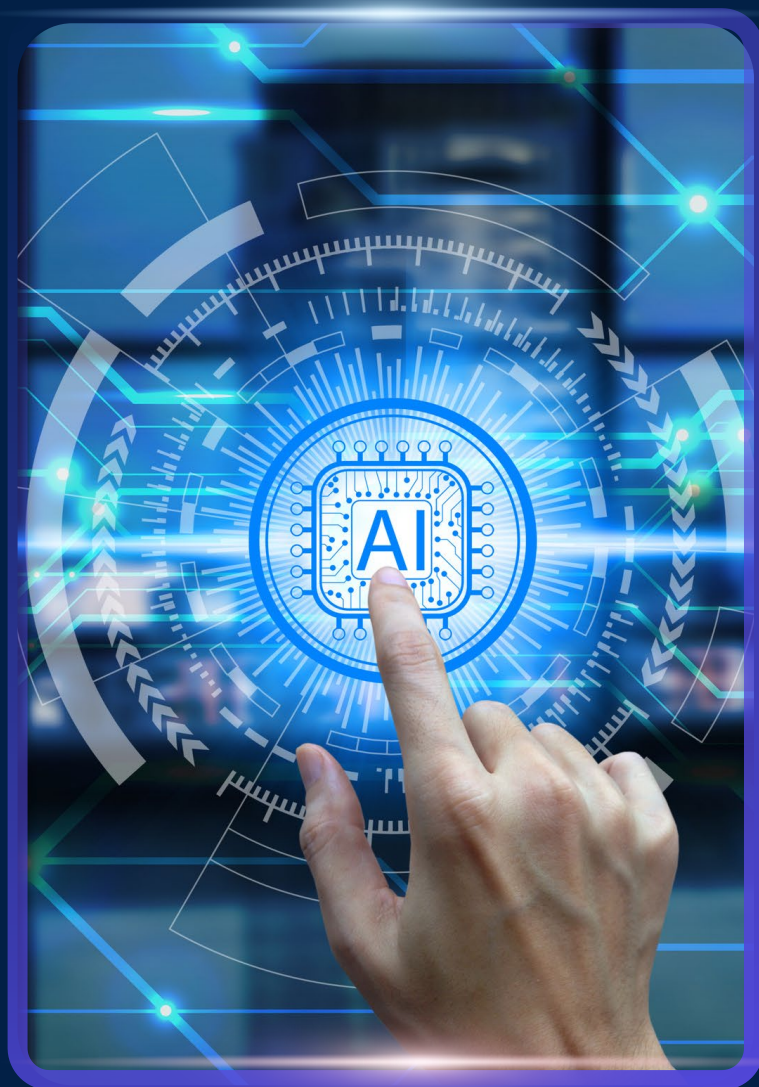




# PROCESS & GOVERNANCE

Implementing AI successfully in an enterprise setting requires a structured AI process and a solid AI governance framework to ensure the technology is trustworthy, aligned with business goals, and compliant with ethical and legal standards. AI governance ensures AI is used responsibly, ethically, and compliantly, with clear oversight and control.

- ➔ Oversight
- ➔ Data Governance
- ➔ Risk Management & Compliance
- ➔ Ethical Guidelines & Principles
- ➔ Monitoring & Reporting



# Purpose of AI Governance

AI governance refers to the frameworks, policies, and guidelines that ensure artificial intelligence (AI) technologies are developed and used ethically and responsibly. AI governance is essential for ensuring that AI technologies are used in a way that benefits society while minimizing potential negative impacts.

## Accountability

- Clearly articulate business objectives and goals for implementing AI
- Establish clear data management policies and procedures
- Identifying potential risks associated with AI system, including technical, operational and ethic
- Implementing strategies to mitigate risks and reduce their potential impact

## Transparency & Explainability

- Maintain detailed records of AI models, data sources, decision-making workflows and system modification
- Regularly informing stakeholders, management, employees about AI practices, associated risks and benefits
- Offer training and educational resources to employees to enhance their grasp of AI systems and their implications

## Ethics & Fairness

- Formulate and incorporate ethical guidelines and principles into AI development / use processes
- Perform periodic assessments to detect and address any biases within AI systems
- Encourage diverse perspective within AI development teams to foster fairness and diminish biases



# AI Governance & Risk Management



## AI Governance

AI Governance manages AI initiatives responsibly, enables compliance with regulations, and aligns AI usage with self-defined ethical standards.

- Policy Development
- Standards and Procedures
- Governance Structure
- Risk Management
- Transparency and Fairness
- Security Measures
- Ethical Alignment



## NIST AI Risk Management Framework

The NIST AI RMF enables secure and ethical implementation of AI technologies in compliance with regulatory standards.

- Applies customized guidelines to manage identified AI risks effectively.
- Aims to define and uphold the trustworthiness and security of AI technologies.
- Supports your organization in adherence to relevant regulations.
- Promotes responsible AI deployment practices that align with NIST standards.



## AI IT Audit

An AI IT Audit evaluates organization AI systems to ensure they are secure, compliant, and efficient through comprehensive evaluations and tailored recommendations.

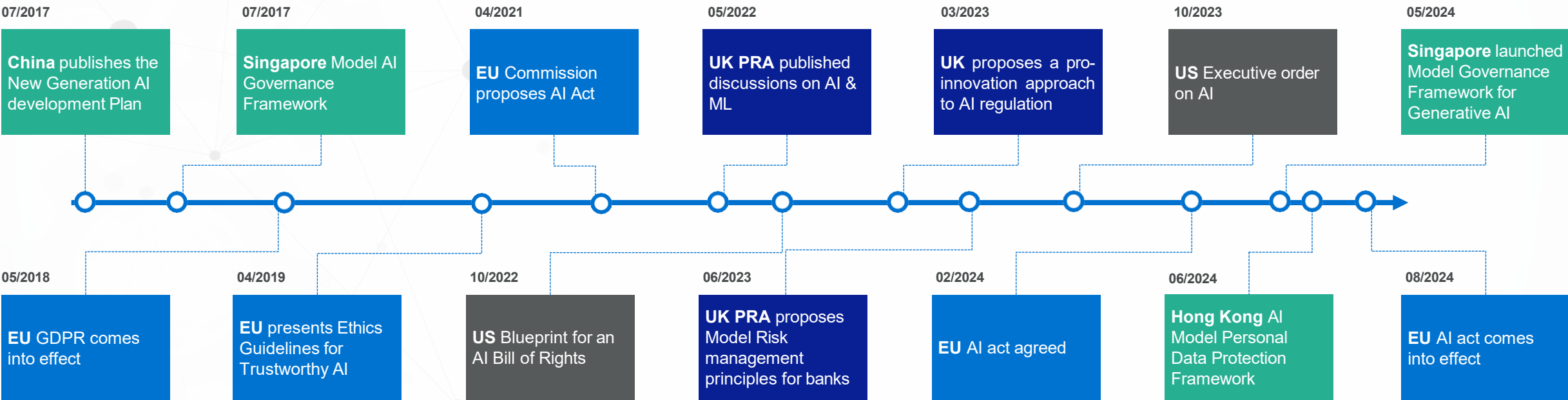
- Evaluate Implementation of AI Models
- Data Handling Analysis
- Governance Review
- Recommendations for Improvement
- Stakeholder Assurance

# Rapidly-Evolving AI Regulatory Landscape

Given the rapid evolution of AI regulations globally, effective governance is essential, necessitating collaboration between various entities & monitoring of regulatory developments to ensure global compliance.



## Timeline of AI Regulations\*



Regions:

Asia

EU

US

UK

\*Note, the regulations shown are demonstrative & not an exhaustive list

# Mitigating AI Risk

Although the use of AI can present novel & complex risks, institutions can safeguard their users, data, & reputations with a robust risk mitigation strategy. Below are some examples of ways to mitigate AI risk.

## Third Party

- Review contracts with third-party vendors
- Stay informed about new features & model components of third-party models
- Ensure contracts contain clauses that protect the institution's data
- Understand third-party data sourcing, storage, & retention

## Operational / IT

- Consider a thorough review & approval process for all AI-driven tools, products, & partnerships
- Consider implementing internal controls & limitations for users
- Implement a rigorous training process to inform users about information security in the age of AI
- Maintain robust documentation of data dictionaries & lineage

## Governance

- Re-review all AI-driven tools & products for model definition & enhance model risk management
- Develop an agreed-upon framework with clearly defined leadership, roles, & responsibilities
- Consider second-line governance oversight to ensure first-line adherence to policies & frameworks
- Monitor all model inputs & outputs, & perform regular testing to detect potential bias or unwanted outcomes

\*Note: the mitigation strategies shown are among the most important but are not an exhaustive list



# Nondeterminism and Evaluation

AI: “Generate a picture of a cat with yellow boots, holding a red umbrella, orange fur, and is standing on an English Street.”



# DEVELOP & PILOT

Launching your AI initiative typically begins with two core phases: Develop and Pilot. These phases turn an AI idea into a validated, value-generating prototype, which together form the foundation for deploying successful AI solutions in your enterprise.

**Reduce Risk, Build Trust, Prove ROI**

## Develop

This is where the AI solution is **designed, built, and tested**—before deployment. It's like building the engine before installing it in a car. The focus is on creating a functional, reliable prototype that solves a specific business problem.

## Pilot

The pilot tests the model in a **realistic business environment** with minimal risk to evaluate its effectiveness, usability, and business impact. It proves value before scaling by obtaining user feedback and determining readiness.







# AI IMPLEMENTATION

AI Implementation is the phase where your developed and piloted AI solution is fully integrated into business operations, scaled across teams or systems, and maintained for long-term value. To deploy AI at scale, integrate it into core processes, and ensure it continuously delivers business value.



Productionize the AI  
Model



Integrate into  
Business Systems



Establish  
Monitoring &  
Maintenance

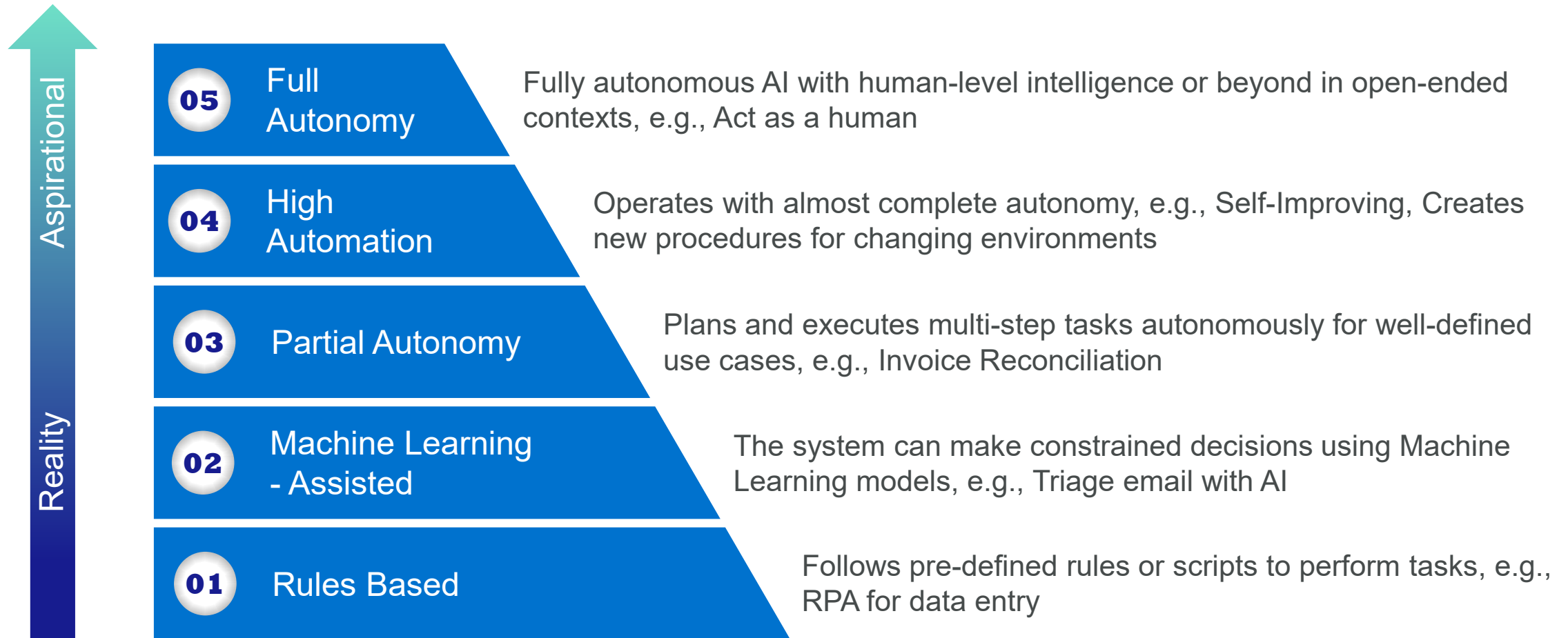
## Plan for Continuous Improvement

AI becomes a sustained operational asset—not a one-time project



# Agentic AI

## Levels of Autonomy

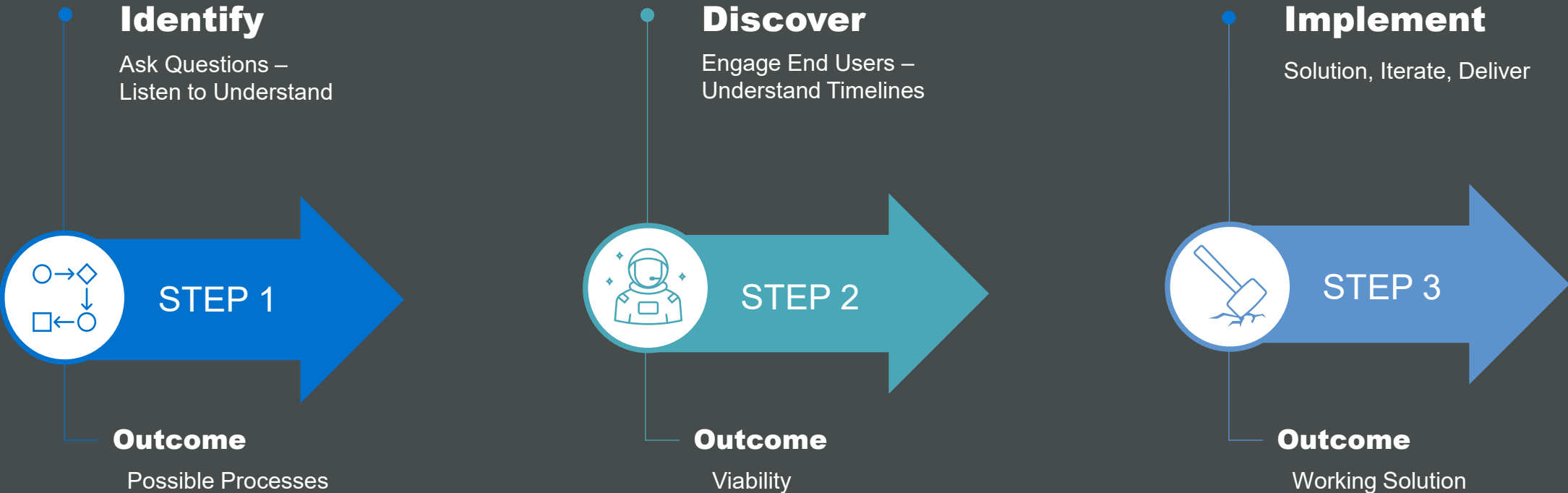


**NOTE:** Level 4 & Level 5 are aspirational in today's world

# Automation

## The Process

Every successful automation goes through a defined process.



## AI health-care startup OpenEvidence raises funding from Sequoia at \$1 billion valuation

### KEY POINTS



- AI startup OpenEvidence is raising a fresh round of capital from Sequoia to scale its chatbot for doctors.
- OpenEvidence is an AI copilot for physicians that helps them make better decisions at the point of care. The company claims it's already being used by a quarter of doctors in the U.S.
- The new \$75 million cash injection, which has not been previously reported, values OpenEvidence at \$1 billion, the two companies told CNBC.



Medical technology, AI technology is utilized by doctors for diagnosing increasing the accuracy of patient treatments. Medical research and development innovation technology to improve patient health.

Press609 / iStock / Getty Images

headache, sore throat, cough, sore chest, yellow mucus, congestion

Expanded question: What could be the possible diagnosis for symptoms including headache, sore throat, cough, sore chest, yellow mucus, and congestion? ^

### Most Likely Diagnoses:

1. **Common Cold:** The symptoms of headache, sore throat, cough, sore chest, yellow mucus, and congestion are consistent with the common cold, a benign, self-limited viral illness. The American College of Physicians and the Centers for Disease Control and Prevention note that the common cold can present with these symptoms and typically resolves without the need for antibiotics.<sup>[1]</sup>
2. **Acute Bronchitis:** Acute bronchitis, characterized by an acute cough and inflammation of the trachea and lower airways, can present with cough, sore chest, and yellow mucus. The American College of Chest Physicians emphasizes that acute bronchitis is a common clinical condition and is usually self-limiting.<sup>[2]</sup>
3. **Acute Rhinosinusitis:** The presence of yellow mucus, congestion, and headache suggests acute rhinosinusitis. The American Academy of Otolaryngology-Head and Neck Surgery states that acute rhinosinusitis is diagnosed with purulent nasal drainage and nasal obstruction or facial pain.<sup>[3]</sup>
4. **Influenza:** Influenza can present with headache, sore throat, cough, and congestion. The CDC notes that influenza typically has an abrupt onset and can include these symptoms along with fever and malaise.<sup>[4]</sup>
5. **Allergic Rhinitis:** Allergic rhinitis can cause nasal congestion, rhinorrhea, and postnasal drainage, which may lead to a sore throat and cough. The American Academy of Family Physicians highlights that allergic rhinitis is associated with these symptoms and often occurs in response to allergens.<sup>[5]</sup>

### Most Important Not to Miss Diagnoses:

1. **Pneumonia:** Pneumonia should be considered, especially if there is fever, productive cough, and pleuritic chest pain. The American College of Chest Physicians recommends considering pneumonia in patients with acute cough and suggests using clinical judgment and possibly chest radiographs to rule

Ask a follow-up question...





# EVALUATE



- » Model Performance.
- » Business Impact & Value.
- » User Feedback & Adoption.
- » Ethics, Bias, and Fairness
- » Compliance & Regulatory.



AI Evaluation comes after your AI model has been implemented (either during or after the pilot or full implementation). It focuses on measuring how well the AI is performing and whether it's generating the expected business impact.

Structured processes, checks, and tools are used to monitor, assess, and govern AI system throughout their lifecycle including identifying risks. Evaluate to ensure your AI solution remains accurate, fair, compliant, and valuable over time.

# AI AUDIT

An AI audit is a structured and systematic evaluation of an artificial intelligence system, including its data, algorithms, decision-making processes, and governance practices. The primary purpose of an AI audit is to ensure that AI systems are trustworthy and accountable.



**AI System Audit**

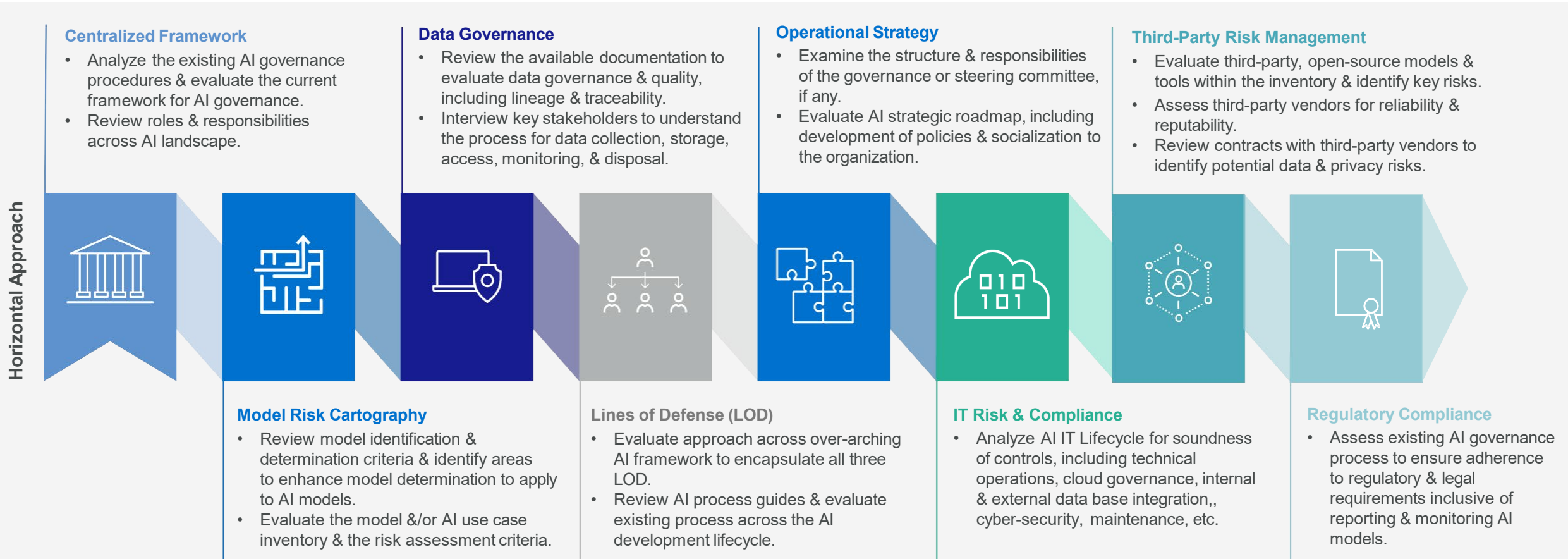
**Algorithmic Audit**

**Data Audit**

**Governance & Compliance Audit**

# Internal Audit Approach to AI

An internal audit approach for AI from **both** a horizontal view, incorporating functions using AI into existing audits, as well as a vertical view that focuses on the highest risk use cases in depth is recommended.



## Vertical Approach

In addition to the above overarching assessment, the highest-risk AI use cases will be reviewed in detail across technology, data, people, & processes. This will serve as a representation of the current in-production landscape to help formulate gaps that may exist across the AI use case inventory.

# AI Readiness Assessment

AI Readiness Assessment ensures that an organization is well-prepared to integrate AI technologies, driving innovation and efficiency while minimizing potential pitfalls. This is a crucial step for organizations looking to adopt AI technologies effectively.

## Data Readiness

**Data Quality:** Accurate, complete, consistent data. Garbage In, Garbage Out

**Data Availability:** Data available for IA model testing and training

**Data Volume:** Sufficient Data volume to support AI model performance & learning requirements

**Data Governance:** Data Management, compliance with data privacy, regulations, ethical considerations and ownership

## Technical Infrastructure

**Computational Resources:** Evaluate software, hardware, cloud systems, data storage solutions necessary for training and deploying AI

**Network Capabilities:** Assess network infrastructure to ensure the handling of data transfer and processing requirements of AI applications

**Scalability:** Determine if existing tech infrastructure can scale to accommodate increased AI workloads

**Security Measures:** Determine if appropriate security protocols are in place to protect data and AI models from unauthorized sources

## Framework Readiness

**Organizational Alignment:** Determine whether organizational 's strategic goals and objectives align with AI initiatives

**Governance Structure:** Evaluate the existing governance frameworks that will oversee AI projects, including roles, responsibilities and decision-making process

**Compliance & Ethical Standards:** Review existing policies to ensure compliance with legal and ethical standards relevant to AI deployment

**Skillset & Trainings:** Assess current skillset. Identify gaps and plan for necessary trainings or hiring



# AI Controls - Govern, Map, Measure, and Manage



<b>GOVERN 1</b>	<b>Policies, processes, procedures, and practices</b> across the organization related to the mapping, measuring, and managing of AI risks are in place, transparent, and implemented effectively.
<b>GOVERN 2</b>	<b>Accountability structures</b> are in place so that the appropriate teams and individuals are empowered, responsible, and <b>trained for mapping, measuring, and managing AI risks</b> .
<b>GOVERN 3</b>	Workforce <b>diversity, equity, inclusion, and accessibility</b> processes are prioritized in the mapping, measuring, and managing of AI risks throughout the lifecycle.
<b>GOVERN 4</b>	<b>Organizational teams</b> are committed to a culture that considers and <b>communicates AI risk</b> .
<b>GOVERN 5</b>	Processes are in place for <b>robust engagement with relevant AI actors</b> .
<b>GOVERN 6</b>	<b>Policies and procedures are in place to address AI risks</b> and benefits arising from third-party software and data and other supply chain issues.
<b>MAP 1</b>	<b>Context</b> is established and <b>understood</b> .
<b>MAP 2</b>	<b>Categorization</b> of the AI system is performed.
<b>MAP 3</b>	AI capabilities, targeted usage, goals, and expected benefits and costs compared with appropriate <b>benchmarks</b> are understood.
<b>MAP 4</b>	<b>Risks and benefits are mapped</b> for all components of the AI system including third-party software and data.
<b>MAP 5</b>	<b>Impacts to individuals, groups, communities, organizations, and society</b> are characterized.
<b>MEASURE 1</b>	Appropriate methods and <b>metrics are identified and applied</b> .
<b>MEASURE 2</b>	AI systems <b>are evaluated for trustworthy</b> characteristics.
<b>MEASURE 3</b>	Mechanisms for <b>tracking identified AI risks</b> over time are in place.
<b>MEASURE 4</b>	Feedback about <b>efficacy of measurement is gathered and assessed</b> .
<b>MANAGE 1</b>	<b>AI risks</b> based on assessments and other analytical output from the <b>MAP</b> and <b>MEASURE</b> functions are prioritized, responded to, and managed.
<b>MANAGE 2</b>	<b>Strategies</b> to maximize AI benefits and minimize negative impacts are planned, prepared, implemented, documented, and informed by input from relevant AI actors.
<b>MANAGE 3</b>	AI risks and benefits <b>from third-party entities</b> are managed.
<b>MANAGE 4</b>	Risk treatments, including response and recovery, and communication plans for the <b>identified and measured AI risks</b> are documented and monitored regularly.

# Things to Consider and Remember

Although AI will undoubtedly change the way organizations operate, human intervention is required at every step of the AI lifecycle – from development to deployment to auditing. Identifying & mitigating risk will always be the first step in giving institutions the confidence. & security they need to use AI responsibly.

## C Consider

Data, Data, Data – AI is only as good as the data

Requires extensive testing

Models are the driving force

AI governance is foundational...creates guardrails

## R Remember

Who is driving AI at your organization?

Is your organization a leader, lagger, or beginner?

Have you spent time with IT: AI strategy, technology, and governance?

Is Legal and Compliance involved with 3<sup>rd</sup> Party AI considerations?

# Questions

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# THANK YOU

## FOR YOUR ATTENTION & PARTICIPATION

Although AI will undoubtedly change the way organizations operate, human intervention is required at every step of the AI lifecycle. Identifying & mitigating risk will always be the first step in giving institutions the confidence & security they need to use AI responsibly.





# Contact

## Forvis Mazars

### **Kurt Eshleman**

Senior Consultant

P: 615.491.3351

Kurt.Eshleman@us.forvismazars.com

### **Sean Andrews**

Manager

P: 703.970.0443

sean.andrews@us.forvismazars.com

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# Economic Update

August 21, 2025



Chris Blackwood  
Senior Portfolio and Investment Pool Strategist

Chris Blackwood joined Chandler in 2024 as a Senior Portfolio and Investment Pool Strategist. He brings more than 25 years of experience in the financial services industry, with a focus on local government investment pools (LGIPs), separately managed accounts and bond proceeds portfolios.

Prior to joining the firm, Chris was a managing director at PFM Asset Management, providing investment advisory services to local governments throughout the Rocky Mountain region. His experience also includes serving as an administrator and/or portfolio manager for three LGIPs; as a research director for several bond underwriting firms; and as a senior economist to the Governor of Colorado. He is the author of four books, including his most recent publication, *Investing Public Funds in Colorado*, a definitive guide to permitted public investments in the Centennial State.

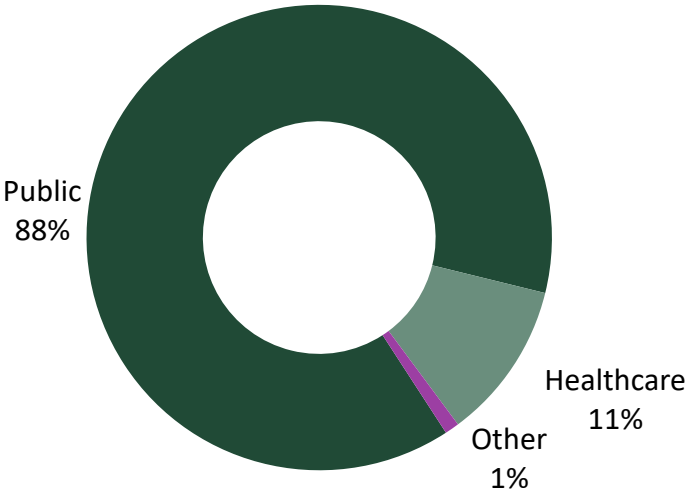
Chris holds a bachelor's and master's degrees in economics from the University of Colorado and has executive education from the University of Denver and the Massachusetts Institute of Technology.



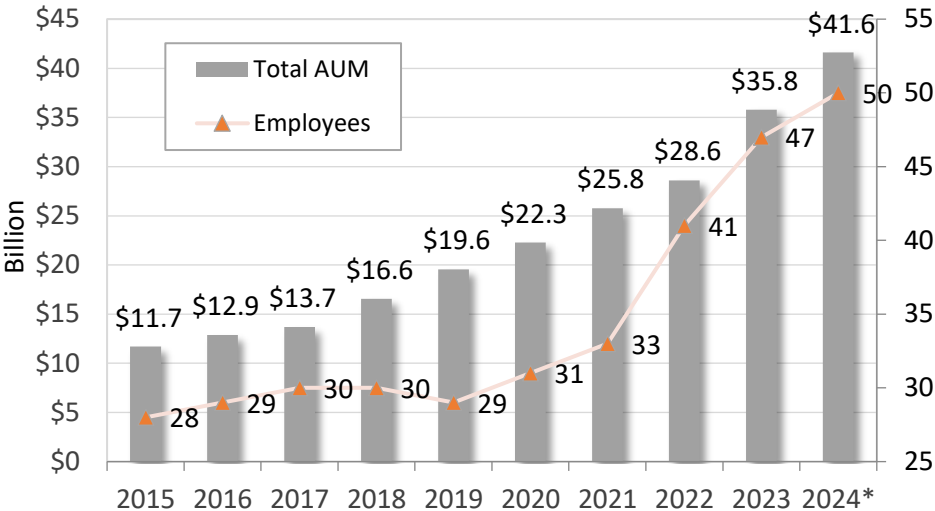
*"We believe if we do what is right for our clients, our own success will follow."*

**Assets Under Management: \$42.4 Billion**

As of June 30, 2025



**Chandler's AUM (\$ billions) 2015-2024**



\*All data as of December 31 of each year.

***Independent & Employee-Owned***

- Fixed income investment specialist since 1988
- Founded by public agency investment professionals
- Serving over 200 local government clients
- Headquartered in San Diego, CA with offices in Ventura, CA; Oakland, CA; Marin County, CA; Seattle, WA; Denver, CO; and Clearwater, FL

***Customized Investment Program***

- Tailored investment solutions based on individual risk profiles and return goals
- Direct access to the investment management team
- Strategies for operating, short- and long-term reserves, and bond proceeds
- Large enough to aggregate orders and access primary markets, but right-sized to provide customized consultative services

***Stable Team of Investment Professionals***

- Tenured team of investment professionals with decades of portfolio management experience
- Continuity provided through team approach
- Disciplined, repeatable investment process
- Proprietary investment analysis

**SECTION 1**

**ECONOMIC UPDATE**

**SECTION 2**

**THE TARIFF SITUATION**

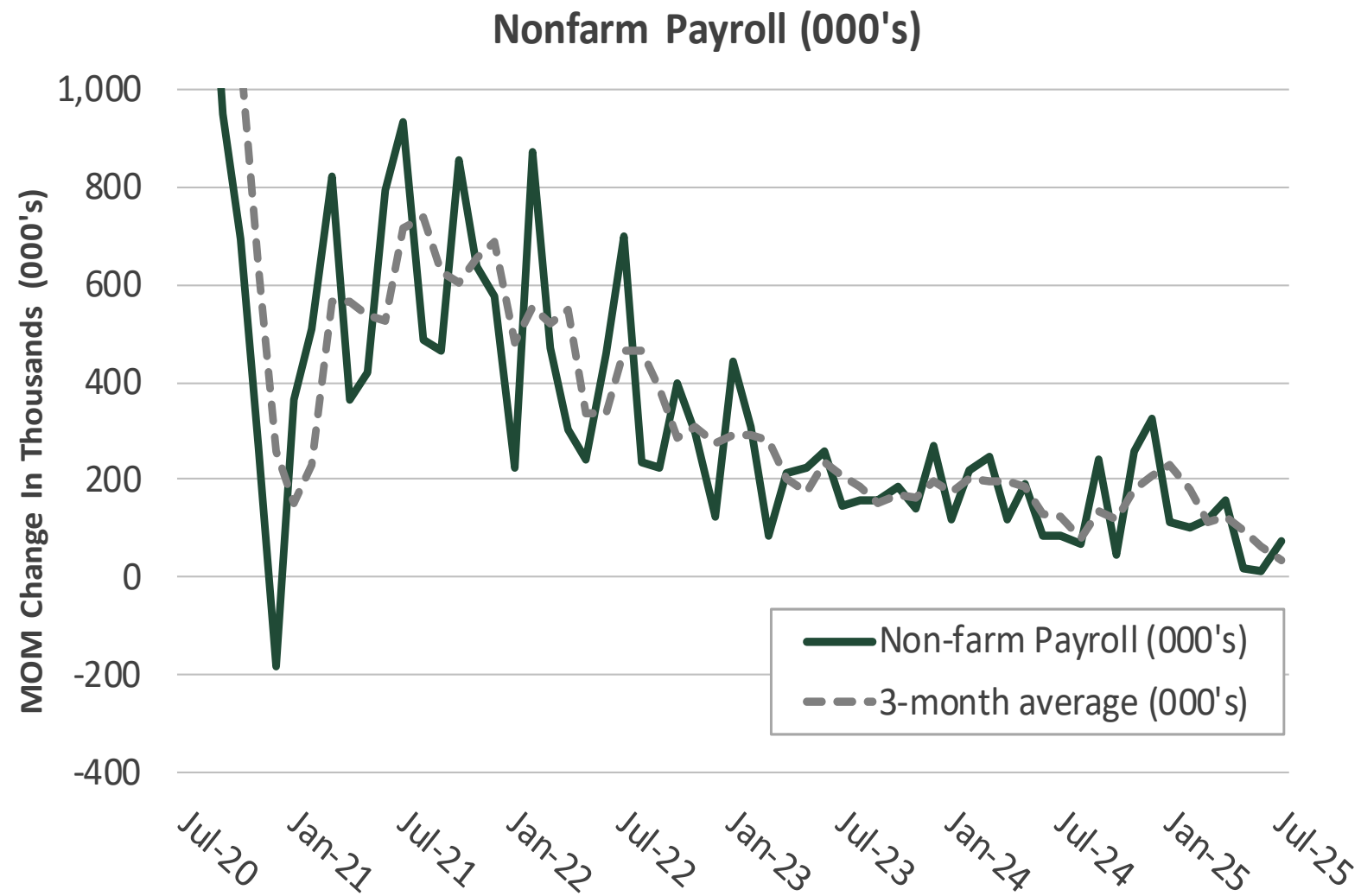
## Section 1 | Economic Update



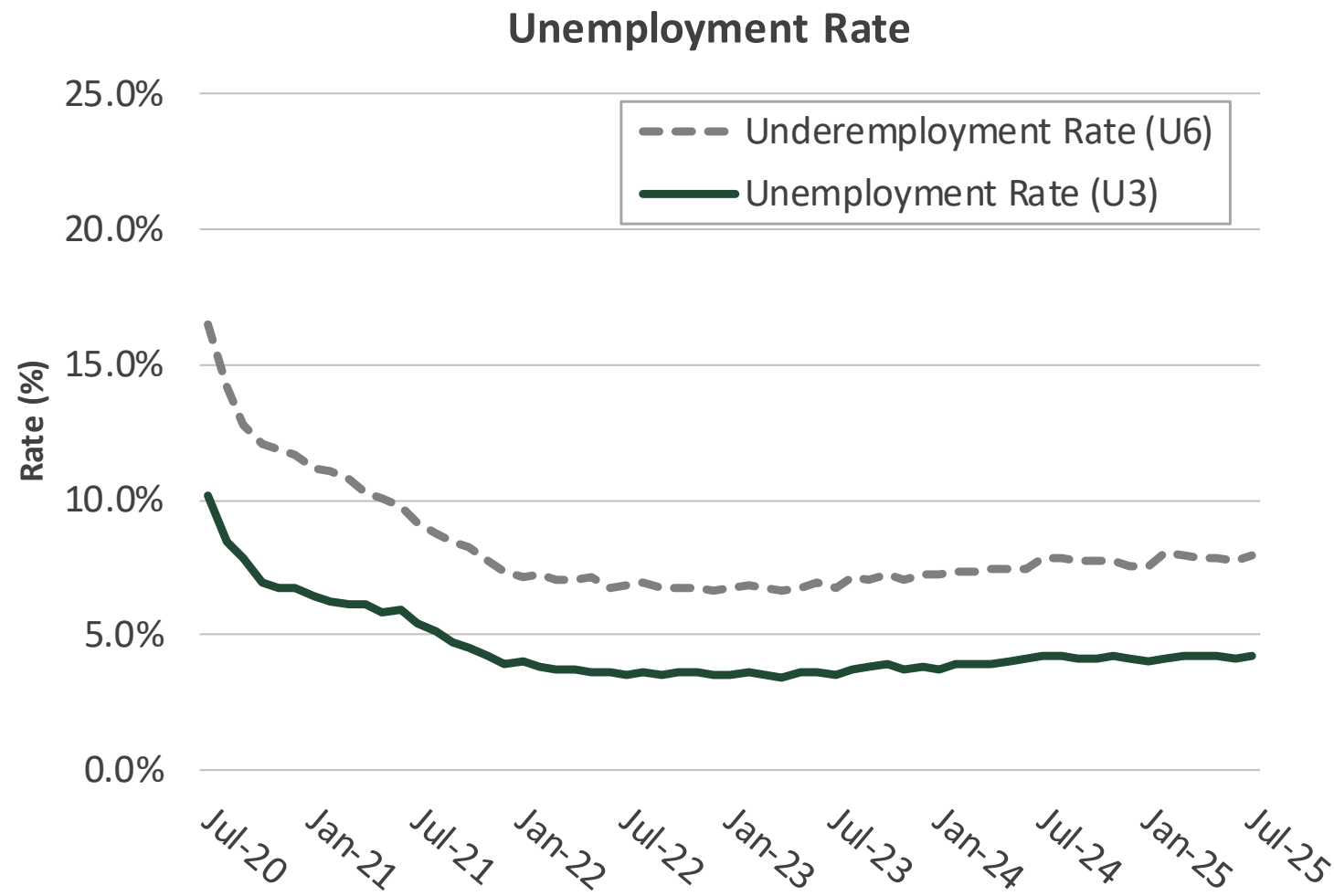


The Fed's dual mandates often compete with one another



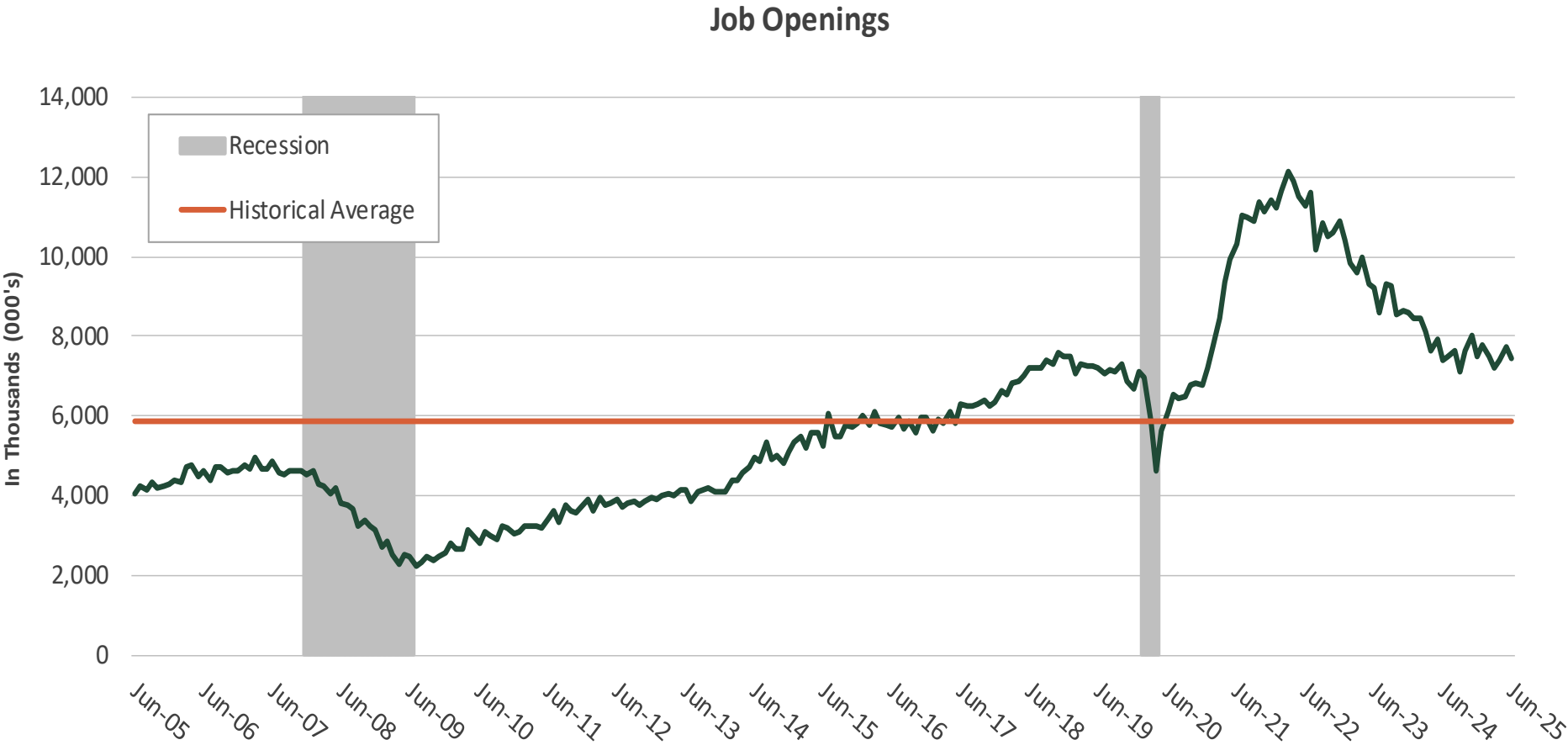


Source: US Department of Labor



Source: US Department of Labor

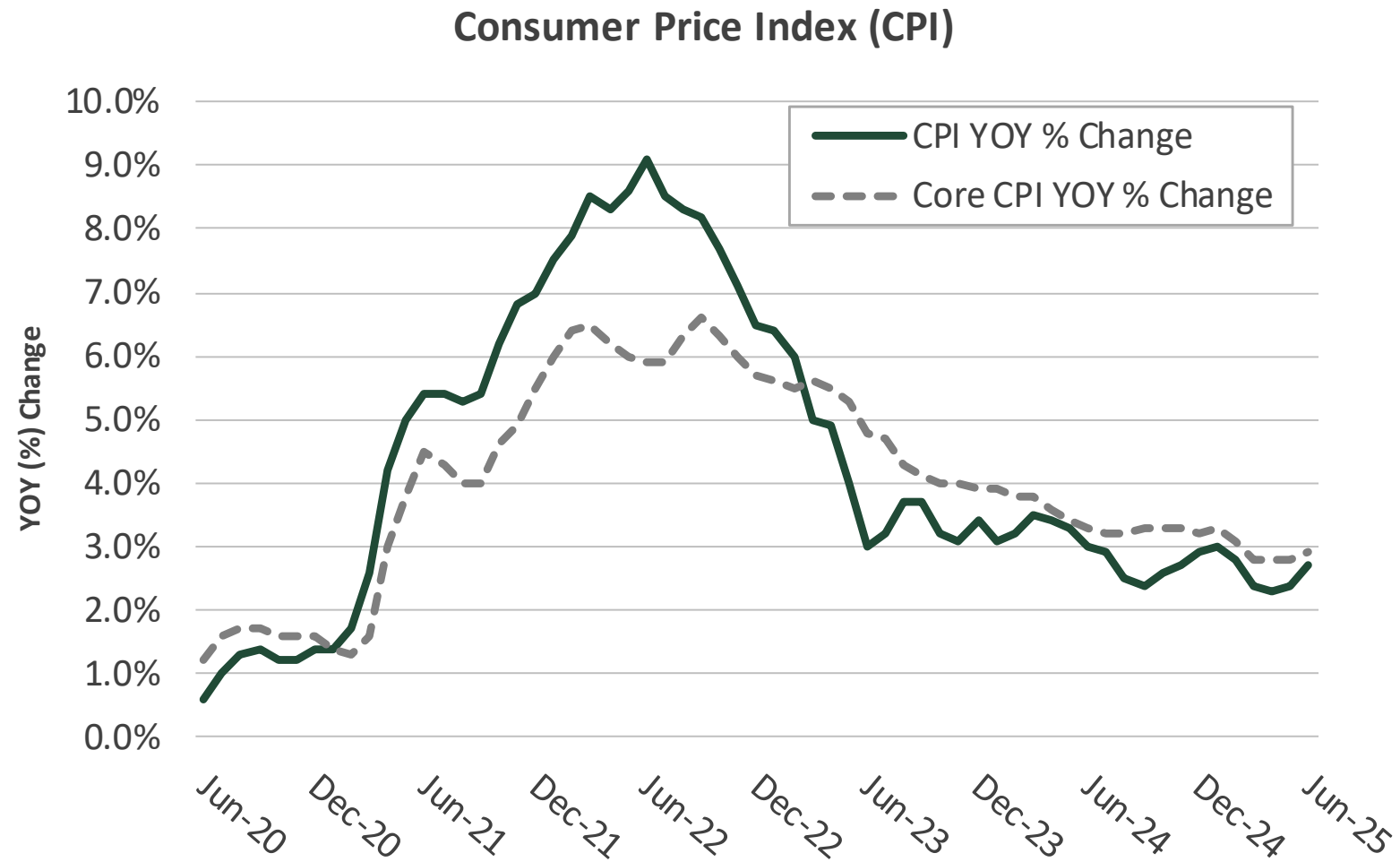




Source: US Department of Labor

### *Key Points*

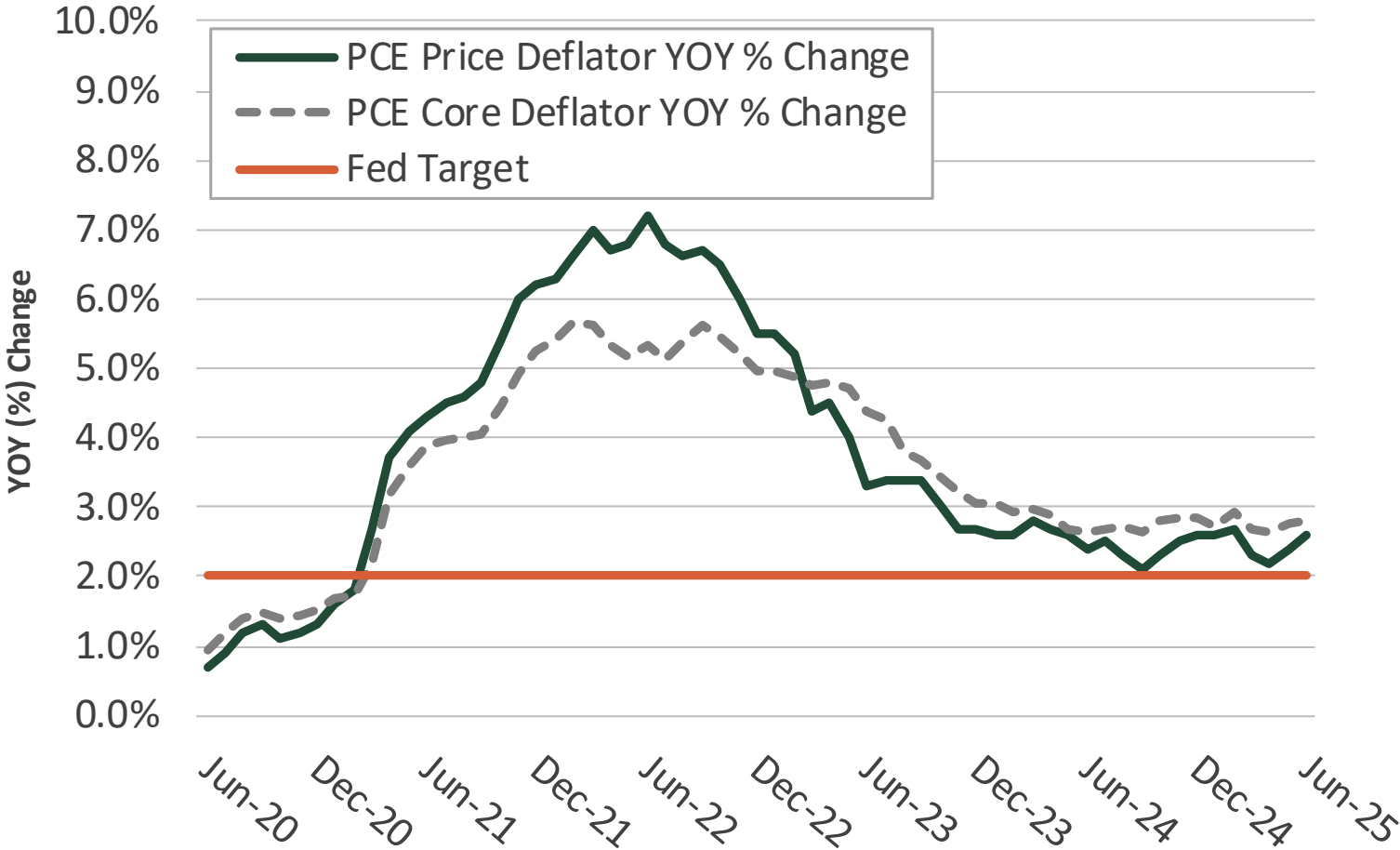
- The **Consumer Price Index (CPI)** measures the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services, while the **Personal Consumption Expenditures (PCE)** price index measures the prices of goods and services consumed by individuals.
- Although the CPI is the best-known measure of inflation, the Fed's preferred gauge is the PCE
  - Why?
    - The two have different weightings, methodologies and formulas
    - PCE measures a broader range of goods and is a more dynamic measure versus CPI
    - PCE (formula) factors in a substitution effect
    - Core PCE is preferred due to the exclusion of volatile food and energy costs
- Currently, the Fed's target for inflation ("stable prices") is 2%
  - Historically, the Fed has preferred a rate of inflation between 2-3%
- Currently, the Fed's primary focus is lowering persistently high inflation



Source: US Department of Labor



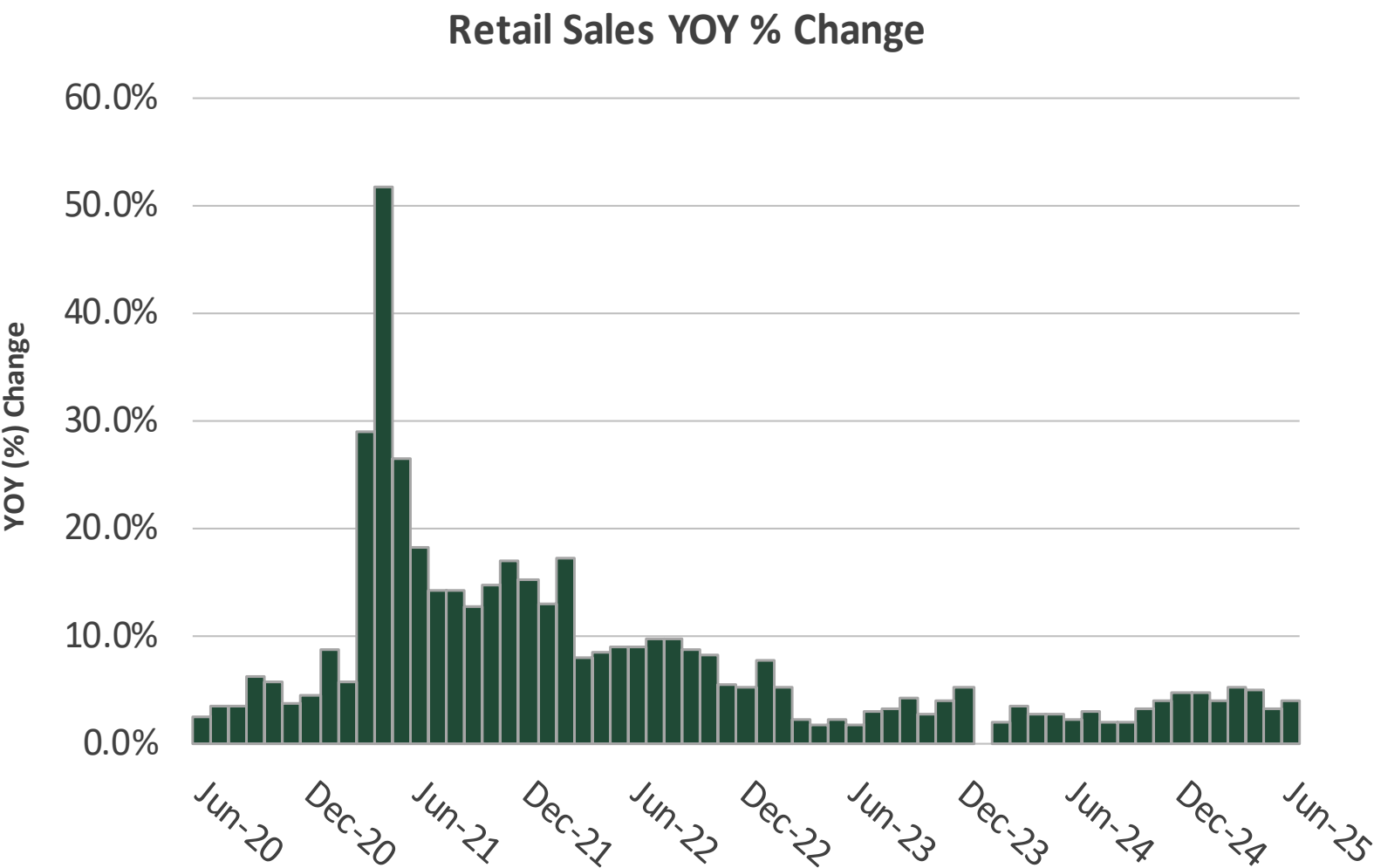
Personal Consumption Expenditures (PCE)



Source: US Department of Commerce

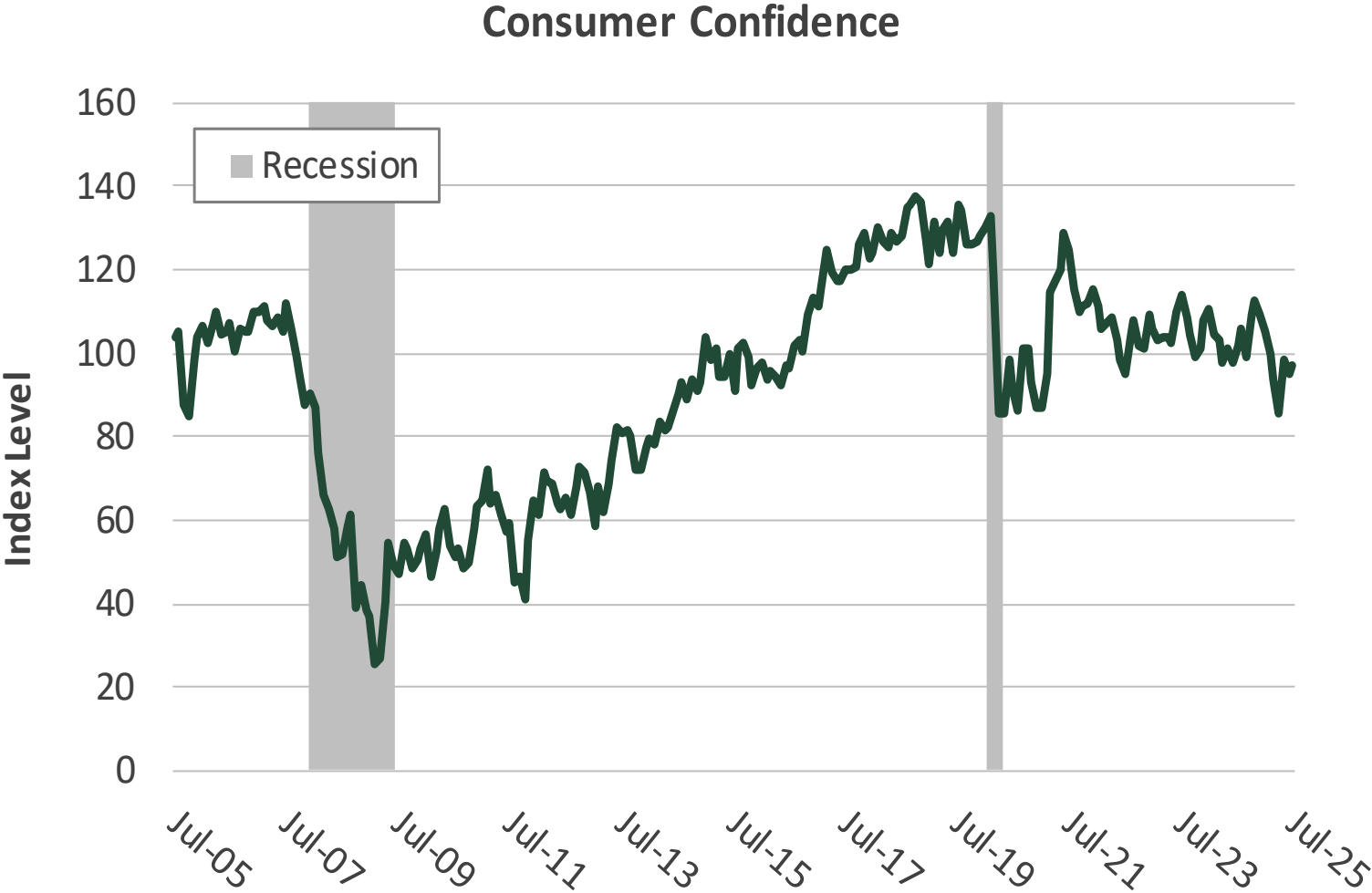
### *Why is it important?*

- Consumer Spending accounts for about 2/3 of GDP Growth
- Retail Sales is the total dollar amount of finished goods sold monthly in the U.S.
- Consumer Confidence is a leading indicator of the consumer's propensity to spend
  - Survey of households regarding Present Situation and Future Expectations
  - Correlated to labor market conditions and linked to stock market performance
  - The all-time high of 144.7 was recorded in May 2000
  - Historic low of 25.3 was recorded in February 2009

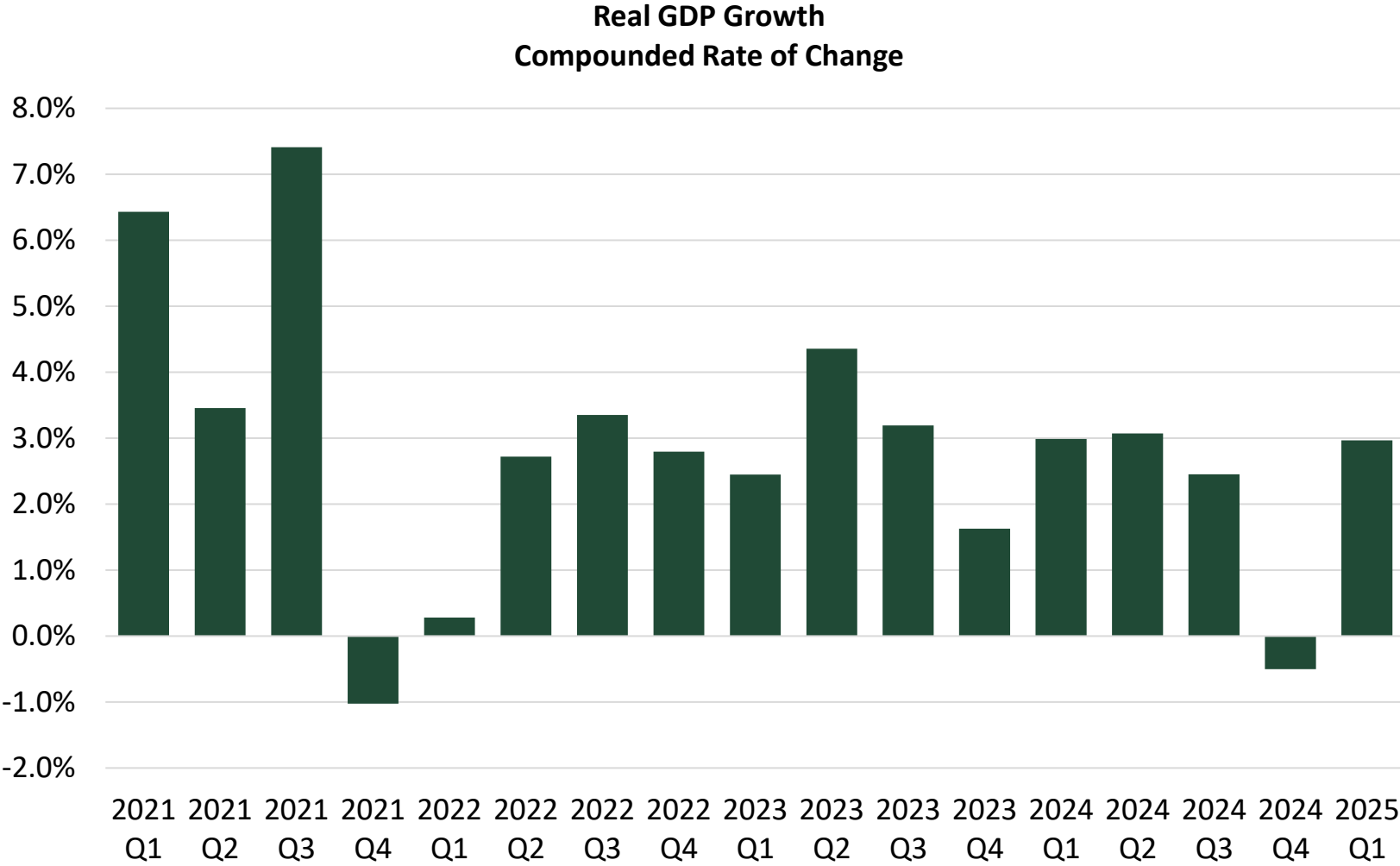


Source: US Department of Commerce





Source: The Conference Board  
All time high is 144.70 (1/31/00); All time low is 25.30 (2/28/09)



Source: US Department of Commerce

The equation  $GDP = C + I + G + (X - M)$  is displayed in large black font. Above the equation are several icons: a globe with percentage signs and a bar chart (representing GDP), a shopping cart (representing Consumer Goods), a storefront (representing Investment Spending), a government building with a dollar bill (representing Government Spending), a warehouse with a truck (representing Exports), and a cargo ship (representing Imports).
$$GDP = C + I + G + (X - M)$$

C = Consumer Goods (Consumption)

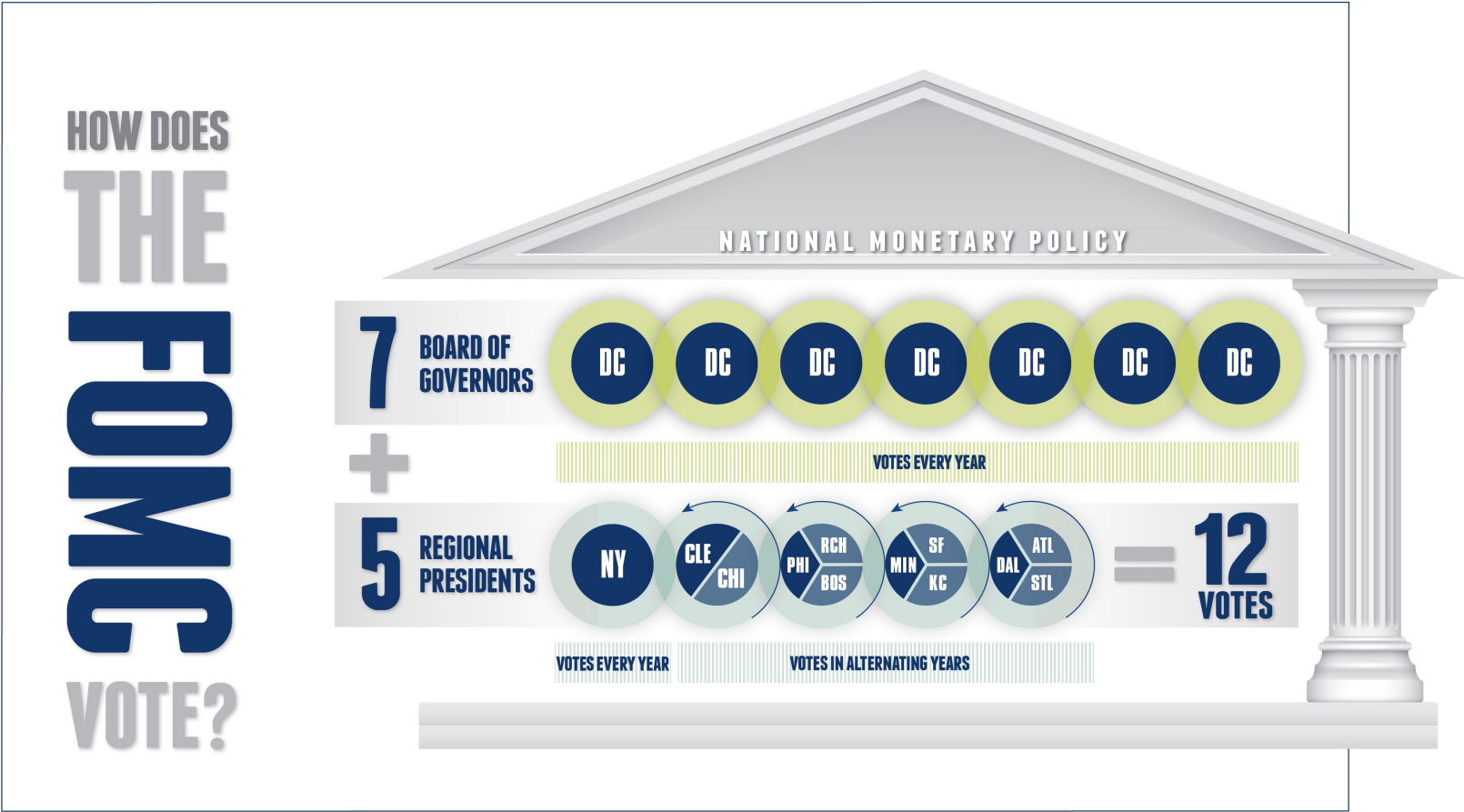
I = Investment Spending

G = Government Spending

X = Exports

M = Imports





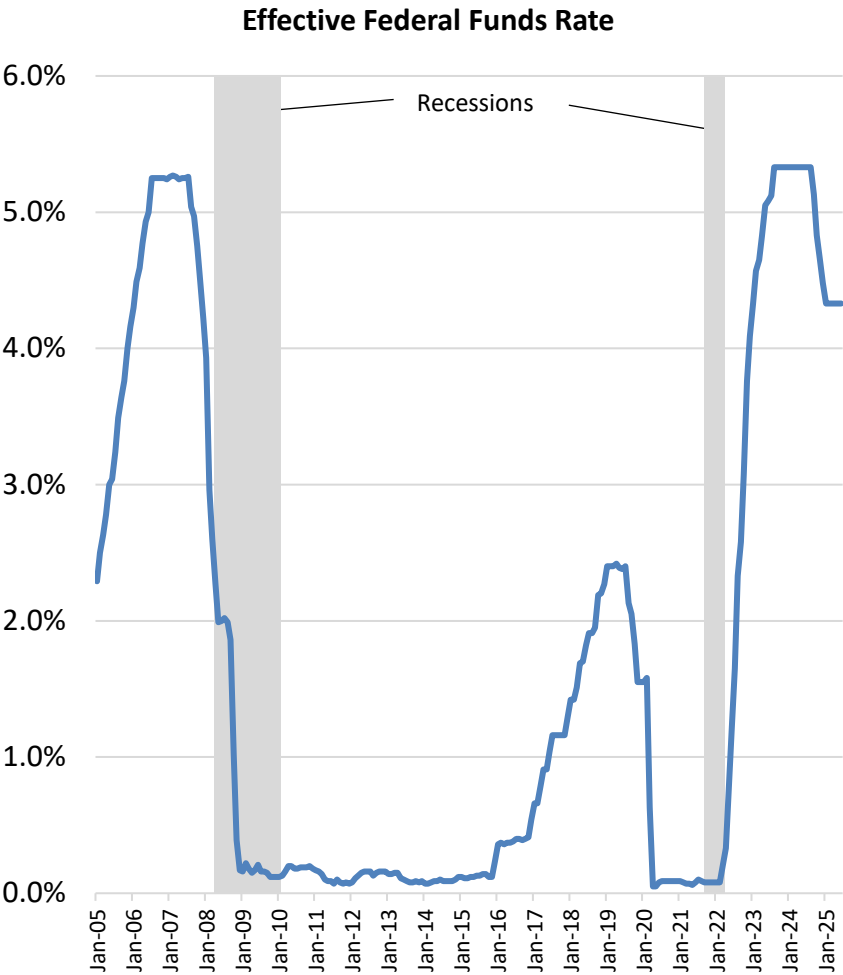
BOARD OF GOVERNORS

REGIONAL PRESIDENTS

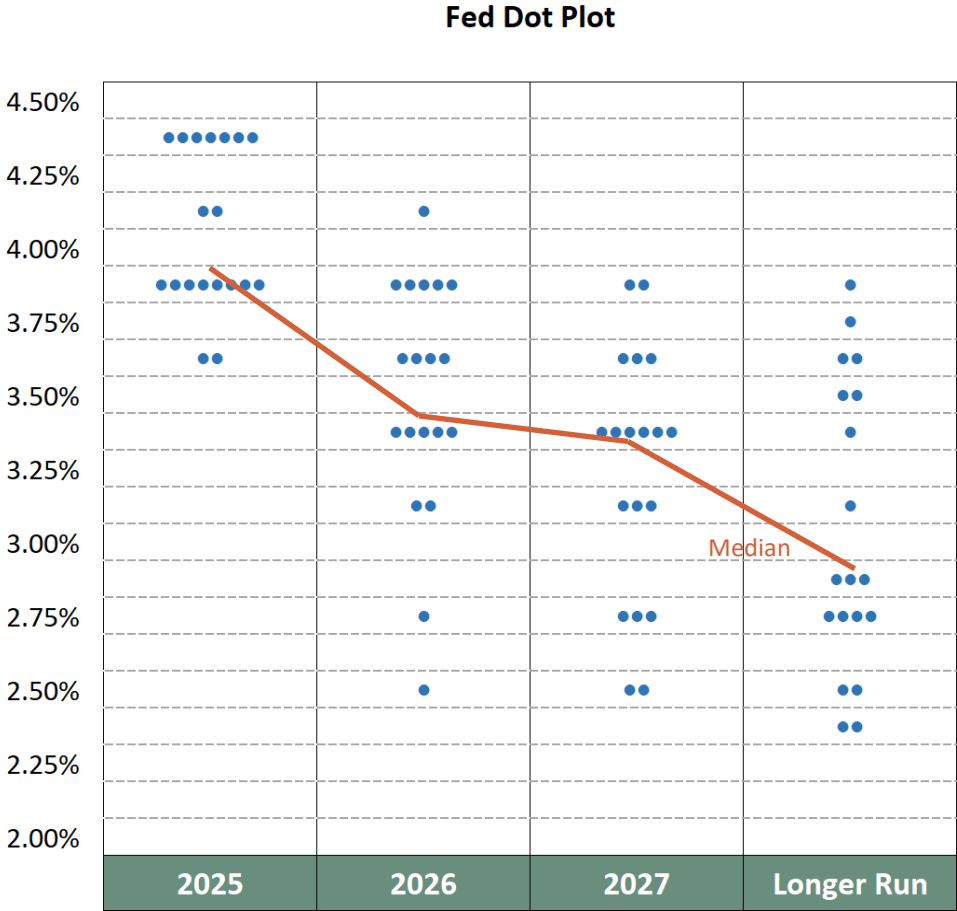
PREPARED BY THE FEDERAL RESERVE BANK OF CHICAGO

FEDERALRESERVE.GOV/FOMC



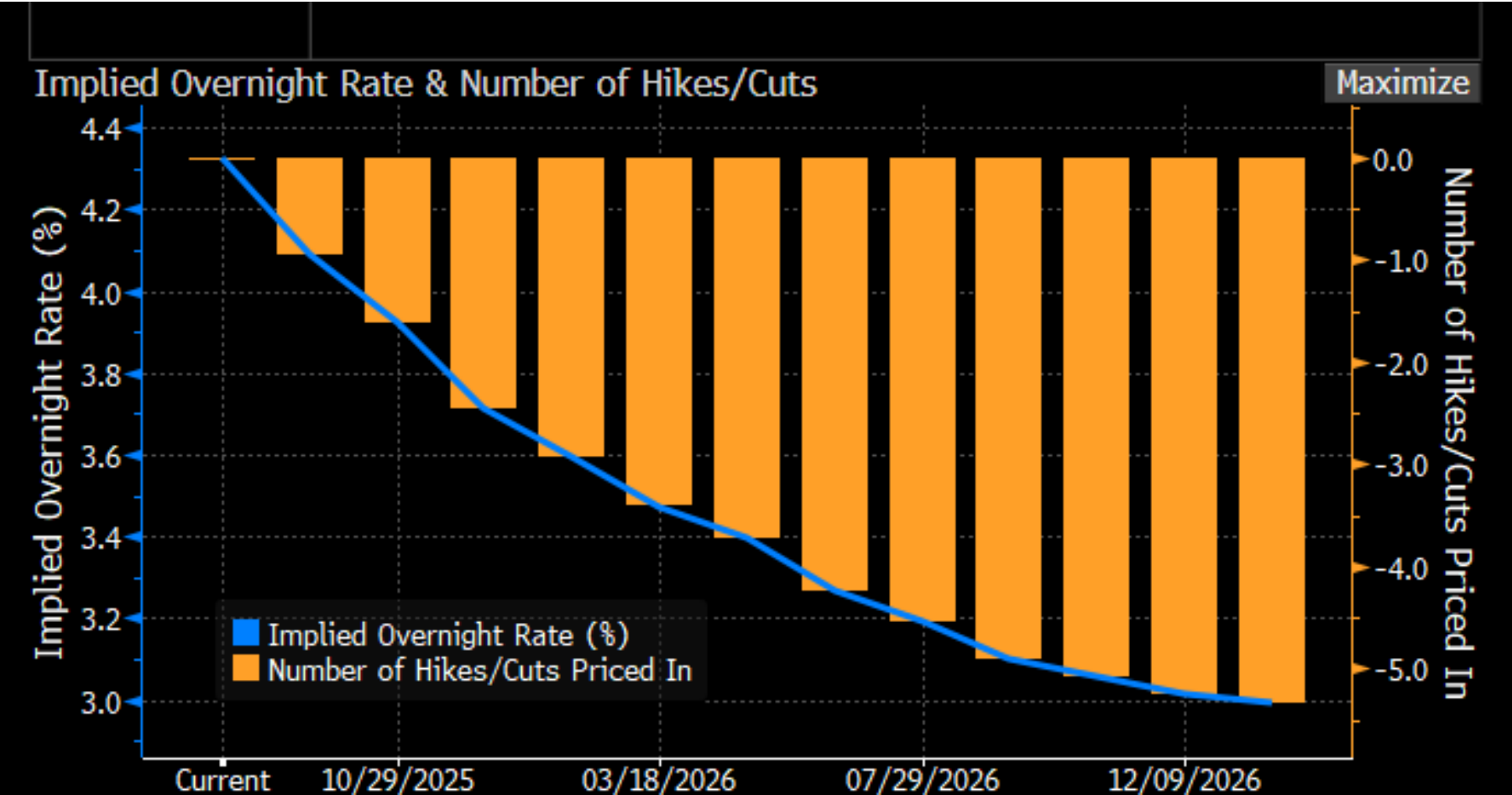


Source: Bloomberg



Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run.

Source: Federal Open Market Committee



Source: Bloomberg

## Section 2 | The Tariff Situation







### ■ Hamilton's Tariff Ideas

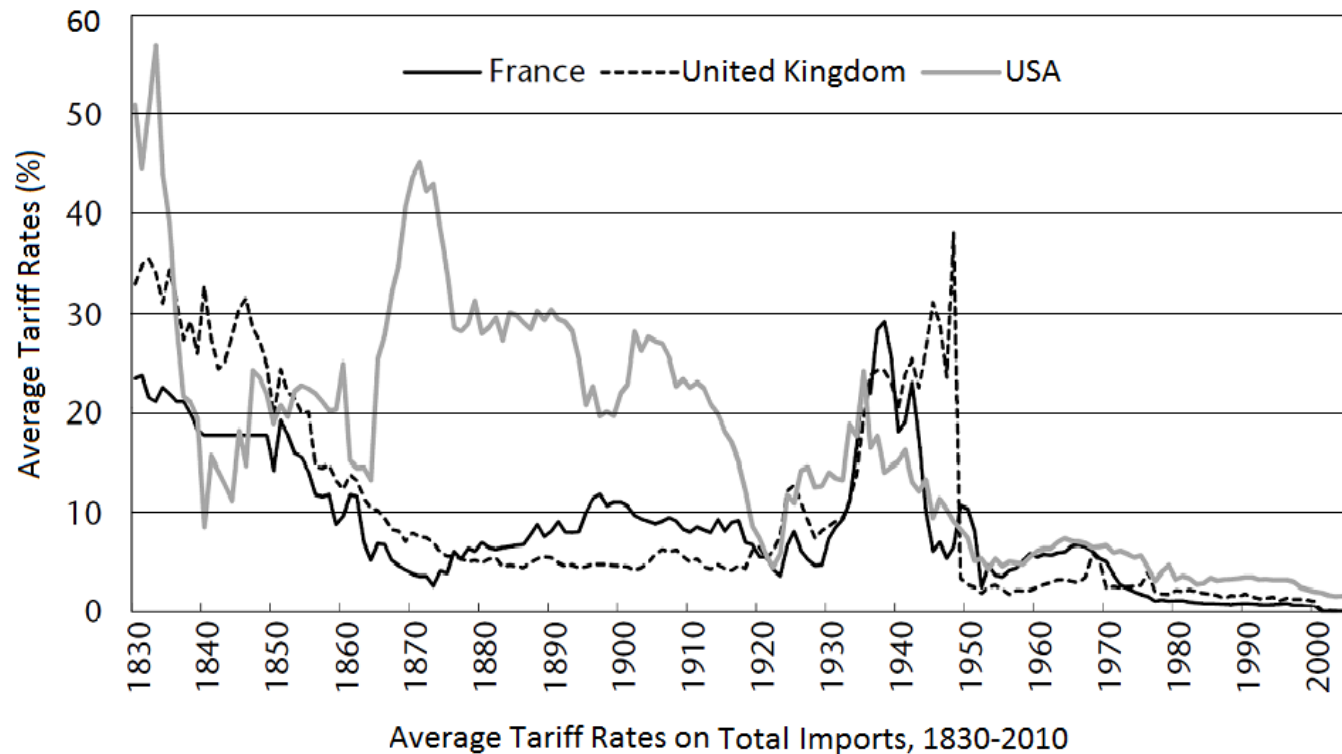
Alexander Hamilton was one of the first to use the term "infant industries" in economic thinking. Hamilton believed that political independence was dependent upon economic independence.

Protecting "infant" domestic supply of manufactured goods, particularly war materials, was seen as an issue of national security.

Much like Walpole in England, Hamilton's ideas shaped the pattern of American economic policy for hundreds of years.

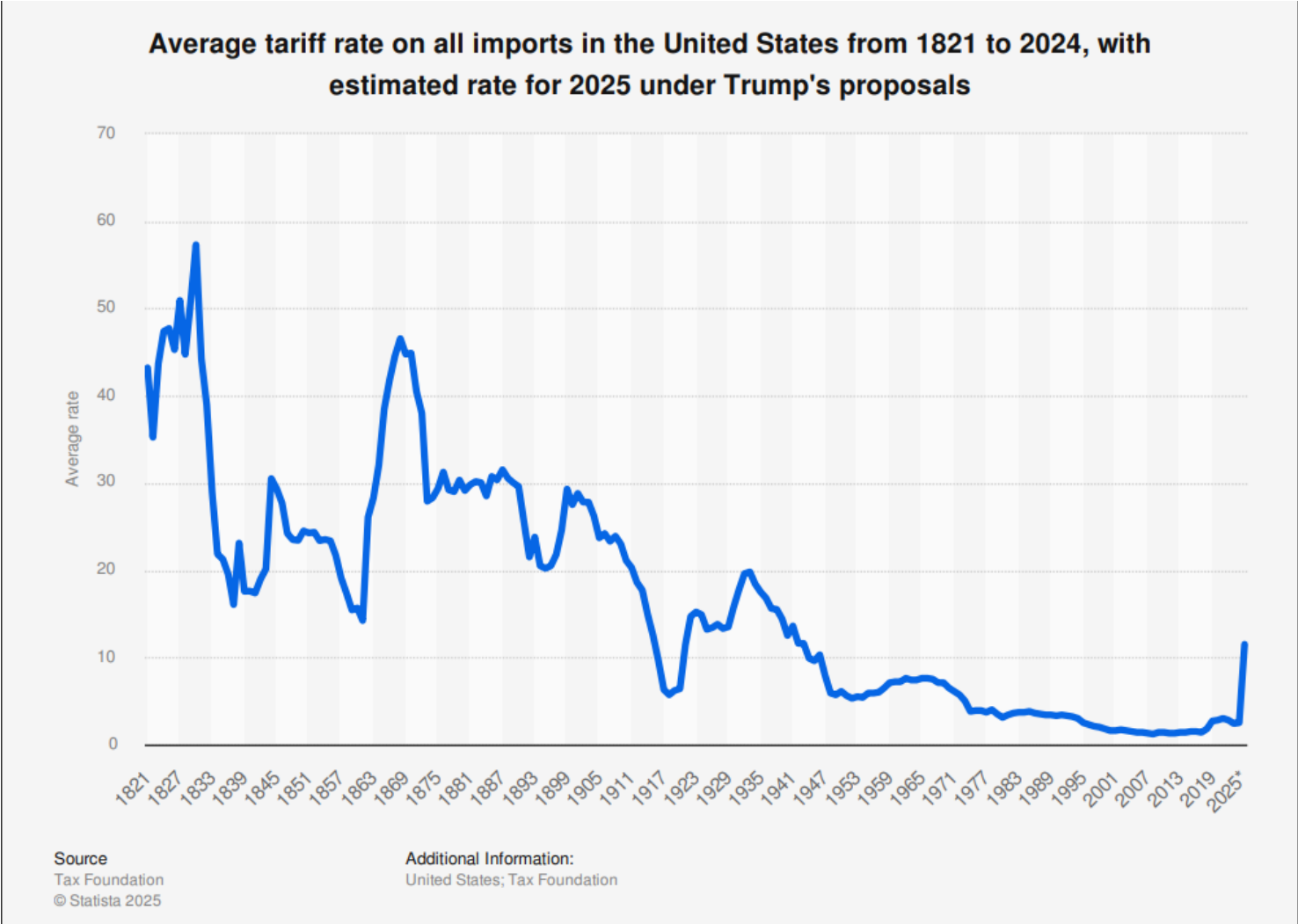
### ■ The Age of Tariffs

- The 1800s were dominated by high tariff rates by multiple countries. Some average tariff rates were as high as 45-55%. As free trade expanded in Europe, the United States kept tariff rates higher.



Sources: Imlah, *Economic Elements*

■ The United States Average Effective Tariff Rates Over Time



- **To remedy unfair trade practices:**

- “A 145% tariff, were it to stay in effect, is more of an embargo than an extra tax. Nobody in the US would buy anything from there if they could possibly find a replacement. Shortages are logically more of a risk than price rises. But it’s still unclear what the impact will be.”

– John Authers,

Bloomberg

- On-going negotiations, resulting from the tariffs, have successfully brought many countries to the bargaining table. Some tariff rates have come down while the U.S. gains promises from trade partners.

- **To raise revenue for the federal budget:**



- The 2025 tariffs, were they to remain in place (and not expire after 90 days), would raise \$2.3 trillion over 2026-35 conventionally-scored.
- Negative output effects of the tariffs, based on Congressional Budget Office rules-of-thumb, estimates effects would total -\$360 billion reductions in tax revenue over the decade. ([State of U.S. Tariffs: June 17, 2025 | The Budget Lab at Yale](#))

- **Use as a lever with foreign powers in place of sanctions:**

- Secondary tariffs placed on purchasers of Venezuelan oil (possibly Iran and/or others?)

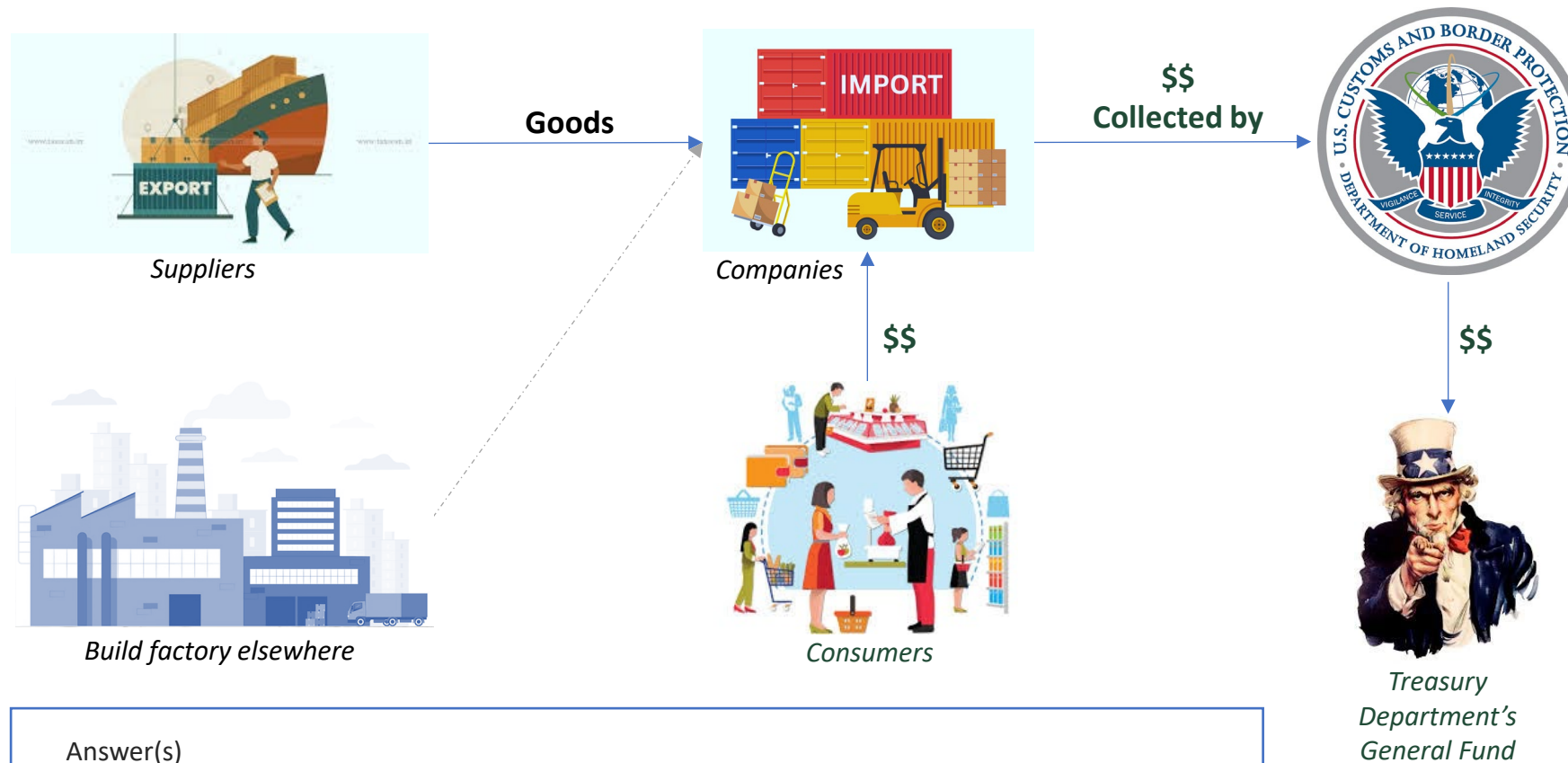


- Trump's Tariff Ideas in Action Today
  - Trump threatens Columbia with tariffs first
  - March 24: Venezuelan Oil “Secondary Tariff” announcement
  - April 2: Liberation Day announcement
  - April 9: Implementation Day and 90-Day Delay
  - Additional tariffs against China & some certain sector exceptions
  - Ongoing tariff negotiations and August 1<sup>st</sup> Start Date
  - What's next?

Tariffs		
<b>Domestic Prices/ Industries</b>	<ul style="list-style-type: none"> <li>• Shield strategic sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Increase domestic prices via higher import costs</li> </ul>
<b>Consumers</b>	<ul style="list-style-type: none"> <li>• Preserve and creates jobs</li> </ul>	<ul style="list-style-type: none"> <li>• Lower consumer surplus</li> <li>• Subsidize tariff-protected industries, only</li> </ul>
<b>Producers/ Business</b>	<ul style="list-style-type: none"> <li>• Higher producer surplus</li> <li>• Protect Special Interests</li> </ul>	<ul style="list-style-type: none"> <li>• Raise cost for retailers</li> <li>• Decrease employment</li> </ul>
<b>Government</b>	<ul style="list-style-type: none"> <li>• Generates federal income</li> </ul>	<ul style="list-style-type: none"> <li>• Decrease demand for US\$</li> </ul>
<b>Overall Economic Welfare</b>	<ul style="list-style-type: none"> <li>• Counters unfair trade practices</li> <li>• Reduces reliance on global networks</li> </ul>	<ul style="list-style-type: none"> <li>• Create Production inefficiency</li> <li>• Cause retaliatory tariffs</li> <li>• Are a regressive tax</li> </ul>

*The benefits and consequences of tariffs are both visible and hidden; difficult to measure the full effect in real-time.*

## Who Pays for Tariffs?



### Answer(s)

- Supplier/Exporter may be asked to reduce the price of their goods
- Companies/Importer may take a lower profit on the goods
- Consumer may pay higher price for final goods
- Medium-to-long term, importer may identify a new supplier or on-shore production

- Trump's New Tariffs as of Today
  - 30% tariff on products from China until Aug. 12 (with exceptions)
  - Minimum 10% baseline tariff on other imports (with exceptions)
  - Reciprocal tariffs for worst “offenders” of trade deficits start Aug. 7 (with exceptions)
  - Canada and Mexico non-USMCA goods taxed at 25% and 35% respectively (except for Canada energy tax at 10%)
  - Transshipped penalty of 40% additional tariff (rules are pending)
  - 50% industrial metals tariff like aluminum, steel, copper (with exceptions)
  - 25% tariff on finished automobiles (with exceptions for Canada and Mexico)
  - 25% tariff on automobile parts will be phased in over 2 years (with exceptions for some things from South Korea, Japan, and Mexico)
  - “De Minimis” tariff exception ends on Aug. 29 (except China and Hong Kong)



- Tariffs are a regressive tax, especially in the short-run. This means that tariffs burden households at the bottom of the income ladder more than those at the top as a share of income (about 3x more impact; -2.8% versus -0.8%).
- The 2025 tariffs imply an increase in consumer prices of 1.5% in the short-run, assuming no policy reaction from the Federal Reserve.
  - Pre-substitution: equivalent of a loss of purchasing power of \$2,000 per household on average in 2025 dollars.
  - Post-substitution: price increase settles at 1.3%, a \$1,700 loss per household.
- The 2025 unemployment rate ends 0.30% higher, and payroll employment is 394,000 lower that same quarter.

[Source: State of U.S. Tariffs: June 17, 2025 | The Budget Lab at Yale](#)



### **Tariffs can positively impact a local government's revenues via:**

- 👍 New U.S. jobs are created
- 👍 Nurture Nascent Industries
- 👍 Protect National Security Interests
- 👍 Incentivize Made-in-America goods
- 👍 Higher prices (at same unit sales) increase tax revenues



### **Tariffs can negatively impact revenues of local government via:**

- 👎 Consumers reduce discretionary spending
- 👎 Consumers have negative wealth effect
- 👎 Businesses slow or suspend investments
- 👎 Businesses have supply chain disruptions
- 👎 Businesses experience lower sales
- 👎 City has lower visits from foreign tourists

### **Tariff Impacts for Public Works (Infrastructure) projects:**

- Tariffs may increase cost (tariff surcharges on invoices)
- Be aware of artificial increases / change orders – carefully consider sources
- Buy American requirement – domestic price changes only?
- Steel cost projections reduced from +1.9% to +1% YoY (JP Morgan 5/1/25) – based upon likelihood of reduced demand (recession odds at 60%)
- Other specialized equipment (SCADA, electrical, solar panels, etc.) will be impacted directly and indirectly (tariffs and supply chain disruptions).
- Auto prices (fleet purchases) set to increase (affordable vehicle shortages?) in the future.

- ✓ The U.S. economy is in solid shape now, but labor markets are weakening.
- ✓ Inflation is proving sticky and may begin to increase as a result of tariffs.
- ✓ The Federal Reserve is expected to reduce interest rates two times in 2025 and more in 2026. This will impact money market fund and investment pool yields.
- ✓ Anticipating lower interest rates on the front end of the curve due to volatility and expected rate decreases by the Fed which could lead to a steeper yield curve.



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## 2025 Nonprofit, Public Sector, and Healthcare Seminar **From Chaos to Clarity: Navigating ERP Transitions**

Karen Bodach, August 21, 2025

# Take Away Value from this Event:

Meet your Neighbor

Introduce yourself in 30 seconds:

- Name / Title
- Organization
- Have you traveled this summer? Y/N





# Agenda



1. Overview of Considerations and Common Detours
2. Application and Sharing Knowledge
3. Q&A



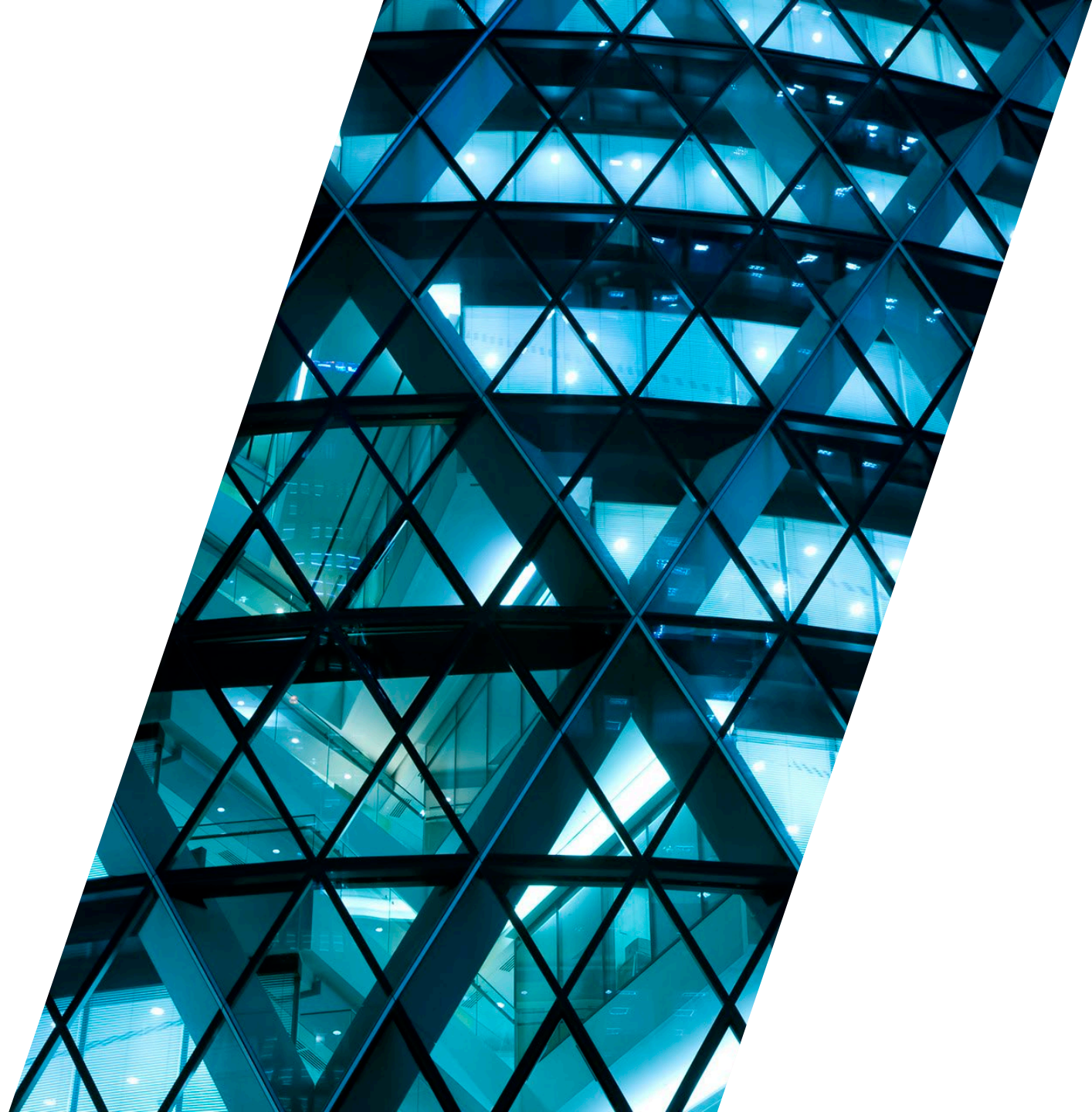
# Objectives:

- An understanding of common approaches to ERP Solutions
- Ability to identify your organization's status
- Ideas for successful next steps
- \*Star your take aways

# 01

## Overview of Considerations and Common Detours

- Do you have a plan?
- Where are you in the process?



# Do you have a plan?

- What are you trying to achieve?
- Why is now the “right time”?
- How overarching is your digital transformation?
- Which stakeholders are at the table, and who should be at the table?





# Where are you in the process?

- System Selection Project
- System Implementation Project
- Phased Approach
- System Maintenance

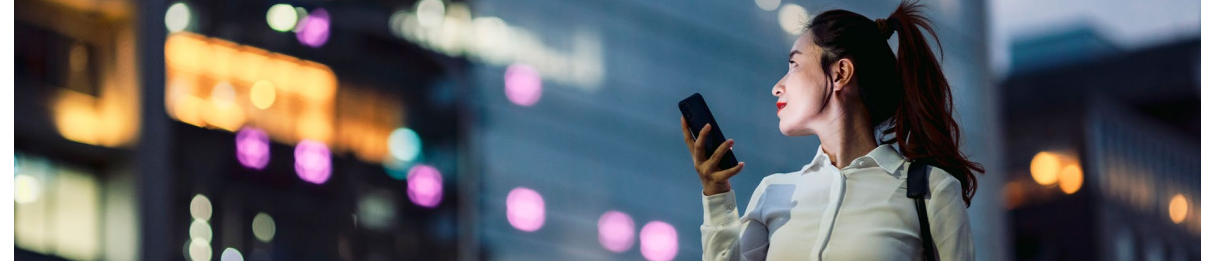


# Where are you in the process?



## System Selection Projects

- **Typical Timeline:** 3 to 6 month process
- Discovery / Gathering Requirements
- Creating an RFP
- Selecting a Product / Selecting a Partner to participate
- Evaluating the RFPs
- Scheduling demos / site visits
- Evaluating Product / Partner
- Negotiating Terms
- Product / Partner Selection



## System Implementation Projects

- **Typical Timeline:** 3 months – 3 years?
- Project Initiation / Definition
- **Discovery / Requirements**
- Setup / Configuration
- **Data Conversion**
- Training
- **Testing**
- Cutover planning
- Go Live
- Support



# Where are you in the process?



## Phased Approach

- **Timeline:** TBD
- Discovery / Gathering Requirements
- Stakeholders Decide on Priority and Create Phases
- Phases Worked in Priority
- Priority is Appropriately Evaluated



## System Maintenance

- **Timeline:** On-Going
- Keep System Current
  - Hotfixes / Updates / Upgrades / New Functionality
- Process Reviews and Documentation
- Security and Role Review
- New Feature Implementation
- User Training

# Application and Sharing Knowledge (ASK for Directions)



## Where is Your Organization?

- System Selection Project
- System Implementation Project
- Phased Approach
- System Maintenance



## What Did You Star in Your Notes, and Why?

- What resonated? Why?
- What was new to you about the different approaches?
- What could you implement or take away?



## What is Your Next Step?

- What are the blockers?
- Who needs to be involved?
- By when will you take your next step?



## Share Your Story:

- Which approach have you been through before?
- What did you learn that you wish you would have known before starting?
- Where do you still feel like you need assistance / clarity?





## Ask for Directions: **Questions and Answers**

# Objectives:

- An understanding of common approaches
- Ability to identify your organization's current status
- Ideas for successful next steps

# Contact

## Forvis Mazars

**Karen Bodach, CPA**

Managing Director

P: 317.383.4099

[Karen.Bodach@us.forvismazars.com](mailto:Karen.Bodach@us.forvismazars.com)

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## The DNA of Dynamic Nonprofit Boards

Dan Prater [dan.prater@us.forvismazars.com](mailto:dan.prater@us.forvismazars.com)

# My Story (and I am sticking to it)

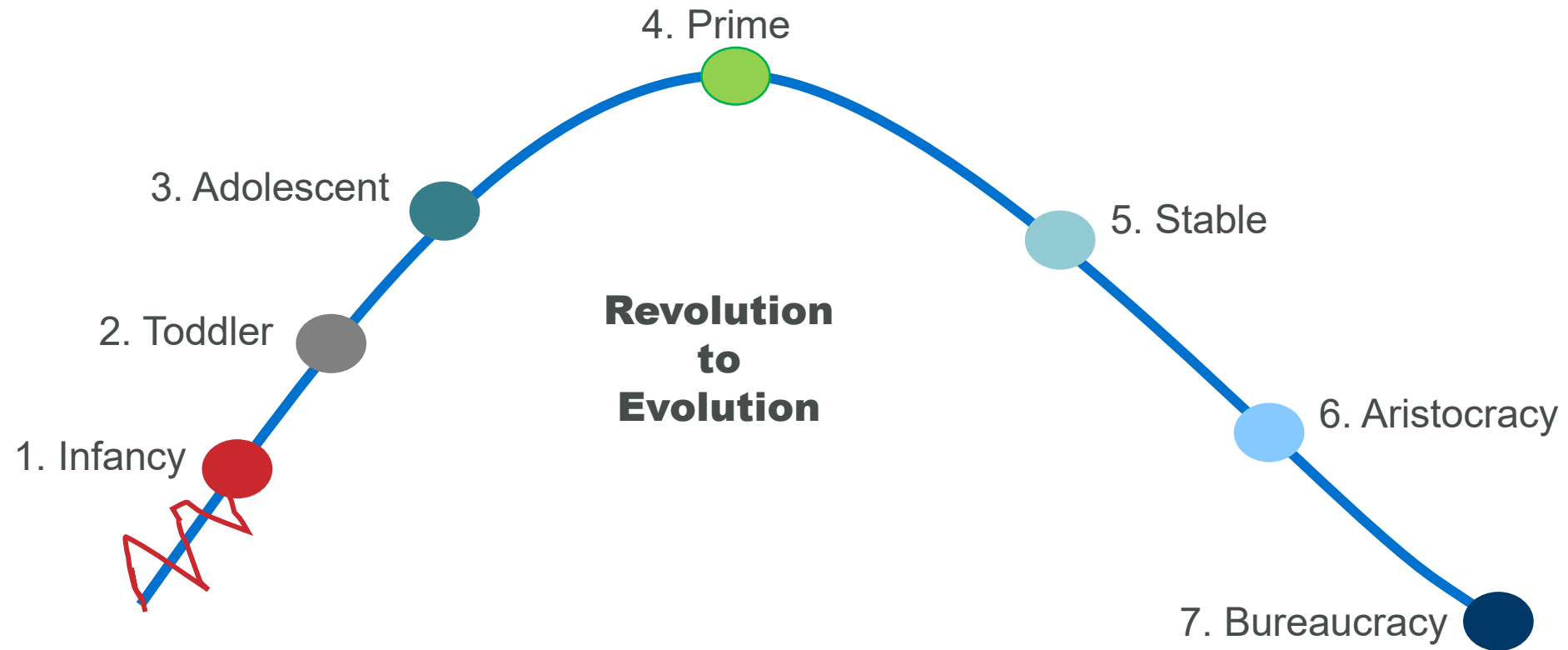


@Dan\_Prater



danprater

# Seven Stages of Organizational Life Cycle



# Starting-point Truths



- There is no one-size-fits-all solution for all organizations, including Boards.
- Leading experts agree there are certain structures, policies, and practices that consistently work better than others.
- All organizations – young or old – experience a metamorphosis that requires fine-tuning and, sometimes, a major overhaul.

# Starting-point Myths



- When people join nonprofit boards:
  - They know what to do and how to do it.**
  - They know how to be good board members.**
  - They know how to be engaged.**
- Serving on a board somewhere else qualifies one to serve on this board.
- Being successful in a for-profit business or other industry almost guarantees one will be successful in helping a nonprofit.

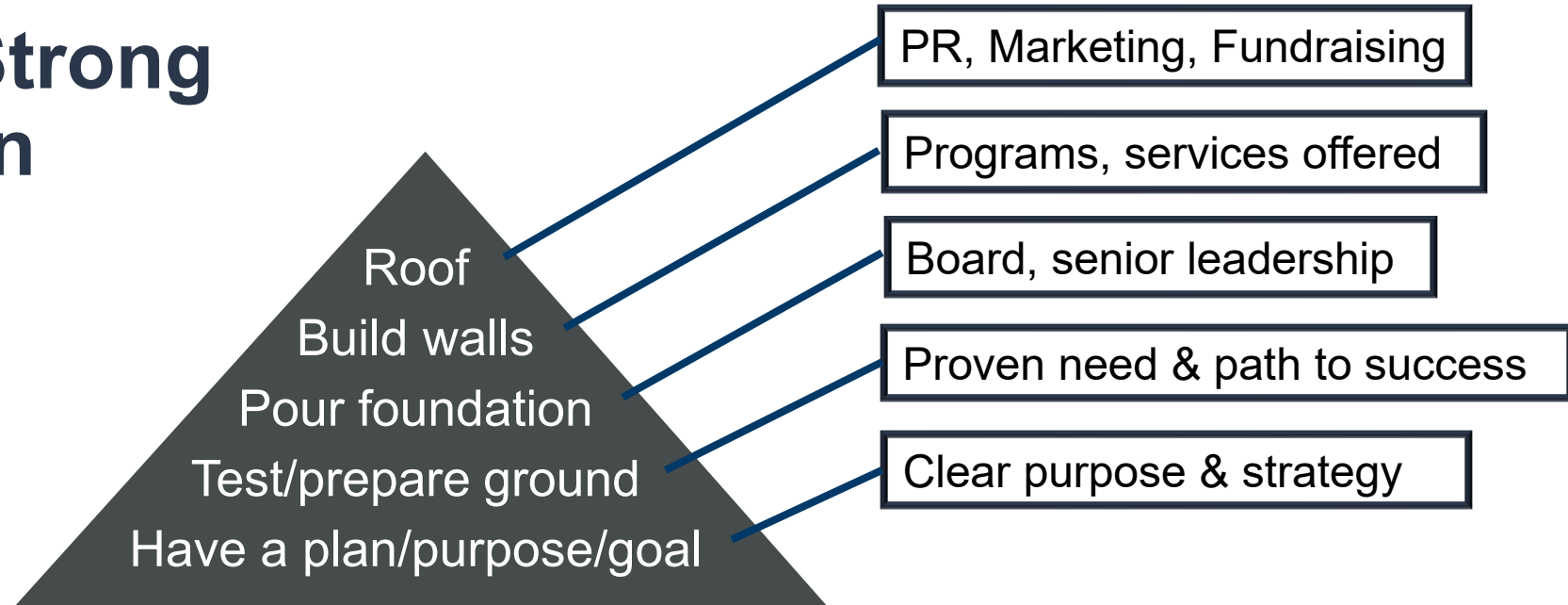


- The board has the **ultimate authority and responsibility** for the performance of the organization, even if it employs people in executive leadership roles.
- The board is **accountable to the community and to the people they serve.**



**Metro Population:** 716,577 (2023)      13 city council members = 52,582 each

# Building a Strong Organization



Use proper materials  
to protect structure  
(plans, policies, systems)







# Great Governance

Foresight

Oversight

Insight





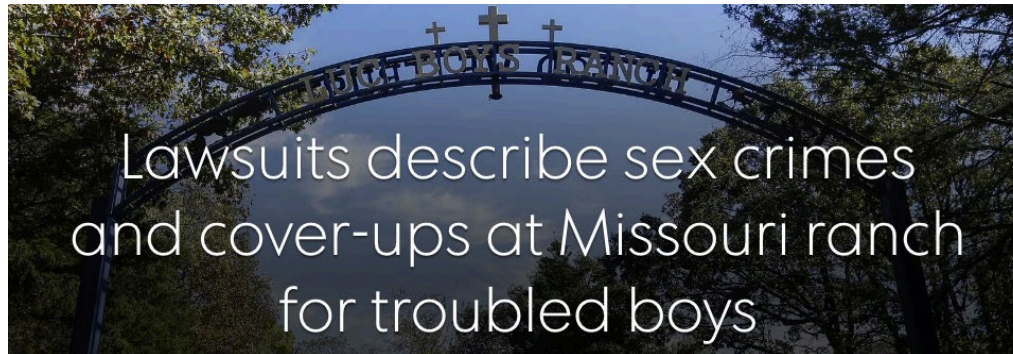


Owners of nonprofit reform school in Missouri charged with more than 100 counts of abusing girls

Agape Boarding Ranch



Nonprofit  
for boys  
near  
Branson



# No Cheerleading boards!



Trust your CEO, but scrutinize what is placed before you.

**Push hard to explore issues from all angles, healthy debate.**

# 3 Legal Responsibilities

Delegate with  
care,  
considering  
qualifications

## 1. Duty of Care

- ➡ Board members must use their best judgment in all dealings with the organization
- ➡ Regularly attend & participate in board meetings, attend special events/fundraisers & other activities
- ➡ Raise proper & necessary questions
- ➡ Provide careful oversight

# 3 Legal Responsibilities

Confidentiality

## 2. Duty of Loyalty

Board members must act in good faith to advance the organization's interests

- ➡ Will not authorize or engage in transactions except those that provide the best outcomes for the organization
- ➡ Will not allow a conflict of interest, real or perceived, where they might benefit or if they are involved in multiple organizations



# 3 Legal Responsibilities

**3. Duty of Obedience:** Board members must stay true to the organization's mission and to applicable laws and regulations.

Federal &  
state laws

Bylaws



# Five W's

- **Want** (passionate about the cause)
- **Willingness** (willing to make commitment)
- **Wisdom** (smart, know cause, sound judgment)
- **Wallet** (can bring resources—not just money—to organization)
- **Wallop** (have influence with key people)

# 8 Core Responsibilities

## 1. Lead the organization

Discuss, debate, review, adjust, & approve strategic direction – are we still relevant?

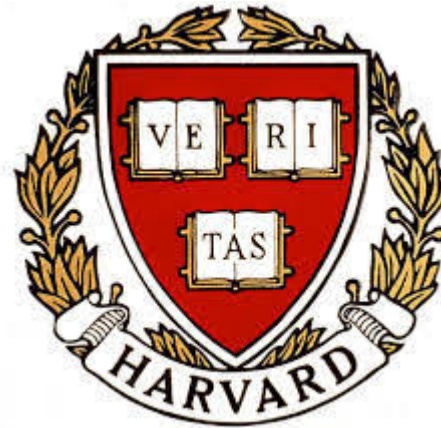
**Set mission, vision, values**  
Establish goals & objectives



# 8 Core Responsibilities

## Be Guardians of the Mission

Avoiding Mission Drift





# 8 Core Responsibilities

## Risk Management

### 2. Establish policies

Be proactive in establishing policies that will guide the operations – risk management & protection of assets

#### Financial and Legal

- Separation of duties
- Delegation of authority
- Cash handling
- Conflict of interest
- Whistleblower
- HR – hiring/firing

#### Technology

- User access
- System security
- Document retention
- Protecting private data



- Gift acceptance
- Anti-terrorism
- Disaster plan

# 8 Core Responsibilities

## 3. Secure essential resources

Make sure the organization secures the resources that it needs to accomplish its mission, vision, & goals

## 4. Ensure effective resource use

Ensure the organization makes effective use of its resources



# 8 Core Responsibilities

## 5. Lead & manage ED (if applicable)

Provide direction, support, & performance feedback



- › Annual reviews, consistent feedback
- › Training & support
- › Encouragement

# 8 Core Responsibilities

## 6. Engage with community and constituents

Actively help the organization develop and sustain important relationships



Open up new circles – your office, civic groups, social clubs, church, etc.

# 8 Core Responsibilities

## 7. Ensure & enable accountability

Make certain the organization has established standards & implemented systems by which to ensure that it is accountable & effective in serving the community & people it exists to serve



**Proper controls/system**

**Have necessary tools?**

**Compliance**

**Surveys & assessments**

**Independent audits**

**Are you LISTENING?**



# 8 Core Responsibilities



## 8. Ensure board effectiveness (three parts)

### A. Recruitment of members

Be picky!

### B. Orientation of new members

Training

Job description  
Onboarding  
Buddy

### C. Evaluation of members

Term limits

Accountability – We love you, but...

# Board member agreements:



- Will attend 75% of meetings & fundraisers/special events.
- Will Give AND Get \$\_\_\_\_\_.
- Will serve on a committee(s).
- Will represent organization in community, with my contacts.
- Will excuse myself on discussions/votes if conflict of interest.
- Will abide by set policies & procedures.

What happens when board members don't do what they are supposed to do?



### **Poor performers ...**

- It's not fair to other board members
- It's not fair to staff
- It's not fair to your organization



# What do we do with excellent board members who have termed out?

- Do not want to lose their valuable contribution and experience
- They have institutional knowledge and possibly are well-known

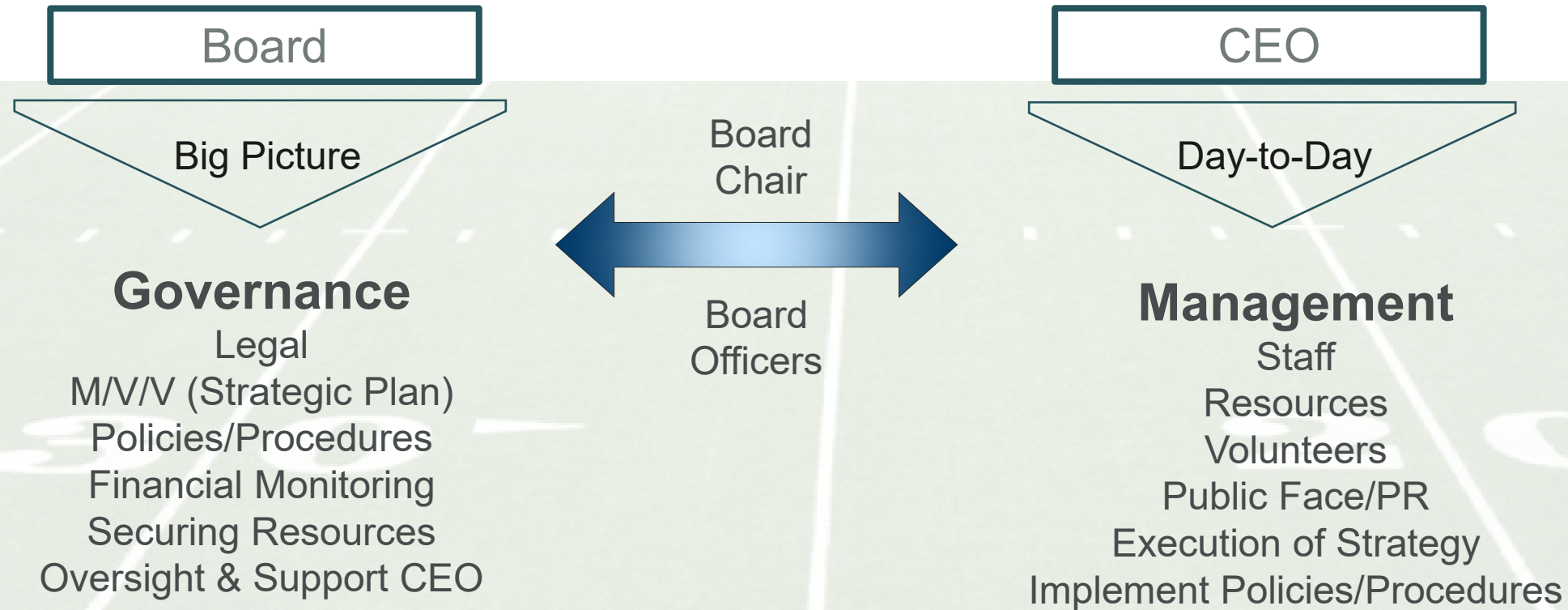
**Advisory Council,  
Friends of ....  
or similar role.**



Keep them  
Connected!

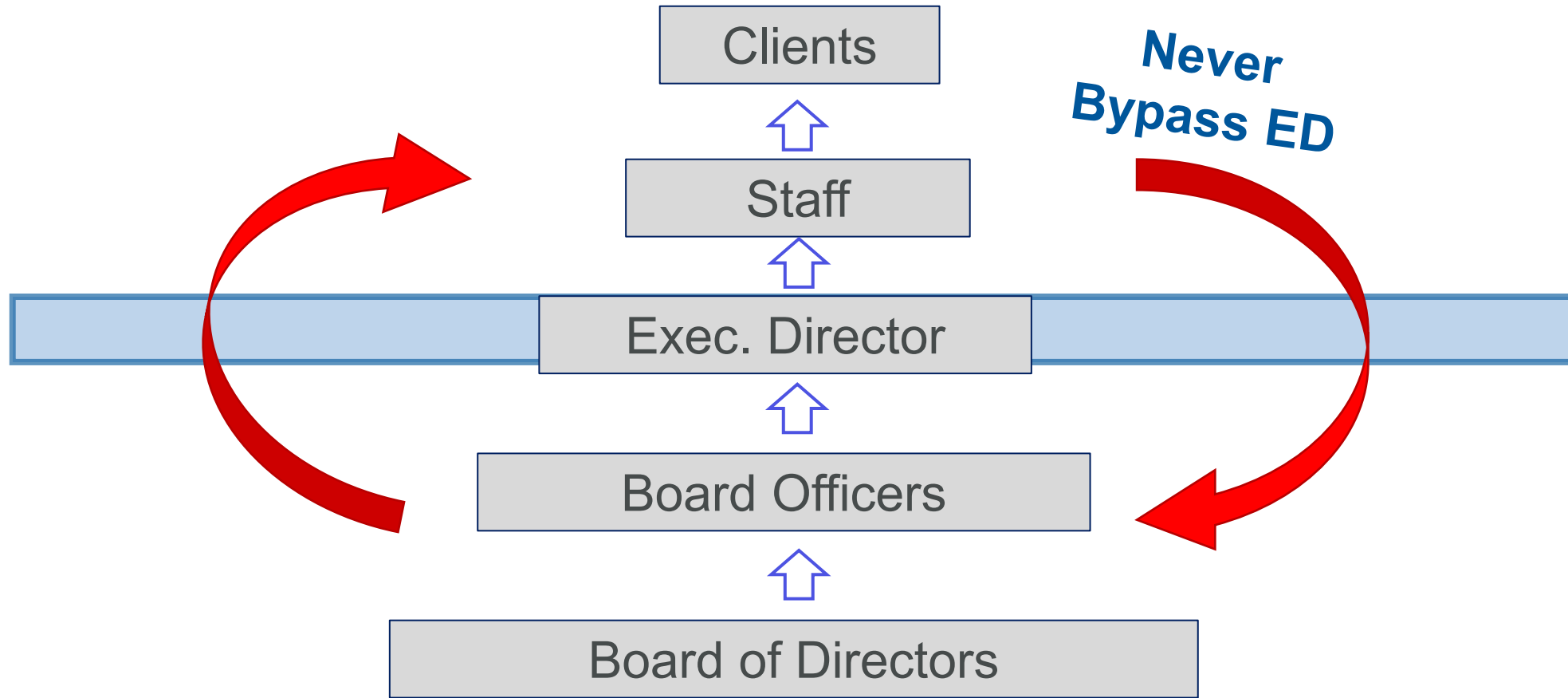
# Great Governance: Role Distinction

Clear distinction between these roles is key to good governance





# Flow of Information



# Board Meetings

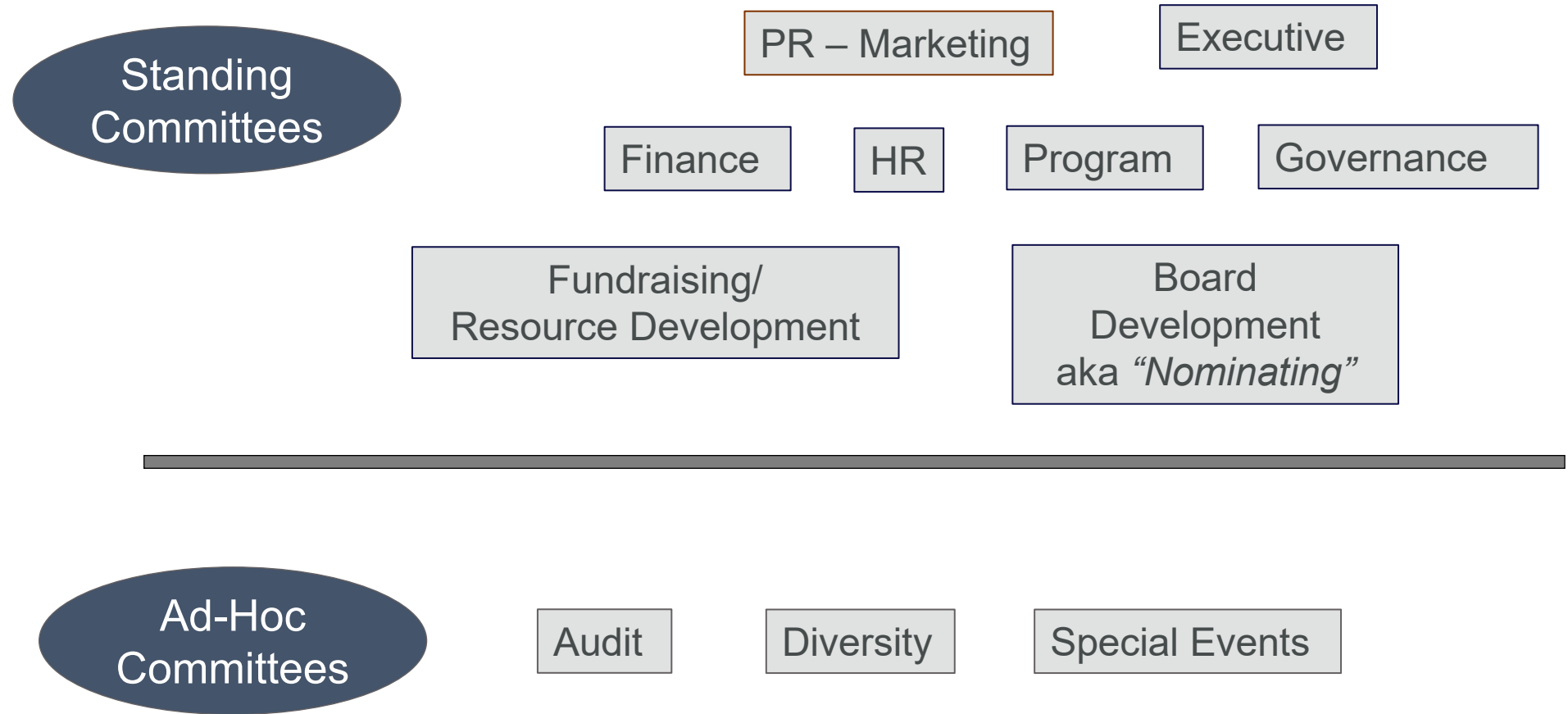
## All parties should come to the meeting:

- ➔ On time
- ➔ Prepared to discuss issues (read and researched)
- ➔ Undistracted (no emailing or texting)
- ➔ Withholding unrelated communications (no rabbit trails)



**Create a professional,  
safe environment where  
differing ideas are welcomed.**

# Committees



# Committees

## Internal Affairs

All internal and operational issues-including finance, HR, and facilities.

Staffed by the CFO and the Director of HR

## External Affairs

All external issues-including fundraising, PR/marketing.

Staffed by the Development Director (or by the ED).

## Governance

Responsible for health & functioning of board.

It recruits new members, conducts orientation, produces board materials, and evaluates performance of the board itself.

**Advantages:** Each person serves 1 committee, fewer meetings, less overlap of duties – clear lines.

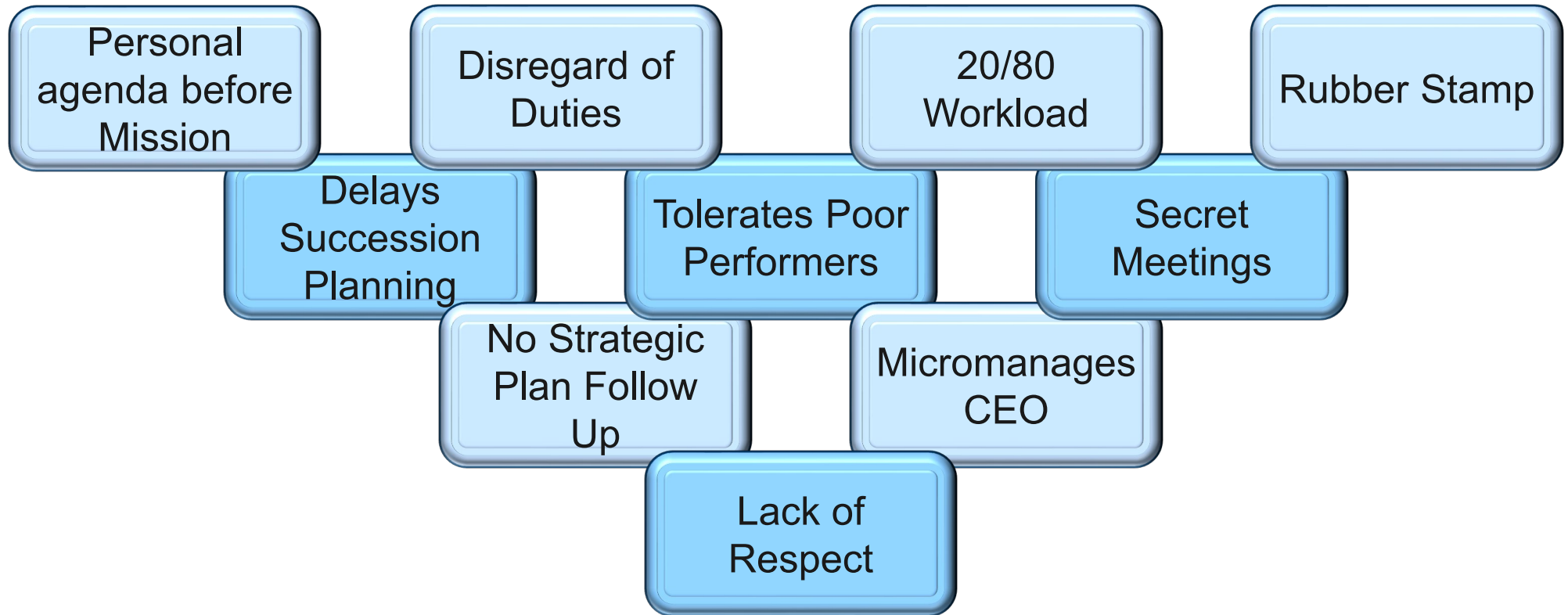
# Pitfalls of Boards

I {  
Ignorance  
Inflexibility  
Indifference





# Dysfunctional Boards



# THANK YOU!

The information set forth in this presentation contains the analysis and conclusions of the author(s) based upon his/her/their research and analysis of industry information and legal authorities. Such analysis and conclusions should not be deemed opinions or conclusions by Forvis Mazars or the author(s) as to any individual situation as situations are fact-specific. The reader should perform their own analysis and form their own conclusions regarding any specific situation. Further, the author(s)' conclusions may be revised without notice with or without changes in industry information and legal authorities.

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# Contact

## Forvis Mazars

### Dan Prater

Senior Manager

P: 417.522.0496

[Dan.Prater@us.forvismazars.com](mailto:Dan.Prater@us.forvismazars.com)

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# Leveraging Clean Energy Credits

Public Sector Seminar 2025



**forv/s**  
**mazars**

# IRA – Legislative History

- History of the Act:
  - Based on the Build Back Better framework
  - Originally included in the Biden Administration's policy goals
  - Signed into law on 8/16/22 by President Biden
- Included within the IRA:
  - Clean energy provisions
  - Credits expanded to tax-exempt organizations
  - Direct Pay Election is added
- Energy Credit Updates from OBBBA



# IRA

## Clean Energy Credits



### Capital Expenditures

- Clean energy property
- Construction/renovation



### Manufacturing

- Manufacture of clean energy property
- Re-equip/expand manufacturing facility of clean energy property



### Carbon Sequestration

- Capture – dispose or utilize



### Alternative Fuels

- Clean nuclear
- Biodiesel & others
- Clean hydrogen
- Aviation fuels



### Electric Vehicles

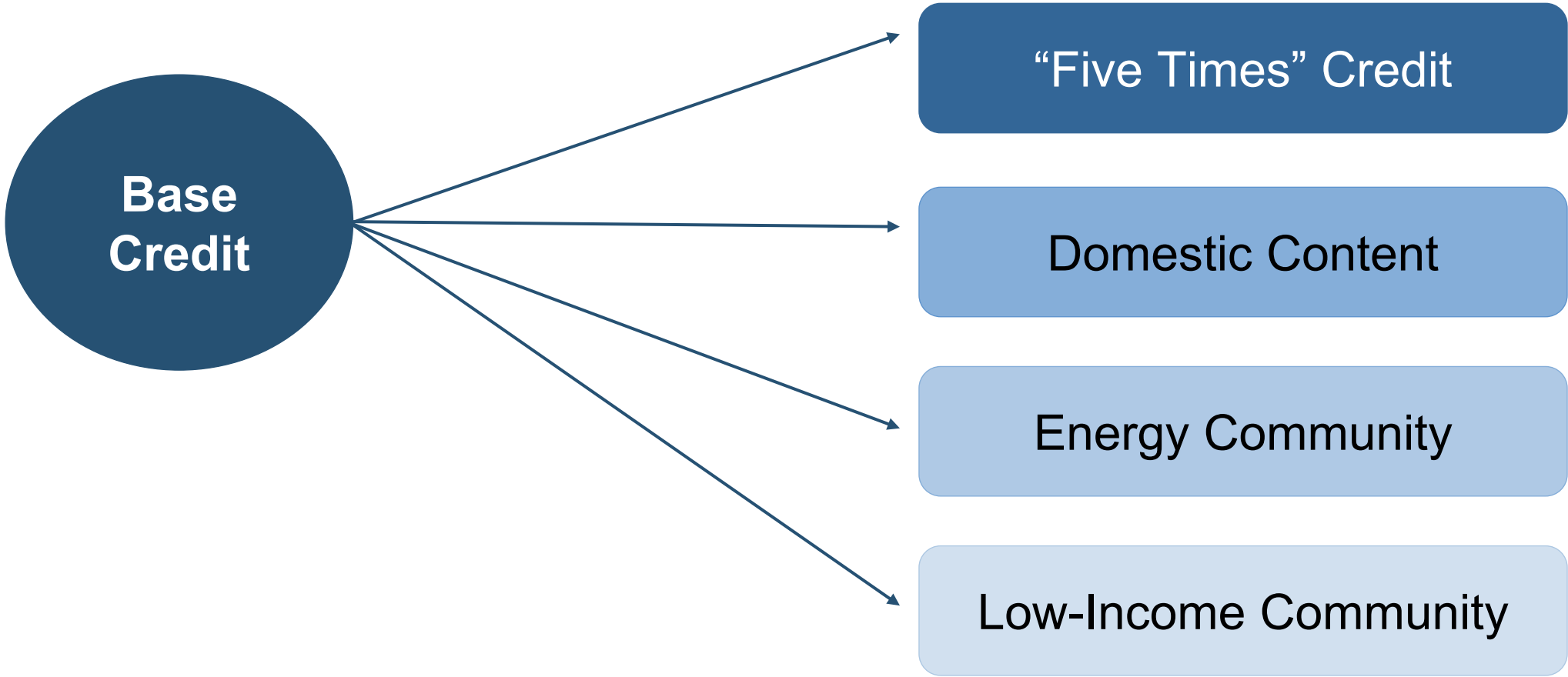
- Vehicles
- Charging stations
- Mobile machinery



### Energy Production

# Credit Mechanics

## Bonus Credits



# Bonus Credits

Base x 5

- “Five Times” Bonus Credit – Either:
  - Project less than 1 megawatt, OR
  - Prevailing wage and apprenticeship requirements (PWA)

## Prevailing Wage Requirement

- Pay at least prevailing wage to all laborers and mechanics on project
  - Employed by taxpayer, contractor, or subcontractor
  - Consider including in contracts
- Wage determination: <https://www.sam.gov>
- Recordkeeping requirements
- Cost/benefit analysis of increased pay versus credit benefit

## Apprenticeship Requirement

- If 4 workers, must have at least one qualifying apprentice
- Total hours component
- Request from qualifying apprenticeship programs
- Recordkeeping requirements
  - Daily “proof” required

# Clarifications – PWA

## Final Regulations – Prevailing Wage and Apprenticeship (PWA)

- General guidance
  - Good Faith Exception (apprenticeship requirement)
    - Request denied or not replied to within 5 business days
    - Follow-up request required within 365 days
    - Partial denial not full denial
- Documentation and Retention
  - Supplemental determination requests/Recordkeeping
- Penalty, interest, and correction payments
  - “Cure” now available – penalty and correction payments, allows for increased credit despite not meeting PWA requirements
  - “Cure” responsibility of transferor

# Bonus Credits

## Domestic Content

10%

- Steel & Iron – 100% U.S. Sources
- Manufactured product – 45% U.S. components (2025 projects)
- Safe Harbor rules

## Energy Community

10%

- Brownfield Site
- Statistical area – specific requirements
- Census tract with (or adjoining) closed coal mine
- Website/map available

## Low Income Community

10%-20%

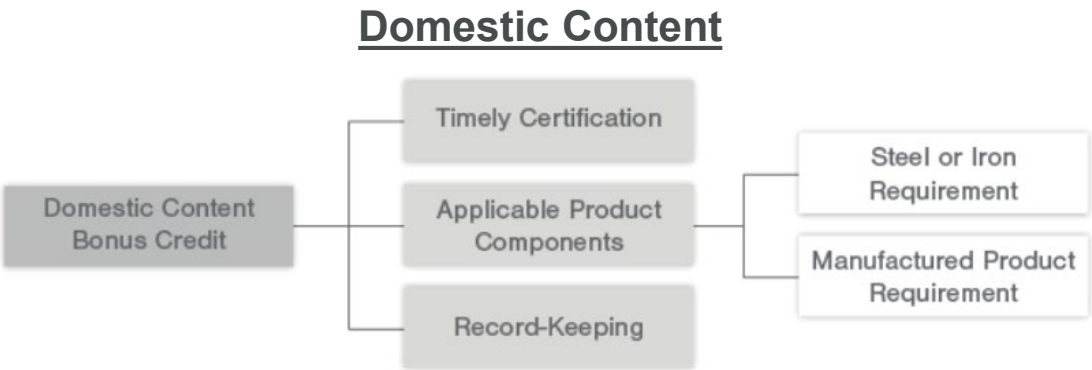
- Solar facilities
- Wind facilities
- Applies to additional clean energy technologies beginning in 2025



# Clarifications – Bonus Credits

- Domestic Content – Notice 2023-38
  - Elements for bonus credit
- Energy Communities – Notices & FAQs
  - Mapping tool available (DOE website)
  - Brownfield site safe harbor
- Low-Income Communities – Notice 2023-17
  - Applications:
    - DOE website portal
    - One application per facility per allocation year
    - 30-day period at the start of each program year
  - Capacity limitations for 2023 & 2024:

1. Category 1: Located in a Low-Income Community	700 megawatts	10% Bonus
2. Category 2: Located on Indian Land	200 megawatts	10% Bonus
3. Category 3: Qualified Low-Income Residential Building Project	200 megawatts	20% Bonus
4. Category 4: Qualified Low-Income Economic Benefit Project	700 megawatts	20% Bonus



# IRA – Example

City places solar panels on rooftop in 2024. The basis of the property is \$1,000,000. Assuming all bonus credit requirements are met, the credit calculation would be:

### Pre IRA

Description	Rate/ Calculation	Credit Amount
Base credit	30%	<u>\$300,000</u>

### Post IRA

Description	Rate/Calculation	Credit Amount (Cumulative)
Base credit	6%	\$ 60,000
5 times bonus	x5	\$300,000
Domestic content	10%	\$400,000
Energy community	10%	<b>\$500,000</b>

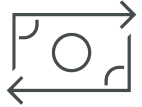
# Monetizing Credits



## Direct Pay – Cash “Refund”

- Generally available for tax-exempt entities
- Elective Payment
  - Creates a refundable credit even if no tax liability exists
  - Election is irrevocable for the tax year once made
- Registration of projects required – timing is important!
- Credit is claimed on Form 990-T
  - Organizations that normally would not file 990-T are required to file to receive the Direct Payment and claim the credit

# Monetizing Credits



## Transferability – “Selling” Credits

- Taxable and non-taxable entities eligible
- Potentially expected discount: 10%+
- Registration of projects required – timing is key
- Exchanges/venues for transfer available
- Risk involved – recapture with transferee, PWA requirements with transferor
  - Insurance available
  - Contracts important

# Clarifications – Transfers

- Transferring Credits (REG-101610-23)
  - Credits can only be sold for cash, and within a certain time frame to unrelated third parties
  - Cash received = tax-exempt income to transferor and not a deduction for the transferee
  - Transferee cannot resell or transfer the credit a second time
  - Taxpayers subject to Section 469 will normally characterize these credits as passive
  - No direct pay on transferred credits



# Clarifications – Registration

- Registration requirements (T.D. 9975 & FAQs)
  - Registration required to make direct pay election or transfer credits
  - Register on [IRS electronic portal](#)
  - [Publication 5884](#) provides step-by-step guide to using the portal
  - IRS has stated to expect up to 120 day “lag” from submission to receipt of registration number
  - Note: Taxpayers not normally required to file an annual tax return (such as state or local governments) would file a Form 990-T with the registration number to claim direct pay

# Clarifications – Registration

- Registration Portal
  - Registration number is unique to each credit property for one year
    - Annual renewal required for multi-year credits
    - Reported with annual tax returns and requisite credit Forms
  - One submission suggested, with multiple registration numbers included
  - Changes or additional submissions must wait until prior submissions are processed
  - “Bulk” upload feature via Excel available
  - General and credit specific information required, for example:
    - Dates: beginning of construction and placed in service
    - Source of funds
    - Facility information: permits, title, interconnection agreements

# IRA Case Studies



# IRA Tax Credit Case Study #1

## Organization Facts

- Large city in Texas
- Rooftop Solar System installed in July 2024
- Cost basis of project – \$900,000

## Credit Calculation

- System produces less than 1 megawatt
- Full repayment of capital spend within four years

## Base Credit Only

$$\begin{aligned} &\$900,000 \times \\ &30\% = \$270,000 \end{aligned}$$

## Anticipated Energy Cost Reduction

$$\begin{aligned} &\$15,000 \text{ per month} \\ &\text{Annual Savings} = \\ &\$180,000 \end{aligned}$$

# IRA Tax Credit Case Study #2

## Organization Facts

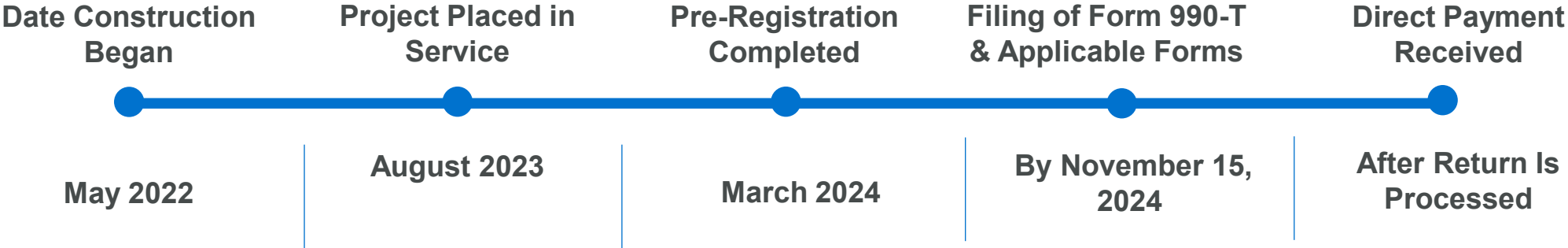
- Community College with enrollment of 1,300
- \$45M total assets
- Solar Panel Farm installed in 2023
- Cost basis of project – \$1.8M

## Credit Calculation

- System produces more than 1 megawatt
- Met Prevailing Wage & Apprenticeship standards
- Located in an Energy Community

## Claim & Monetize

- Direct Pay Registration
- Returns, Elections, Special Forms
- Tax Return Preparation & Filing





## IRA Tax Credit Case Study #2 - Continued

### Base Credit

$$\begin{aligned} & \$1,800,000 \times \\ & 30\% = \$540,000 \end{aligned}$$

### Energy Community Bonus

$$\begin{aligned} & \$1,800,000 \times 10\% = \\ & \$180,000 \end{aligned}$$

### Total Section 48 Tax Credit

\$720,000



# TaxCred PRO™ for Clean Energy

- Free dynamic questionnaire
- Users: individuals and businesses
- Easy questionnaire, resulting in educational reports
  - Summarizes opportunities
  - Calculates an estimated credit benefit based on the answers provided
- Next steps – Meeting with: Client, IRA Consulting Leader, Engagement Executive
- Access on the Forvis Mazars website – [forvismazars.us/clean-energy](https://forvismazars.us/clean-energy)

The screenshot displays the 'TaxCred PRO™ for Clean Energy' web application. The header includes the 'forvis mazars' logo and a 'Hello' greeting with a user icon. A navigation bar shows 'Home' and 'Help' links. On the left, a progress indicator shows '53%' completion for 'test org'. Below this, a sidebar lists the survey steps: 'Introduction' (completed), 'Business Property' (current step), 'Business Projects', and 'Finish Survey'. The main content area is titled 'Business Property' and contains a note about the tool's applicability for property placed in service in 2023 or later. It then asks the user to select all applicable types of 'CLEAN ENERGY PROPERTY/EQUIPMENT'. Three options are visible with checkboxes: solar panels, geothermal power, and fiber-optic distributed lighting.

forvis mazars TaxCred PRO™ for Clean Energy Hello

Home Help

Show All Finish Later

53%

test org

Introduction

**Business Property**

Business Projects

Finish Survey

**Business Property**

This section will help you discover tax credit and deduction opportunities related to business property. Business projects, including construction and energy production, will be addressed in a different question set.

Note: This tool is only equipped for property placed in service in 2023 onward. If you have property placed in service 2022 or earlier, please reach out to Forvis Mazars at [psgtax@forvis.com](mailto:psgtax@forvis.com)

Which type of **CLEAN ENERGY PROPERTY/EQUIPMENT** will you or have you invested in? Select all that apply.

☐ Equipment which uses solar energy to generate electricity, to heat or cool (or provide hot water for use in) a structure or to provide solar process heat, excepting property used to generate energy for the purposes of heating a swimming pool (colloquially referred to as solar panels)

☐ Equipment used to produce, distribute, or use energy derived from certain geothermal deposits but only, in the case of electricity generated by geothermal power, up to (but not including) the electrical transmission stage

☐ Equipment which uses solar energy to illuminate the inside of a structure using fiber-optic distributed lighting, or a structure or space which uses electricity to channel the light from sunlight

# Investment/Production Tax Credit

	Section 48/48E – Investment Tax Credit	Section 45/45Y – Production Tax Credit
<b>How is it calculated?</b>	<ul style="list-style-type: none"> <li>Credit is a % of cost</li> </ul>	<ul style="list-style-type: none"> <li>Credit is dependent on energy produced</li> </ul>
<b>How much is the credit?</b>	<ul style="list-style-type: none"> <li>6% base</li> <li>Bonus credits eligible (50% possible)</li> </ul>	<ul style="list-style-type: none"> <li>0.3 cents/kWh</li> <li>Bonus credit eligible (1.8 cents/kWh possible)</li> <li>Adjust for inflation</li> </ul>
<b>When can I take the credit?</b>	<ul style="list-style-type: none"> <li>Taken when property placed in service</li> <li>Construction to begin before 1/1/25 for some property (then Section 48E)</li> </ul>	<ul style="list-style-type: none"> <li>Credit over 10-year period</li> <li>Construction to begin before 1/1/25 for some property (then Section 45Y)</li> </ul>
<b>Examples</b>	<ul style="list-style-type: none"> <li>Battery storage</li> <li>Heating/cooling equipment using ground or ground water</li> <li>Combined heat and power system</li> <li>Dynamic glass</li> <li>Solar panels</li> </ul>	<ul style="list-style-type: none"> <li>Closed or open-loop biomass facilities</li> <li>Qualified hydropower facilities</li> <li>Gas or trash facilities</li> <li>Wind facilities</li> <li>Solar or geothermal facilities</li> </ul>

# Investment/Production Tax Credit

- Section 48 Regulations
  - Updated definitions of each eligible property category now available
  - Components included in energy property if functionally interdependent and an integral part of energy property
  - Retrofitted energy property – “80/20 Rule”
  - Dual use property – “50 percent cliff”
  - Interconnection property:
    - Included if net output not greater than 5 megawatts
    - Specific property types may *not* include interconnection property as eligible basis, for example:
      - Microgrid controllers, electrochromic glass property, fiber optic solar energy, among others

# EV Related Credits

- Section 45W – Qualified Commercial Electric Vehicle Credit
  - Electric vehicle OR mobile machinery
  - Credit limits: \$7,500 (GVWR <14,000 lbs.) or \$40,000 (all other)
  - Examples:
    - Electric transport trucks
    - Electric vehicle fleet
    - Qualifying mobile machinery
- Section 30C – Alternative Fuel Vehicle Refueling Property
  - “Charging stations”
    - Recharges electric vehicles
    - Stores or dispenses clean-burning fuel to a motor vehicle tank
  - 6% base, bonus eligible up to 30%
  - \$100,000 credit limit per item of property
  - Non-urban or low-income area required
  - Examples:
    - Electric charging stations/Clean fuel recharging stations



# Building & Construction

- Section 179D – Energy Efficient Commercial Buildings Deduction
  - Deduction for construction and improvement of buildings
    - Property reduces energy costs by 25% or more vs. building meeting ASHRAE standards
    - Available for improvements or new construction
    - Building envelope, HVAC, hot water systems, interior lighting
  - Changes made by IRA:
    - Now a permanent credit
    - “Max” potential credit \$1 or \$5 per square foot (subject to inflation)
    - Annual rather than lifetime cap
    - Lower ASHRAE standards
    - ***Tax-exempt entities can “transfer” deduction to designer & negotiate benefit***

# The One Big Beautiful Bill

## Clean Energy Credits

### Summary

- Full repeal of many credits
- Adjustments or accelerations of phase-outs to other credits
- Adds provisions to disallow credits for taxpayers deemed to be “specified foreign entities” or foreign-influenced entities (or those involved with them in specific ways)

### Credits Terminated

- Sections 25E, 30D and 45W (clean vehicle credits) terminated for vehicles after September 30, 2025
- Section 30C (Alternative Fuel Vehicle Refueling Property Credit) terminated for property placed in service after June 30, 2026.
- Sections 25C and 25D (home credits) terminated for property placed in service after December 31, 2025
- 179D repealed for projects starting construction after June 30, 2026

# The One Big Beautiful Bill Act

## Clean Energy Credits

### Production and Investment Tax Credit Sections 45Y and 48E

#### Solar and Wind Projects

- Projects that begin construction within 12 months after date of enactment must be placed in service by end of 2030
- Projects that begin construction 12+ months after date of enactment must be placed in service by end of 2027 to claim a credit
- Foreign entity restrictions on materials used after December 31, 2025

#### Other Energy Projects (not solar or wind)

- Examples are battery storage, geothermal heat pumps, etc.
- Construction must begin before 2034 to claim the full credit.
- Phase down of credit in 2034 with complete elimination in 2036

#### Transferability allowed

- Only change is cannot transfer to a foreign prohibited entity

# Credit Summary

Credit	Credit Description	Eligible Property/Project
48/45	Investment/Production Tax Credits	Clean energy property, for, e.g., Solar panels, energy storage, heat & power systems, dynamic glass
30C	“Charging Station” Credit	Refueling property located within either a low-income community or non-urban area. Electric charging stations, bidirectional charging equipment, clean-burning fuel storage & dispensing
45W	Qualified Commercial Electric Vehicle	Electric vehicles or mobile machinery
45X	Advanced Manufacturing Production	Eligible solar or wind energy component, inverter, battery component, or critical mineral produced in the year & sold to an unrelated party
48C	Qualifying Advanced Energy	Project that re-equips, expands, or establishes an industrial or manufacturing facility for the production or recycling of certain clean energy property
45Q	Carbon Capture	Carbon capture equipment that either captures & sequesters or utilizes/injects carbon dioxide

# Credit Summary

Credit	Max Credit	x5	Domestic Content	Energy Community	Low-Income	Transferable	Ending Date
48	50%	•	•	•	•	•	12/31/24 (change to 48E)
45	1.8 cents/kWh	•	•	•		•	12/31/24 (change to 45Y)
48C	30%	•		\$ earmarked for ECs			Limited by allocations
45Q	\$130 or \$180 per metric ton	•				•	1/1/2033 construction commencement
30C	30%	•				•	12/31/32
45W	\$7,500 or \$40,000						1/1/33
45X	Varies					•	12/31/33



# Contact

## Forvis Mazars

### Troy Taylor

Partner, Federal Tax Specialty

P: 817.276.4110

[troy.taylor@us.forvismazars.com](mailto:troy.taylor@us.forvismazars.com)

### Lauren Denton

Managing Director, Tax

P: 260.460.4099

[lauren.denton@us.forvismazars.com](mailto:lauren.denton@us.forvismazars.com)

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## GAAP Update & Refresher

Steve Sauer

# Agenda

1. Debrief on Recent Standards:
  - a. ASU 2018-08; Grants and Contributions / ASC 958 Reminders
  - b. ASU 2020-07; Gifts-in-Kind (nonfinancial assets)
2. GAAP Update
  - a. Software Costs
  - b. Crypto Assets



# **Grants and Contributions Refresher ASU 2018-08**



# Contributions and Grants, Overview

- The FASB codification does not distinguish the difference in terms for contributions, grants and other similar terms.
- What is an intention to give?
- What is a conditional contribution?
- What is a contribution?
- What is a restriction?
- How do you distinguish between a restriction and a condition?

# Contributions and Grants, Overview, continued

- A contribution is an unconditional transfer of cash or other assets to an entity or settlement or cancellation of its liabilities in a voluntary nonreciprical transfer by another entity acting other than as an owner.
- A conditional contribution is a contribution that contains a donor-imposed condition.
- An intention to give is not defined but essentially it is a desire to give but is not unconditional or based upon a future uncertain event.



# Overview

## › Step 1: exchange vs. nonexchange

- Exchange transaction when resource provider is receiving commensurate value in return for the resources transferred

## › Step 2: conditional vs. unconditional

- Conditional contributions when there is a barrier to overcome & right of return/release

## Step 1: Exchange vs. Nonexchange

- Direct commensurate value received by the resource provider in exchange for the resources provided
- The resource provider, *e.g.*, government, is not synonymous with the general public
- Furthering a resource provider's mission, a “feel good” sentiment, or receiving name recognition does not constitute commensurate value
- Type of resource provider or name of award should not override the substance of the transaction
- If the beneficiary of a grant or contract is a third party, judgment is required

## Step 2: Conditional vs. Unconditional Contributions

### For a *donor-imposed condition* to exist

- › A right of return/ release must exist; &
- › The agreement must include a barrier
  - There are now indicators & examples to help in determination

- Cannot do probability assessment
- Need to determine if a barrier or guidepost
- Involves judgment

To determine what is a barrier, NFP will consider indicators, which will include, but are not limited to, the following

**Inclusion of a measurable performance-related barrier or other measurable barrier, e.g.,** specified level of service, specific output or outcome

**Extent to which a stipulation limits discretion by the recipient on conduct of an activity, e.g.,** qualifying expenses, specific protocol

**Extent to which a stipulation is related to the purpose of the agreement** (excludes administrative or trivial)

# Donor Advised Funds

- Generally, a donor advised fund is a separately identified fund or account that is maintained and operated by a section 501(c)(3) organization, which is called a **sponsoring organization**. Each account is composed of contributions made by individual donors. Once the donor makes the contribution, the organization has legal control over it. However, the donor, or the donor's representative, retains advisory privileges with respect to the distribution of funds and the investment of assets in the account.\*
- Source - <https://www.irs.gov/charities-non-profits/charitable-organizations/donor-advised-funds>

## Donor Advised Funds, continued

- Some donors make gifts from a donor advised fund (DAF)
- DAFs provide variance power to the holder of the fund, i.e., a Community Foundation
- That variance power is what creates the tax deduction
- Warning – be careful of pledges that state they are being made by the donor's DAF.
- Why the warning – the variance power that the DAF has creates an intention to give not an unconditional promise.
- Ask yourself: do I have a legally enforceable pledge?

# Agency Transaction

FASB master glossary defines an agent as – *A party that acts for and on behalf of another party. For example, a third-party intermediary is an agent of the transferor if it acts on behalf of the transferor.*

It has a second definition for an agent which is - *An entity that acts for and on behalf of another. Although the term agency has a legal definition, the term is used broadly to encompass not only legal agency, but also the relationships described in Topic 958. A recipient entity acts as an agent for and on behalf of a donor if it receives assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to a specified beneficiary. A recipient entity acts as an agent for and on behalf of a beneficiary if it agrees to solicit assets from potential donors specifically for the beneficiary's use and to distribute those assets to the beneficiary. A recipient entity also acts as an agent if a beneficiary can compel the recipient entity to make distributions to it or on its behalf.*



# Agency Transactions

- This is a fairly complex area within Subtopic 958-605 of the FASB Codification.
- There are many examples in the paragraphs included in 958-605-55 which is the implementation guidance for contribution accounting.
- For today our focus is on the concept of variance power and if the NFP has the ability to direct where the funds are going.

# Variance Power

- The Master Glossary of the FASB Codification defines variance power:

*The unilateral power to redirect the use of the transferred assets to another beneficiary. A donor explicitly grants variance power if the recipient entity's unilateral power to redirect the use of the assets is explicitly referred to in the instrument transferring the assets. Unilateral power means that the recipient entity can override the donor's instructions without approval from the donor, specified beneficiary, or any other interested party.*

# **Gifts-in-Kind Refresher**

## **ASU 2020-07**



# Gifts of Nonfinancial Assets (GIKs)

## Requirements of ASU 2020-07

Present contributed nonfinancial assets as separate line item in the statement of activities

Disclose disaggregation by category of nonfinancial asset, including whether used or monetized. If used, in which areas/programs; also, any monetization policies

Disclose a description of donor restrictions associated with nonfinancial asset

Provide description of the valuation techniques & inputs used to arrive at a fair value measure for contributed nonfinancial assets in accordance with paragraph 820-10-50-2(bbb)(1) of codification for initial recognition

Disclose principal market (or most advantageous market if there is no principal market) used to arrive at fair value measure if it is a market in which the recipient NFP is prohibited by donor restrictions from selling or using the contributed asset



## Contributed Services – Most Common Examples

**NOTE:** Common indicators of specialized skills include:

- Maintaining a particular license or certification
- Working with technical tools
- Artistic talent at a proficiency greater than the general public.

# Accounting for Contributed Services – Definition per GAAP

- The majority of nonprofits, including churches, receive some form of volunteer time, whether it is for direct services in its programs, consultants, vendors or board involvement.
- The value of contributed services must be recognized if the service either (does not apply to affiliates – different rules)
  - Creates or enhances assets that are not financial in nature (e.g., buildings, materials, supplies, etc.) or
  - Requires specialized skills, are provided by individuals with those skills and would typically need to be purchased if the services had not been donated.

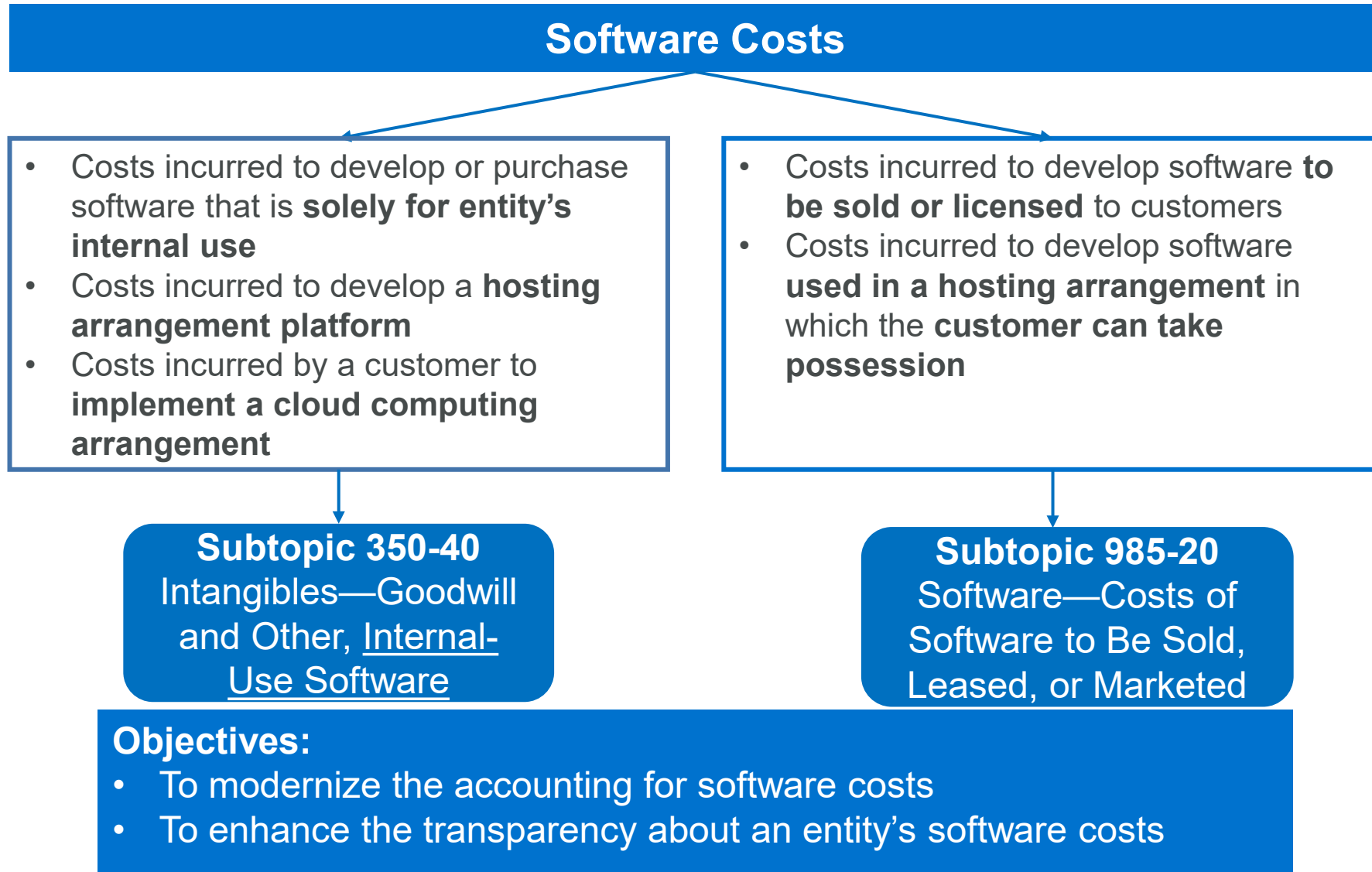


# Software Costs



# Software Costs

## Current GAAP



# Software Costs

## Targeted Improvements

The FASB decided to make targeted improvements

They are leaving the Subtopic 985-20 model on software to be sold, leased or marketed alone

Improvements to Subtopic 350-40, internal use software

- Phases would be gone

Entities would be required to begin capitalizing when:

- Management has authorized and committed to funding the software project
- It is probable that the project will be completed and the software will be used to perform the function intended

Require separate statement of cash flows presentation

- Cash paid for capitalized internal-use software costs would be included as a separate investing cash outflow

Exposure Draft issued October 2024, Final ASU expected 3Q 2025

# Crypto Assets





# Crypto Assets –Scope and Measurement

Update No. 2023-08: *Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*

**Scope:** Crypto assets must meet all the following:

The definition of ***intangible asset*** as defined in Codification

Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets

Are created or reside on a distributed ledger based on blockchain or similar technology

Are secured through cryptography

Are fungible

Are not created or issued by the reporting entity or its related parties

## Measurement

- Measure at fair value
- Increases and decreases recognized in net income

# Crypto Assets – Presentation and Disclosure

## Balance Sheet

Crypto assets separate from other intangible assets measured using other measurement bases

## Income Statement (or Statement of Activities)

Gains and losses in net income separate from amortization and impairment of other intangible assets

## Statement of Cash Flows

Classify cash flows from crypto assets received in ordinary course of business or as a contribution and converted nearly immediately into cash as operating activities and as an investing activity if otherwise purchased\*

## Disclosures

- Significant crypto asset holdings
- Restrictions on crypto assets held
- Reconciliation of activity between the beginning and end of the period
- Historical realized gains and losses

\* The Board clarified that an NFP that nearly immediately liquidates crypto assets received **with donor-imposed restrictions for long-term or capital use** would be required to classify the activity as cash flows from **financing activities**.



# Transition and Effective Date – Crypto Assets

## Transition

- In year of application, adjust beginning of period net assets for transition to fair value.
- Guidance will be effective for all entities for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years.

## Effective Date

- Early adoption is permitted.

# Contact

## Forvis Mazars

**Steve Sauer**

Managing Director

P: 719.685.7324

[Steve.Sauer@us.forvismazars.com](mailto:Steve.Sauer@us.forvismazars.com)

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Tax Updates  
**2025 Annual Nonprofit & Healthcare Seminar**



# Agenda

1. Unrelated Business Income
2. Organizational Structure
3. General Fundraising
4. IRS Updates/Priority Guidance
5. One Big Beautiful Act



# Unrelated Business Income Tax



# Unrelated Business Income Tax (UBIT)

- Net income from an activity unrelated to the exempt purposes
- Three-part test
  - Is the activity a trade or business?
    - Activity carried on for the production of income from sale of goods or services
  - Is the activity regularly carried on?
    - Questions the frequency and continuity of the activity comparable to for-profit taxable entities
  - Is the activity substantially related to the exempt purposes?
    - Must have a substantial relationship to achieve the entity's exempt purpose
    - A source of funding for other exempt activities is not enough
- Examples of common UBIT our clients see:
  - Advertising income
  - Debt-financed rental income
  - Investment in pass-through entities (Box 20V on K-1)
  - Rental activities when organizations provide services
- Silo'ing Rules



# Unrelated Business Income Tax (UBIT)

## Exceptions and Modifications to UBI

- Passive royalty exception
- Qualified Sponsorship rules
  - Acknowledgment vs. advertising
- Volunteer exception
- Convenience exception
- Leasing
- Sale of merchandise
- Debt-financed income
- Bingo

# Exception to UBIT

## Activities Conducted by Volunteers

- Revenue from events for which substantially all work is conducted by uncompensated volunteers is specifically excluded from UBIT, even when regularly carried on
  - “Substantially all” is not defined; however, 85% is a common rule of thumb
  - Track hours
  - Compensation broadly interpreted

# Organization Structure



# Why Exempt Organizations Form a Related Entity

- Segregate assets
  - Assets held in a related entity may be protected from the risks/liabilities of the “parent” entity
- Develop a new line of business
- Facilitate affiliations with other organizations
  - Address investment /control issues
  - Branding/licensing/operational considerations
- Facilitate fundraising activity, e.g.through a related foundation
  - But avoid private foundation classification
    - Supporting organization
    - Private operating foundation

# Find the Why

## Nonprofit subsidiary/related organization

- Offer distinction between activities
- What is your current purpose? Is there a different purpose needed?
- Donors may want to give to a Foundation rather than a CHC, or they want a different naming to attract other donors
- Have separate boards to carry out activities, such as a new board to focus on fundraising
- Ability to invite others to be board members such as local community leaders

## For-profit entities

- House taxable activities separate from the TEO
- Reduce conflict of interest, increase appearance of independence
- Legal Liability Protection

## Is It Worth It?

- Multiple boards means multiple board meetings, board notes, tracking, etc.
- Do you need increased staff to run another organization?
  - Who will run day-to-day?
- Separate asset ownership
  - Bank accounts, Investment accounts, fixed assets, etc.
- Be careful when comingling
- Additional compliance costs for annual tax return filing
- Public education of new entities
- Initial organization costs



# Common Types of Related Entities



# For Profit (“C”) Corporation

## Key Features

- Owners not liable for debts/obligations of corporation
- May distribute net income (“profits”) to owners
  - But not taxable to tax-exempt owner(s)
- Liable for corporate income tax
- Unlimited lobbying, but limited federal political campaign activity

## Governance

- By shareholders through Articles of Incorporation, bylaws, shareholder agreements
- State law where formed applies

# Nonprofit Corporation

## Key Features

- There are no “owners” of a nonprofit corporation
- Income is distributed for societal benefit
- Liable for corporate income tax unless qualifies for income tax exemption
- Can be a member or nonmember nonprofit

## Governance

- Governed by members and/or board of directors
- State law where formed applies

# LLC

## Key Features

- May have one or more owners (“members”)
- Member(s) not liable for debts/obligations of the LLC
- May distribute profits to members
- May elect to be taxed as a corporation or elect to have profits/losses “pass through” to member(s) for federal tax purposes

## Governance

- By members through an “operating agreement”
- State law where formed applies

# Tax Filings

- LLC can be taxed as a partnership, S corp, C corp, or disregarded entity
- Pass-through entity: 1065 or 1120S, typically a state filing as well
- C Corporation: 1120, typically a state filing as well
- Tax-exempt organization:
  - Form 1023 application for exemption
  - Annual 990 series filing



# Related Organization

- Supported/Supporting organizations
- Parent/Subsidiary organizations where the parent controls the subsidiary
- Brother/Sister organizations where organizations are controlled by the same person or persons
- Control
  - Nonprofit organization: power to select the Board or a majority overlap of board members
  - Stock corporation (C or S corp): own more than 50% of the stock
  - Partnership:
    - Own more than 50% of profits or capital interests
    - Serve as managing partner or managing member
    - Serve as general partner
- Make sure the legal documents match how you operate!

# Fundraising

Donor Planning  
IRA Rollovers (QCD's)  
Form 990 Fundraising Activities  
Special Events



# Donor Planning

- Deduction limits
- Types of Property Donated
- Planning Strategies

# Deductions Limits & Property Type

Type of Organization	Type of Property Contributed	AGI Limitation	Adjusted Gross Income (AGI) Limit Calculation
First Category of Qualified Organizations  (50% Limit Organizations)  <i>Example: Churches, Educational Organizations, Hospitals, etc.</i>	Cash	60%	AGI * 60%
	Noncash – Capital Gain Property	30%	AGI * 30% – (60% + 50% contributions)
	Noncash – Other Property	50%	AGI * 50% – 60% contributions
Second Category of Qualified Organizations  (30% Limit Organizations)  <i>Example: Private Nonoperating Foundations</i>	Cash	30%	AGI * 30% – (60% + 50% contributions)
	Noncash – Capital Gain Property	20%	Least of: <ul style="list-style-type: none"> <li>• AGI * 20% or</li> <li>• AGI * 30% – 30% contributions, or</li> <li>• AGI * 30% – 30% contributions of capital gain property, or</li> <li>• AGI * 50% – (60% + 50% + 30% contributions)</li> </ul>
	Noncash – Other Property	30%	(AGI * 30%) – (60% + 50% contributions)

- Cash
- Non-Cash
  - Appreciated Property
    - Securities
    - Real Estate
  - Vehicles
  - Auction Items
  - Cryptocurrency
- Organization should have a gift acceptance policy in place

# Appreciated Assets

- Taxpayer avoids taxes on gains and receives a charitable deduction
- Deduction based on FMV of appreciated asset
- Charitable organization recognizes income of non-cash donation. Does not pay tax on sale of asset.
- Donated property over \$5,000 that is not a security has to be appraised by a qualified appraiser.

# Planning Strategies

- Bunching
- If using standard deduction taxpayer can save donations until they are above standard deduction and then donate.
- Example they have \$15,000 in 2024 and \$20,000 in 2025. Give \$35,000 in 2025 and itemize.
- Donor Advised Fund (DAF).
- Donor gives total to a DAF and distributes annually to organizations.



## Planning Strategies (Cont.)

- Qualified Charitable Distribution (QCD's)
- Can give to charity without going through taxpayer
- Individuals over 70.5 can contribute \$100,000 (\$200,000 for married couples)
  - Satisfies required minimum distributions
  - Reduces RMDs in future years
  - Not taxable to donor
- Receiving organization must be qualified to accept
- Not deductible on individual return still requires a charitable receipt

# Fundraising Activities

Part I

Fundraising Activities. Complete if the organization answered "Yes" on Form 990, Part IV, line 17. Form 990-EZ filers are not required to complete this part.

1

Indicate whether the organization raised funds through any of the following activities. Check all that apply.

a

☐ Mail solicitations

b

☐ Internet and email solicitations

c

☐ Phone solicitations

d

☐ In-person solicitations

e

☐ Solicitation of non-government grants

f

☐ Solicitation of government grants

g

☐ Special fundraising events

2a

Did the organization have a written or oral agreement with any individual (including officers, directors, trustees, or key employees listed in Form 990, Part VII) or entity in connection with professional fundraising services? ☐ Yes ☐ No

b

If "Yes," list the 10 highest paid individuals or entities (fundraisers) pursuant to agreements under which the fundraiser is to be compensated at least \$5,000 by the organization.

(i) Name and address of individual or entity (fundraiser)	(ii) Activity	(iii) Did fundraiser have custody or control of contributions?		(iv) Gross receipts from activity	(v) Amount paid to (or retained by) fundraiser listed in col. (i)	(vi) Amount paid to (or retained by) organization
		Yes	No			
1		<input type="checkbox"/>	<input type="checkbox"/>			
2		<input type="checkbox"/>	<input type="checkbox"/>			
3		<input type="checkbox"/>	<input type="checkbox"/>			
4		<input type="checkbox"/>	<input type="checkbox"/>			
5		<input type="checkbox"/>	<input type="checkbox"/>			
6		<input type="checkbox"/>	<input type="checkbox"/>			
7		<input type="checkbox"/>	<input type="checkbox"/>			
8		<input type="checkbox"/>	<input type="checkbox"/>			
9		<input type="checkbox"/>	<input type="checkbox"/>			
10		<input type="checkbox"/>	<input type="checkbox"/>			
Total						

3

List all states in which the organization is registered or licensed to solicit contributions or has been notified it is exempt from registration or licensing.

## Fundraising Activities (Cont.)

- Use of a professional fundraiser is disclosed on 990
- Report method for asking of funds
  - Mail, phone, e-mail, events
- Report Gross receipts, amount to fundraiser, amount to organization
- Report states registered to solicit contribution or has been notified they are exempt from registering

# Special Fundraising Events

- Whose event is this?
- If a separate organization holds a special event to benefit the nonprofit, the net proceeds from the event are reported by the nonprofit as contribution revenue.
- If the nonprofit participates in the planning and execution of the event, then it is reported as a normal special event.

# Fundraising Events

Schedule G (Form 990) 2022

Page 2

Part II

Fundraising Events. Complete if the organization answered "Yes" on Form 990, Part IV, line 18, or reported more than \$15,000 of fundraising event contributions and gross income on Form 990-EZ, lines 1 and 6b. List events with gross receipts greater than \$5,000.

		(a) Event #1	(b) Event #2	(c) Other events	(d) Total events
		(event type)	(event type)	(total number)	(add col. (a) through col. (c))
Revenue	1	Gross receipts . . . . .			
	2	Less: Contributions . . . . .			
	3	Gross income (line 1 minus line 2) . . . . .			
Direct Expenses	4	Cash prizes . . . . .			
	5	Noncash prizes . . . . .			
	6	Rent/facility costs . . . . .			
	7	Food and beverages . . . . .			
	8	Entertainment . . . . .			
	9	Other direct expenses . . . . .			
	10	Direct expense summary. Add lines 4 through 9 in column (d) . . . . .			
11	Net income summary. Subtract line 10 from line 3, column (d) . . . . .				

# IRS Definition of Fundraising Events

- Activities undertaken to induce potential donors to contribute money, securities, services, materials, facilities, other assets, or time
- They include publicizing & conducting fundraising campaigns; maintaining donor mailing lists; conducting fundraising events; preparing & distributing fundraising manuals, instructions, & other materials; professional fundraising services; & conducting other activities involved with soliciting contributions from individuals, foundations, governments, & others
- Fundraising activities do not include gaming



# Examples of Fundraising Events per Form 990

Fundraising Events Include	Fundraising Events Do Not Include*
Dinners / Dances	Sales or Gifts of Goods or Services of Only Nominal Value
Door-to-Door Sales of Merchandise	Raffles or Lotteries in Which Prizes Have Only Nominal Value
Concerts	Solicitation Campaigns That Generate Only Contributions
Carnivals	
Sports Events	
Auctions	

\*Proceeds from these activities are considered contributions and should be reported on line 1f.

# Tax Reporting

The organization must calculate contributions associated with fundraising events

- Contributions are considered to be the portion of the payment that exceeds the FMV of the goods or services received by the donor
- To the IRS, cost to the organization is irrelevant in this determination
- When return value is received by the donor, there is a burden of proof to establish the contribution portion of the payment

# Non-Cash Donations

Gift Acceptance Policy  
Forms  
Schedule M  
Donated Services



# Gift Acceptance Policy

- Gift Acceptance Policies manage expectations of donors and serves as guidance for board and staff members
- Reasons to adopt a Gift Acceptance Policy
  - Some non-cash gifts run counter to nonprofits values.
  - Some non-cash gifts can lead to legal obligations i.e. real property
  - Organization may not be equipped to use or dispose (sell) gifts or maintain.
  - The IRS Form 990 asks whether a nonprofit has a gift acceptance policy and requires nonprofits that respond “Yes” to complete Schedule M, as well as report any non-cash contributions/in-kind gifts.
  - Establish policy to sell or use upon acceptance

# Forms

- Form 8283 Donor Attaches when donation is over \$500
- Form 8283 is filed by individuals, partnerships, and corporations and attached to return.
- Form 8282 Donee Information Return (Sale, Exchange, or Other Disposition of Donated Property)
- Original and successor donee must file Form 8282 if they sell, exchange, consume, or otherwise dispose of charitable deduction property within 3 years after the date the original donee received the property

## Forms (Cont.)

- Copy of 8282 given to original donor.
- File 125 days after disposition
- Form 1098-C Contribution of Motor Vehicles, Boats and Airplanes
- Donee organization files separate 1098-C for each qualified vehicle valued at \$500 or more.
- Must furnish a contemporaneous written acknowledgement of the contribution to donor containing the same information as the 1098-C. (Copy B can be used for this purpose)



# Schedule M (Form 990)

- Include with 990 if non-cash donations in total are over \$25,000 or art is donated
- Purpose to report the different types of non-cash items donated during the year
- Report items even if sold immediately i.e. securities
- Total non-cash on Schedule M is reported on Form 990, Part VIII, Line 1g

SCHEDULE M  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Noncash Contributions

Complete if the organizations answered "Yes" on Form 990, Part IV, lines 29 or 30.  
Attach to Form 990.  
Go to [www.irs.gov/Form990](https://www.irs.gov/Form990) for instructions and the latest information.

OMB No. 1545-0047

2023

Open to Public Inspection

Name of the organization

Employer identification number

Part I

Types of Property

	(a) Check if applicable	(b) Number of contributions or items contributed	(c) Noncash contribution amounts reported on Form 990, Part VIII, line 1g	(d) Method of determining noncash contribution amounts
1 Art—Works of art . . . . .				
2 Art—Historical treasures . . . . .				
3 Art—Fractional interests . . . . .				
4 Books and publications . . . . .				
5 Clothing and household goods . . . . .				
6 Cars and other vehicles . . . . .				
7 Boats and planes . . . . .				
8 Intellectual property . . . . .				
9 Securities—Publicly traded . . . . .				
10 Securities—Closely held stock . . . . .				
11 Securities—Partnership, LLC, or trust interests . . . . .				
12 Securities—Miscellaneous . . . . .				
13 Qualified conservation contribution—Historic structures . . . . .				
14 Qualified conservation contribution—Other . . . . .				
15 Real estate—Residential . . . . .				
16 Real estate—Commercial . . . . .				
17 Real estate—Other . . . . .				
18 Collectibles . . . . .				
19 Food inventory . . . . .				
20 Drugs and medical supplies . . . . .				
21 Taxidermy . . . . .				
22 Historical artifacts . . . . .				
23 Scientific specimens . . . . .				
24 Archeological artifacts . . . . .				
25 Other ( ) . . . . .				
26 Other ( ) . . . . .				
27 Other ( ) . . . . .				
28 Other ( ) . . . . .				
29 Number of Forms 8283 received by the organization during the tax year for contributions for which the organization completed Form 8283, Part V, Donee Acknowledgement . . . . .				
30a During the year, did the organization receive by contribution any property reported in Part I, lines 1 through 28, that it must hold for at least 3 years from the date of the initial contribution, and which isn't required to be used for exempt purposes for the entire holding period? . . . . .				
b If "Yes," describe the arrangement in Part II.				
31 Does the organization have a gift acceptance policy that requires the review of any nonstandard contributions? . . . . .				
32a Does the organization hire or use third parties or related organizations to solicit, process, or sell noncash contributions? . . . . .				
b If "Yes," describe in Part II.				
33 If the organization didn't report an amount in column (c) for a type of property for which column (a) is checked, describe in Part II.				

For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Cat. No. 51227J

Schedule M (Form 990) 2023



# Donated Services

- Donated Services are not reportable income for 990.
- Reportable for GAAP
- Schedule D reconciling item
- Do not report Donated Services, Donated Facilities or Equipment on Schedule M
- Donated Services include:
  - Volunteer Time
  - Radio/TV Time
  - Professionals donating skilled services

## Other IRS Updates

TE/GE Releases FY 2024 Program Letter

- Better Experience
- Smarter Enforcement
- Faster Issue Resolution
- Advanced Technology & Analytics
- Empowered Employees

## Other IRS Updates

- Recent Enforcement Updates
- Lessons from employment tax issues

# One Big Beautiful Bill



# Tax Provisions Impacting Exempt Organizations

- Expansion of the endowment tax on the investment income of private colleges and universities
  - Currently a flat 1.4% rate if the endowment size per student (SAE) is \$500,000 or higher and number of students is 500 or more
  - New rules provide for a tiered rate structure of anywhere from 1.4% to 8%
    - 1.4% rate still effective at \$500,000 SAE
    - 8% rate kicks in when the SAE is in excess of \$2 million
    - Exclusion for institutions with less than 3,000 students
- \*One of the proposed version of the bill had the top tax rate as high as 21%
- Expansion of the excise tax on for compensation over \$1 million
  - Current rules call for a 21% tax on compensation and parachute payments in excess of \$1 million, but the rules only apply to “covered employees,” which essentially is the 5 highest employees
  - New rule expands to ALL employees that exceed the \$1 million threshold



## Other Provisions for Taxpayers That May Impact Exempt Organizations

- New 1% charitable contribution floor for corporations and .5% floor for individuals meaning contributions below these amounts are not deductible
  - Previously there was only a 10% ceiling for corporations (which still exists)
  - Between this and an increase to the SALT cap for individuals that itemize, there may be a change in giving patterns and a renewed focus on bunching of itemized deductions every other year
- New reporting requirements on Form W-2 for overtime and tips to allow employees to claim an eligible deduction their personal return

## Included in Draft Versions of Bill, But NOT in Final Bill

- Royalty income from the sale or licensing of the exempt organization's name or logo would be unrelated business income
  - Currently this is specifically excluded from unrelated business income (UBI)
- Parking tax applicability to exempt organizations – would need to calculate the value of parking provided to employee and report it as UBI
  - Currently this is only applicable to taxable entities after TCJA was effective in 2018
- Implementation of a tiered rate structure on net investment income of private foundations.
  - 1.39% rate for smaller organizations with rates going as high as 10% for organizations with \$5 billion or more of assets.

# Contact

## Forvis Mazars

**Adam R. Smith**

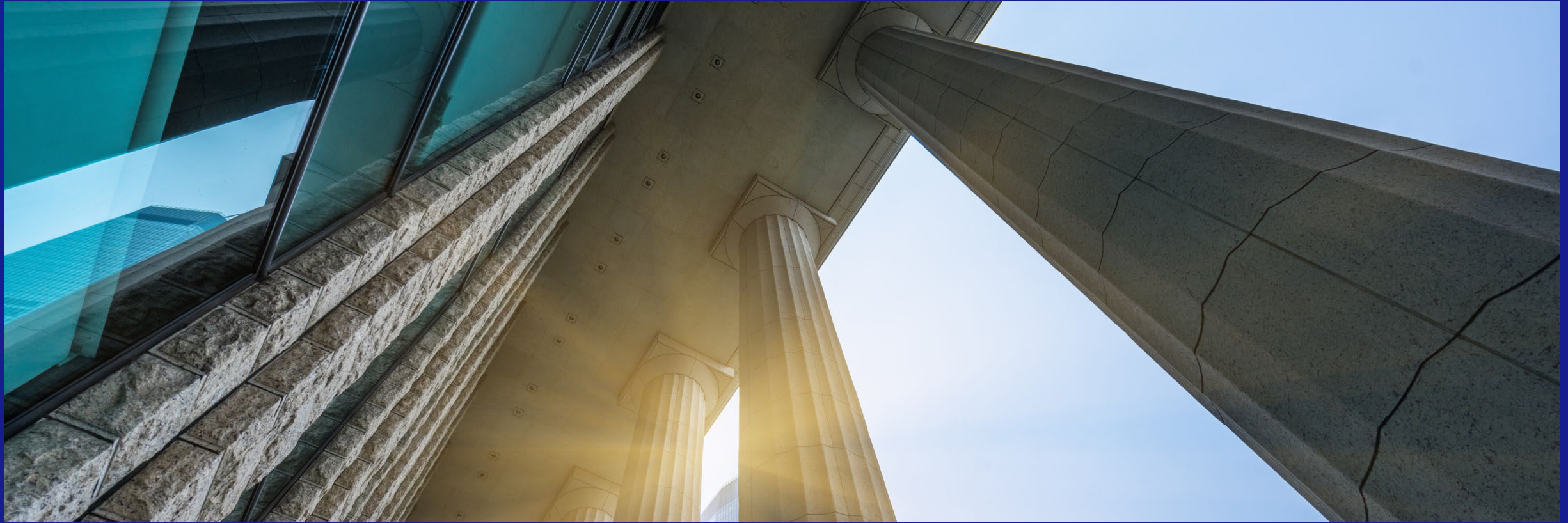
Director

P: 719.685.7207

[Adamr.Smith@us.forvismazars.com](mailto:Adamr.Smith@us.forvismazars.com)

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# **Navigating Uniform Guidance: Single Audit Update**

Katrin Kramer & Anna Thigpen

Public Sector Seminar 2025

**forv/s**  
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# Agenda

- Single Audit Refresher & Uniform Guidance Update
- Major Program Determination
- Audit Documentation
- Testing of Major Programs
- Common Findings
- Financial Reporting





# Single Audit Refresher & Uniform Guidance





# Federal Single Audit - Overview

- Purpose - provide assurance regarding the management and use of Federal assistance by recipients
- Required for entities that expend more than \$750,000 OR \$1,000,000 **(NEW)** in Federal assistance
- Consists of two main parts
  - Audit of the Financial Statements
  - Audit of the Entity's Major Programs
- Focus is on testing of major programs
  - Gaining an understanding of and testing internal controls over compliance
  - Testing compliance with applicable compliance requirements for each major program.

# Uniform Guidance – 2024 Update

- OMB guidance for federal assistance streamlined in [Title 2 of CFR, Subtitle A, Chapter II, Part 200](#) – Update effective October 1, 2024
  - Can be accessed from the Office of Management and Budget website
- OMB Compliance Supplement – Appendix XI
- Awaiting the 2025 Supplement (2024 Supplement was issued in May 2024)
- Federal Matrix contains the 12 Compliance Requirements
- Schedule of Expenditures of Federal Awards (SEFA)
  - Grants are identified by Assistance Listing (AL) number

# Uniform Guidance – 2024 Updates

## 2024 Uniform Guidance update highlights:

- **Pre-Award**

- Notice of Funding Opportunity (NOFO) announcements use a streamlined template.
- Use of plain language eliminates jargon and ensures consistent use of terms.
- Programs may translate NOFOs to languages other than English.
- Organizations can more easily identify their eligibility for funding opportunities.
- Recipients and subrecipients must now inform employees in writing of whistleblower rights and protections.

# Uniform Guidance – 2024 Updates

## 2024 Uniform Guidance update highlights:

- **Post - Award**
  - Recipients and subrecipients must take reasonable cybersecurity and other measures to safeguard sensitive information.
  - Like States, Tribes must follow the same policies and procedures used for procurements made with non-Federal funds when conducting procurement transactions under a Federal financial assistance agreement.
  - Maximum amount for fixed amount subawards is \$500,000 (changed from \$250,000); fixed amount subawards still require approval funding agency.
  - Maximum FMV for equipment that may be retained, sold, or otherwise disposed of with no further responsibility to funding agency is \$10,000 (increased from \$5,000).

# Uniform Guidance – 2024 Updates

## 2024 Uniform Guidance update highlights:

- **Post – Award (cont.)**
  - Recipients are required to sell at the end of the grant period unused supplies that exceed an aggregate value of \$10,000.
  - Three types of procurement are clarified: informal procurement methods (for micro-purchases and simplified acquisitions); formal procurement methods (through sealed bids or proposals); and noncompetitive procurement methods.
  - Recipients have additional responsibilities when closing a grant.
  - Agencies must report a recipient's non-compliance in SAM.gov, including failure to submit all final reports.

# Uniform Guidance – 2024 Updates

## 2024 Uniform Guidance update highlights:

- **Cost Principles**

- The prior approval requirement is removed for several cost categories, including participant support costs.
- The de minimis indirect cost rate percentage is 15% (increased from 10%).
- The threshold for defining equipment and other capital expenditures is \$10,000 (increased from \$5,000).
- Allowable organization costs now include costs related to data (for example, gathering, managing, publishing, using, etc.) and evaluation (for example, reviewing evidence, conducting evaluations, sharing results, etc.).
- Closeout costs and post-closeout adjustments and continuing responsibilities are revised.



# Uniform Guidance – 2024 Updates

## 2024 Uniform Guidance update highlights:

- **Audit Requirement**
  - Increased to \$1,000,000 **(BUT!!!!!!!!!!!!!!)**
  - The changes are effective **for the first fiscal year starting October 1, 2024.**
  - If your **fiscal year runs from July 1 through June 30**, the **effective date is July 1, 2025 (or FY 2026).**

# Uniform Guidance – 2024 Updates

## 2024 Uniform Guidance update highlights:

- **Audit Requirement (cont.)**
  - Type A threshold raised to \$1,000,000 ([in year of implementation](#)) while also increasing the amount of awards for which it applies increased to \$34,000,000
  - Definition of questioned costs revised to; Costs auditors find potentially noncompliant, poorly documented, or unreasonable. These costs remain uncertain until reviewed and confirmed as improper based on OMB Circular A-123 Appendix C. They encompass both specifically identified and estimated costs. New audit reporting requirements now include explanations for questioned costs when the amount is unknown or not reported.

# Uniform Guidance – 2025 Updates

- Pending release date

## Current climate

- Increased scrutiny regarding COVID-19 spending
- Uptick in agency follow-up on previous audit findings
- Grant programs cancelled or funding stopped

## Expected Updates

- Higher risk programs: Medicaid Cluster (93.778, 93.777, 93.775)
- Removed from list: 21.027 CSLFRF, 21.023 Emergency Rental Assistance
- Requirements with most expected changes
  - Allowable Costs/Cost Principles
  - Equipment and Real Property Management
  - Procurement and Suspension and Debarment

# Major Program Determination



# Federal Major Program Determination

- Auditee will qualify as low risk only if for each of the preceding two audit periods:
  - Single Audits were performed on an annual basis, and data collection form (DCF) and reporting package were submitted timely
  - Opinions on F/S and SEFA were unmodified
  - No material weaknesses in internal control under GAGAS
  - No audit findings for Type A programs that either were material weaknesses in internal control, resulted in a modified opinion on a major program, or had known or likely questioned costs that exceeded 5% of program expenditures

# Federal Major Program Determination (Cont.)

- Major Program Determination
  - If auditee meets criteria of low risk, all major programs, in aggregate, must cover at least 20% of federal awards.
  - If auditee does not meet criteria of low risk, all major programs, in aggregate, must cover at least 40% of federal awards.



# Audit Documentation



# Audit Documentation

- SEFA
  - Expenditures reported should be properly supported (i.e., G/L details)
  - Amounts paid to subrecipients should be properly supported
- SEFA should be reviewed by appropriate Grant Manager or Department Head prior to submission to auditor
  - Incorrectly reported expenditures could affect major program determination and potentially result in a finding

# Audit Documentation (Cont.)

- Each Major Program - Initial Documentation Requests
  - Grant Agreements and related Amendments
  - Grant Questionnaire - Auditee should identify applicable grant requirements and responsible personnel
  - Internal Control Questionnaire - key controls for each compliance requirement should be documented
  - Populations for sample selection (i.e., G/L details)



# Testing of Major Programs



# Testing of Major Programs

- Risk Assessment for compliance requirements
  - Direct and material
- Understanding of internal control over compliance
  - Identification of key internal controls for each direct and material compliance requirement
- Testing of Controls
  - Incorporate previously identified key internal controls for each direct and material compliance requirement
- Testing of Compliance
  - Based on the terms of the grant agreement and/or compliance supplement

# Types of Compliance Requirements

Federal	State
A. Activities Allowed or Unallowed	A. Activities Allowed or Unallowed
B. Allowable costs/cost principles	B. Allowable costs/cost principles
C. Cash Management	C. Cash Management
D. Reserved	D. Eligibility
E. Eligibility	E. Equipment/Real Property Management
F. Equipment/Real Property Management	F. Matching
G. Matching, level of effort or earmarking	G. Period of Availability
H. Period of availability	H. Reporting
I. Procurement and suspension & debarment	I. Subrecipient monitoring
J. Program Income	J. Special tests and provisions
K. Reserved	
L. Reporting	
M. Subrecipient monitoring	
N. Special tests and provisions	



# Compliance Requirements - SAS 145 & 148

- Increased focus on internal controls, i.e. IT
- Changes to auditor risk assessment approach – the more granular subcategories

Compliance Requirement	Risks of Material Noncompliance	Compliance Requirement	Risks of Material Noncompliance
Allowable Costs	<ul style="list-style-type: none"> <li>• Direct (other than payroll &amp; fringe)</li> <li>• Payroll</li> <li>• Fringe benefits</li> <li>• Indirect costs</li> </ul>	Matching, LOE, Earmarking	<ul style="list-style-type: none"> <li>• Matching</li> <li>• Level of Effort</li> <li>• Earmarking</li> </ul>
Cash Management	<ul style="list-style-type: none"> <li>• Advance draw</li> <li>• Reimbursement</li> <li>• Subrecipient payments</li> </ul>	Procurement, Suspension, & Debarment	<ul style="list-style-type: none"> <li>• Procurement</li> <li>• Suspension &amp; debarment</li> </ul>
Eligibility	<ul style="list-style-type: none"> <li>• Beneficiary payments</li> <li>• Subrecipient payments</li> </ul>	Reporting	<ul style="list-style-type: none"> <li>• Financial reports</li> <li>• Performance reports</li> <li>• Special reports</li> <li>• FFATA</li> </ul>
Equipment & Real Property Management	<ul style="list-style-type: none"> <li>• All acquired equipment during the grant period</li> <li>• Equipment deletions/disposals during year</li> <li>• Real property disposals during year</li> </ul>	Special Tests	<ul style="list-style-type: none"> <li>• Each special test evaluated separately</li> </ul>

# Other Audit Procedures

- Auditor follow-up
  - Auditor must follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings, and report, as a current-year audit finding, if the auditee materially misrepresented the status of the prior audit finding
  - Auditor must perform follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year

# Common Findings



# Common Findings

- SEFA Preparation
  - Improper reporting (multiple revisions)
  - Improper identification of subrecipient payments
  - Identification of COVID-19 related funding
- SEFA Note Disclosure – de minimis cost rate
- Internal Controls over Compliance
- Timely inspection of work performed (i.e., monitoring)
- Procurement – Policies consistently followed across the entity



# Financial Reporting



# Financial Reporting

- SEFA
  - Grantor/Pass-Through Grantor
  - Program/Cluster Title
  - Federal Assistance Listing Number (ALN)
  - Pass-Through Entity Identifying Number
  - Amount of Expenditures Awarded
  - Amount provided to subrecipients (if applicable)
- Notes to the SEFA
  - Basis of Presentation
  - Summary of Significant Accounting Policies
  - De Minimis/Indirect Cost Rate
  - Federal Loan Programs



# Financial Reporting (Cont.)

- Report on Compliance for Each Major Program and on Internal Control over Compliance
  - Opinion on Each Major Program
  - Identified deficiencies in Internal Control (if any) –management responses should be included for findings that require a corrective action plan
- Report on the Schedule of Expenditures of Federal Awards
  - Must determine if SEFA is stated fairly in relation to the F/S as a whole

# Financial Reporting (Cont.)

- Schedule of Findings and Questioned Costs
  - Summary of Auditor Results
  - Findings Related to the Financial Statement Audit
  - Federal Award Findings and Questioned Costs (if applicable)
  - Summary Schedule of Prior Audit Findings (if applicable)

# Financial Reporting (Cont.)

- Findings and Questioned Costs
  - Must report known or questioned costs that are greater than \$25,000
  - Emphasis on findings, including detail with specifics to allow auditee to prepare the appropriate corrective action plan
  - Emphasis on identification of prior findings, including updates and details as to why finding is not corrected, if applicable

# Financial Reporting (Cont.)

- Data Collection Form
  - Provider of the Federal Audit Clearinghouse (FAC) changed from Census to GSA effective 10/1/23 (<http://www.fac.gov>)
  - Must have login.gov account in order to submit
  - Entity is responsible for preparing the Data Collection form – can be outsourced to audit firm
  - Audit & Entity personnel responsible for the oversight of the audits should be inputted into FAC
  - Input information using workbooks (instructions provided) and upload once complete
    - Reconcile & compare to the SEFA
    - Verify COVID-19 information input in Additional Award Identification

# Financial Reporting (Cont.)

- Data Collection Form
  - Recommend reviewing workbooks prior to locking for certification
  - Both auditor and auditee must review and certify the Data Collection Form
  - Auditee is now required to submit the Data Collection Form
  - Auditee should notify auditor once information is submitted (there are currently no e-mail notifications provided)

# Questions?





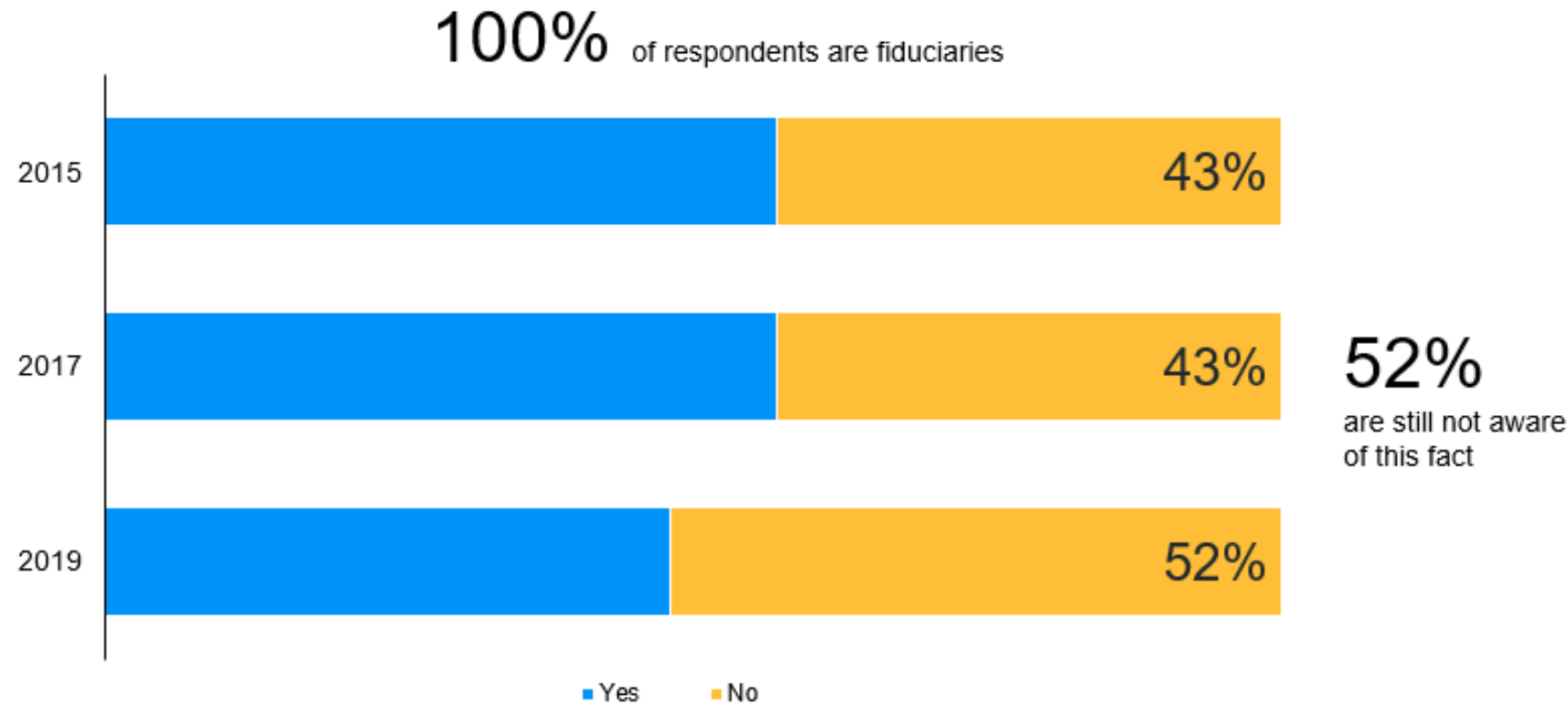


## Retirement Industry: Remaining Current and Engaged

Josh Schneider is a Registered Representative offering securities through Cetera Wealth Services LLC, member FINRA/SIPC. Advisory services offered through Cetera Investment Advisers, a registered investment adviser. Cetera is under separate ownership from any other named entity. EverOak Wealth Co. is independently owned and operated. Branch located at 7222 Commerce Center Dr, Suite 108, Colorado Springs, CO 80919 719-300-6700.

# Many are Unaware of Their Fiduciary Status

Are you yourself a Fiduciary to your organization's retirement plan(s)?



Source: J.P. Morgan Plan Sponsor Research 2015, 2017, 2019.

# Minimizing Fiduciary Risk in a DC Plan

**Establish a governance structure and procedures**

**Identify all fiduciaries and assure that they understand their role and responsibilities**

- DOL examiners often ask for evidence of fiduciary training

**Be sure that you are administering the plan in accordance with the terms of the plan document**

**Establish and follow an investment policy statement**

**Consistently use a deliberate process when making all decisions and document the reasons**

- Investments
- Recordkeepers and other service providers
- Participant claims

**Regularly review investments and service providers**

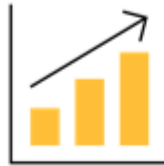
# Minimizing Fiduciary Risk in a DC Plan

- Hire experts in areas where fiduciaries lack knowledge or expertise
- Pay attention to fees
  - Assure that they are reasonable in light of the services received
  - If revenue sharing exists, understand how it is derived and used
- Comply with ERISA Section 404(c) and the QDIA rules
- Consider purchasing fiduciary liability insurance and having plan sponsor indemnify individual fiduciaries

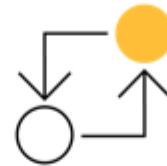
# DC Plan Lawsuits: Typical Claims Made by Participants



Plan sponsor should have considered lower-cost share classes of mutual funds or less expensive vehicles like collective investment trusts or separate accounts



Recordkeeper was compensated through asset-based revenue sharing from the funds, but as assets grew, plan sponsor didn't renegotiate recordkeeping agreement



Fiduciaries delayed in replacing poorly performing funds



Used a money market fund rather than stable value which would have provided better returns for participants

Source: See, e.g., *White v. Chevron Corp.*, ( N.D. Cal., complaint filed February 17, 2016).

# Plan Governance Considerations

## Retirement Plan Committee Creation and Facilitation

- Charter for Fiduciary Committee, Agenda's, Meeting Minutes, Action Items

## Plan Design

- Tailor your plan to meet the objectives of the organization and participants.

## Investment Option Due Diligence

- Ongoing Monitoring and Due Diligence, Documentation, Investment Policy Statement (manage risk/liability with 3(21) and 3(38))

## Plan Platform Analysis, Fee and Cost Analysis

- Request for Proposal, Annual evaluation and negotiation to remain competitive

## Participant Education

- Group, 1x1, recorded videos, website tools and resources



## 3(21) Investment Advisor:

- Refers to a person who is a fiduciary by virtue of providing investment advice for a fee<sup>(1)</sup>
- Does not have discretion to make investment decisions—Ultimate decision-making responsibility rests another fiduciary (e.g., plan sponsor or investment committee)
- Typical services performed as a fiduciary
  - Suggest an investment policy and prepare an investment policy statement
  - Research and narrow the list of potential investment options and providers
  - Suggest investment options the plan's investment committee
  - May provide advice to individual participants regarding the investment of their plan accounts
- May also provide non-fiduciary services including:
  - Provide insights to the plan sponsor on market trends and plan design
  - Assist in the preparation of service provider requests for proposals (RFPs)
  - Educating plan participants

(1) ERISA Section 3(21)(A)(ii).

## 3(38) Investment Manager:

- Refers to a fiduciary appointed by the plan and given discretion to manage plan assets
- Must be a bank, insurance company or registered investment advisor that acknowledges fiduciary status in writing
- Examples of services
  - Manage a portion of a defined benefit plan's assets (e.g., stock fund, bond fund, etc.)
  - Manage the glide path of a custom target date fund
  - Take responsibility for selecting, reviewing and replacing the investments options in a 401(k) plan

## 3(16) Administrator:

- All ERISA plans must have an “administrator” which is typically the plan sponsor
- Fiduciary responsibilities include:
  - Filing Form 5500
  - Furnishing disclosures to participants including
    - Summary plan descriptions
    - Fee and investment information required by the DOL’s participant disclosure rules
    - Periodic statements
- Outsourced 3(16) service provider may agree to perform some or all of the administrator’s responsibilities

# Industry Highlights/Trends

Auto Enrollment/Auto Increase

CIT's in 403b's

Forfeitures

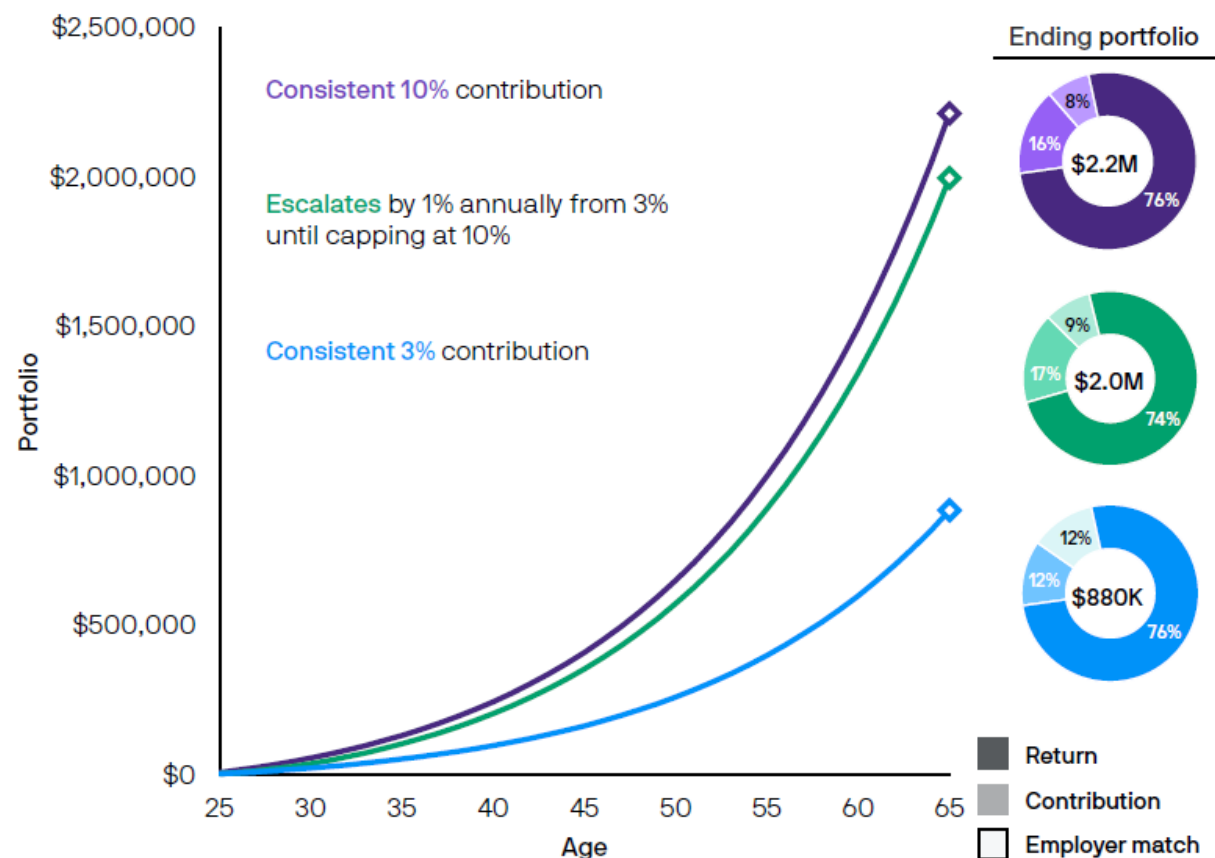
Beneficiaries

Managed Accounts/Lifetime Income

Fees

# The Benefits of Auto-Escalation

Account growth from contributions, employer match and investment returns



## Model assumptions

Start age: 25

Retirement age: 65

Starting salary: \$50,000

Wage growth: 2.5%

Assumed annual employer match: 100% of employee contribution up to 5%

Investment return: 7.0%

The hypothetical investment results are for illustrative purposes only and should not be deemed a representation of past or future results. Actual investment results may be more or less than those shown. This does not represent any specific product

Individual is assumed to retire at the end of age 65. Growth of portfolio is tax deferred; ending portfolio may be subject to tax. The above example is for illustrative purposes only and not indicative of any investment.  
Source: J.P. Morgan Asset Management, Long-Term Capital Market Assumptions.

**J.P.Morgan**  
ASSET MANAGEMENT

# Main Responsibilities of a Fiduciary: Closing Remarks

## Duty of Loyalty

-Known as the “exclusive benefit rule,” it states that a fiduciary must perform his or her duties solely in the interest of participants and beneficiaries, for the exclusive purpose of:

- Providing benefits to participants and beneficiaries, and
- Defraying reasonable expenses of administering the plan

## Duty to Act Prudently

-Interpreted by the courts to be a “prudent expert” rule, it states that a fiduciary must act with the “care, skill, prudence, and diligence...that a prudent man acting in a like capacity and familiar with such matters would use...” [ERISA §404(a)(1)(B)]

## Duty to Diversify Investments

-A fiduciary should act to diversify investments to minimize the risk of large losses, unless, under the circumstances, it is clearly prudent not to do so

## Duty to Follow Plan Provisions

- To the extent not inconsistent with ERISA, fiduciaries must follow the terms of the governing documents for the plan



# Thank You for Joining Us



Questions:

[Josh@EverOakWealth.com](mailto:Josh@EverOakWealth.com)

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Branch located at 7222 Commerce Center Dr, Suite 108, Colorado Springs, CO 80919





# Leadership Lessons from the North Pole

Dan Prater [dan.prater@us.forvismazars.com](mailto:dan.prater@us.forvismazars.com)

My Story (and I am sticking to it)



# Great leaders and business minds throughout history?

Political	Civil Rights	Business	Spiritual

**One of the most impressive and successful leaders our world has ever seen....**  
runs a robust, global organization with a logistics system that puts both Amazon and McDonald’s to shame.



# 1. True leaders identify and follow a Guiding Star (Raison d'être)



## Vision and Purpose: The Guiding Star

Determine true North Star and don't stray from it.

A leader's vision must serve as a guiding light, illuminating the path for others.

•**Modern Parallel:** Visionary leaders like inspire their teams and the world by setting ambitious goals.

Clarity

Job Duties = grand vision

Supporters

Decision-Making

## 2. Leadership requires Self-awareness.



- Improves EQ, helps them build relationships.
- Understanding biases helps decision-making.
- Helps tailor communication to different styles.
- Encourages learning and growth.

People prefer to follow **someone who's always real**  
more than **someone who's always right.**



### 3. Leaders must be listeners – Feedback Loop



Santa is a master listener – he knows exactly what the customer wants and lets them have the say in the final product.

**Do you listen to your employees?**

**Do you foster a culture of openness?**

To the people you serve?

To your supporters?

To your mission partners?

**Do you use their feedback?**

## 4. Leaders create and enforce clear expectations



**Santa is famous for his OCD-like list-checking.**

He has set expectations and set clear standards of conduct.

It only takes checking the list twice to make a decision.

**What does success look like (KPI)?**

**Do you set clear expectations and boundaries?**

## 5. Leaders help employees set and reach goals



Hermey's boss shot down his dreams.

**Higher Productivity**

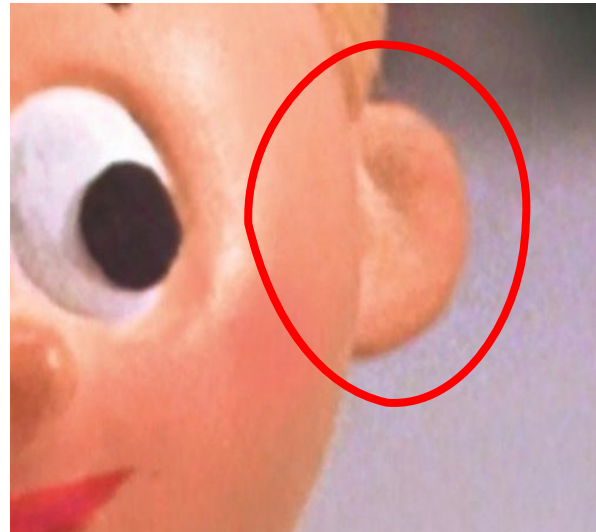
**Better Retention**

**More Innovation**



- 41%** See no future or growth options
- 57%** No support from boss
- 69%** Do not have a leadership mentoring program

# Hermey an imposter?



Let's be honest –  
Santa and his  
leadership team did  
not value diversity and  
differing opinions.

**Embrace differences!**



## 6. Leaders inspire through words and actions



ABCD community development

Words can:

**Shape Reality**

**Motivate**

**Build up or Tear down**

**Heal or hurt**

**You shouldn't...**

**You ought not...**

**Why didn't you..**

## 6. Leaders inspire through words and actions



What do you want to be  
when you grow up?



**I believe in you.**

**I trust you.**

**I know you can do this.**

**I understand how you feel.**

**You are an important part of this team.**



## 7. Be Good for Goodness Sake

# theranos

Elizabeth Holmes misled investors about effectiveness of technology. Her \$9B company collapsed.



Massive accounting fraud resulting in multiple leaders serving jail sentences.



### Tone at the top

1. Model organization values
2. Be transparent
3. Encourage accountability
4. Listen and Learn

## 8. Be an Agent of Joy and Generosity



Put people before paperwork.

Platinum Rule.

Express gratitude.

Encourage fun!

Laugh at yourself – don't be the great somebody.

## 9. Strive for Operational Excellence

Managing a global toy factory and delivery service requires:

- Planning (manufacturing/packaging, setting routes)
- Efficiency (only one night)
- Agility (bad weather, etc.)



- Mission alignment
- Set goals and KPIs (Strategic planning)
- Strong governance
- Data-driven decisions
- Build your team (talent development)
- Embrace technology and creativity

# Margaret Dolan







# Fraud in a New Era

Rand Gambrell

Managing Director – Forensics & Valuation Services

Public Sector Seminar 2025

**forv/s**  
**mazars**

# Fraud Risks in Remote Work Environments





# Challenges Associated with Remote Work

## Occupational Fraud

- Time theft
- Locality cost of living
- Overemployment
- Steal corporate data and sensitive information

## Low Productivity

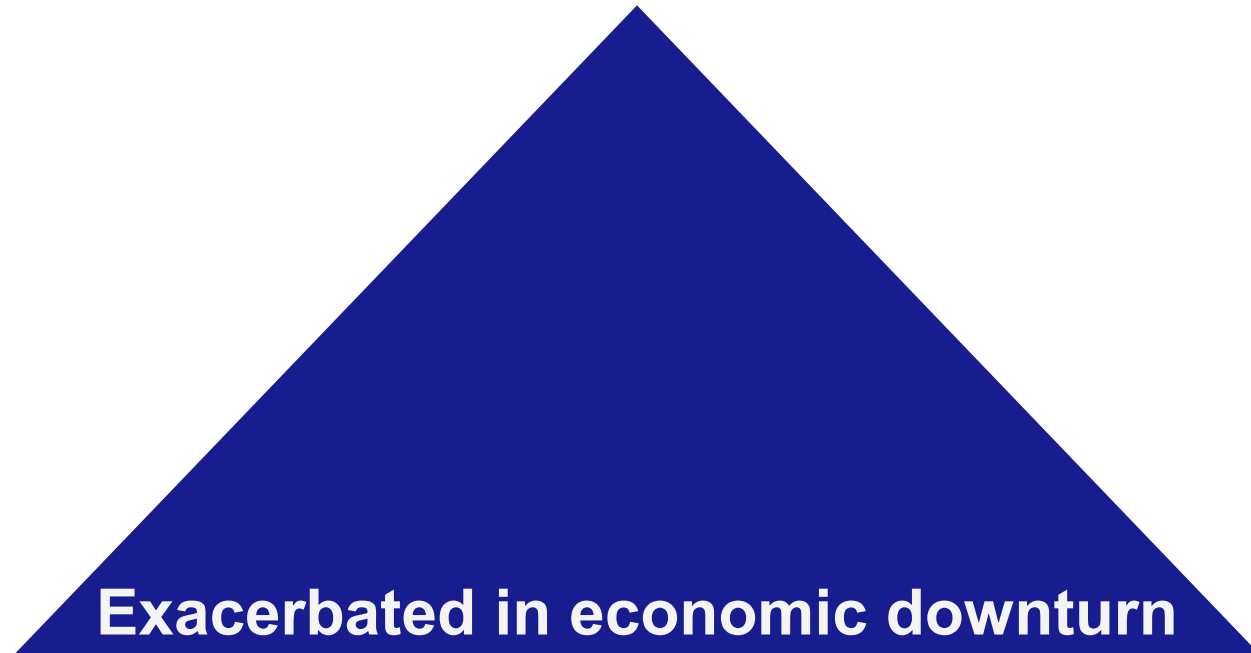
- Running errands
- Other leisure activities

## External Data Theft and Cyber Threats

- Lowered sense of awareness of cybersecurity threats

# Remote Work Can Increase Risk of Fraud

**The biggest threat is from unsupervised employees**



## **Perceived Pressure**

- Salaries that don't keep abreast of inflation
- Financial situations

## **Opportunity**

- Physical access and less strict IT controls
- Less managerial oversight

## **Rationalization**

- Emotional disconnect with employer or team
- Many employers still striving to do more with less

# Time Theft

## Red Flags

- Not responding to emails, chats, or calls during business hours
- Not attending or joining late for phone or video call meetings
- Completing work assignments late
- Taking long or frequent breaks that are unaccounted for
- Logging a full day on timesheets despite starting late or ending early
- Logging a full day despite doing personal and/or non-work activities while on the clock, including outside employment
- Asking for overtime that a manager has not authorized
- Asking a colleague to clock-in and out for them (“buddy punching”)

# Strategies for Combatting Time Theft

- Change KPI from time-based to achievement-based targets
- Schedule routine check-ins with employees to assess productivity
- Ask employees to work from the office a few days a week
- Use of technology platforms that indicate activity, or monitoring of computer or network activity logs and phone or video call logs
- Employer Code of Conduct, including penalties for violations, annually read and signed by employees

# Overemployment/Moonlighting

## Red Flags

- Candidate asks to be hired as a contractor
- Candidate's CV has periods of overlapping employment
- Employee is slow to answer/return emails, chats, and calls
- Employee does not want to be on camera during video calls
- Technology platform/activity tracking indicates employee routinely works outside of normal work hours
- Employees work is often last minute, seems rushed, and often does not meet expectations



# Strategies for Combatting Overemployment

- Discuss stance on moonlighting/overemployment in interview
- Employment contract prohibits moonlighting/overemployment
- Ad hoc check-ins with employees to assess productivity
- Ask employees to work from the office a few days a week
- Use of technology platforms that indicate activity, or monitoring of computer or network activity logs and phone or video call logs

# Low Productivity

## Red Flags

- Declining work quality
  - Frequent mistakes
  - Missed deadlines
- Decreased employee engagement
- Inability to reach reasonable goals
- Exhibiting stress in communications and interactions

# Strategies for Combatting Low Productivity

- Emphasize performance rather than hours worked
- Provide the right technology
- Set reasonable goals
- Assist your remote employees in creating a dedicated WFH space
- Eliminate low-quality meetings where an email will suffice
- Practice inclusive communication
- Invest in professional development



# Data Theft

## Red Flags

- Change in work habits
- Excessive interest in certain files
- Suspicious internet activity
- Unexplained data loss or breaches

# Strategies for Combatting Data Theft

- Strong access controls
- Consider encryption for sensitive data
- Regularly conduct security training
- Deploy data loss prevention technology
- Establish a clear data security policy





# Cybercrime

## Risks for Remote Worker IT Security

- Weak passwords and lack of multifactor authentication
- Unsecured Wi-Fi networks
- Phishing attacks
- Unsecure home network devices
- Lack of security updates
- Data backup and recovery

# Managing Remote Workers to Mitigate Fraud

- Culture of accountability
- Policies regarding remote work
- Cybersecurity training and requirements
- Time-tracking software
- Flexible work schedules
- Office-issued equipment and devices



# AI Solutions for Remote Worker Challenges

## Biometrics

- Reduce risk of hand-off and data leakage
- Strengthens employee authentication
- Drive accountability and compliance
- Improve worker efficiency

# AI – The Future of Fraud Detection



# AI Uses in Fraud Detection

## Automated Anomaly Detection

- Unusual transaction amounts
- Multiple transactions from the same device
- Purchases made from different locations in a short period of time

## Behavioral Analysis

- Purchases outside of normal spending habits

## Natural Language Processing

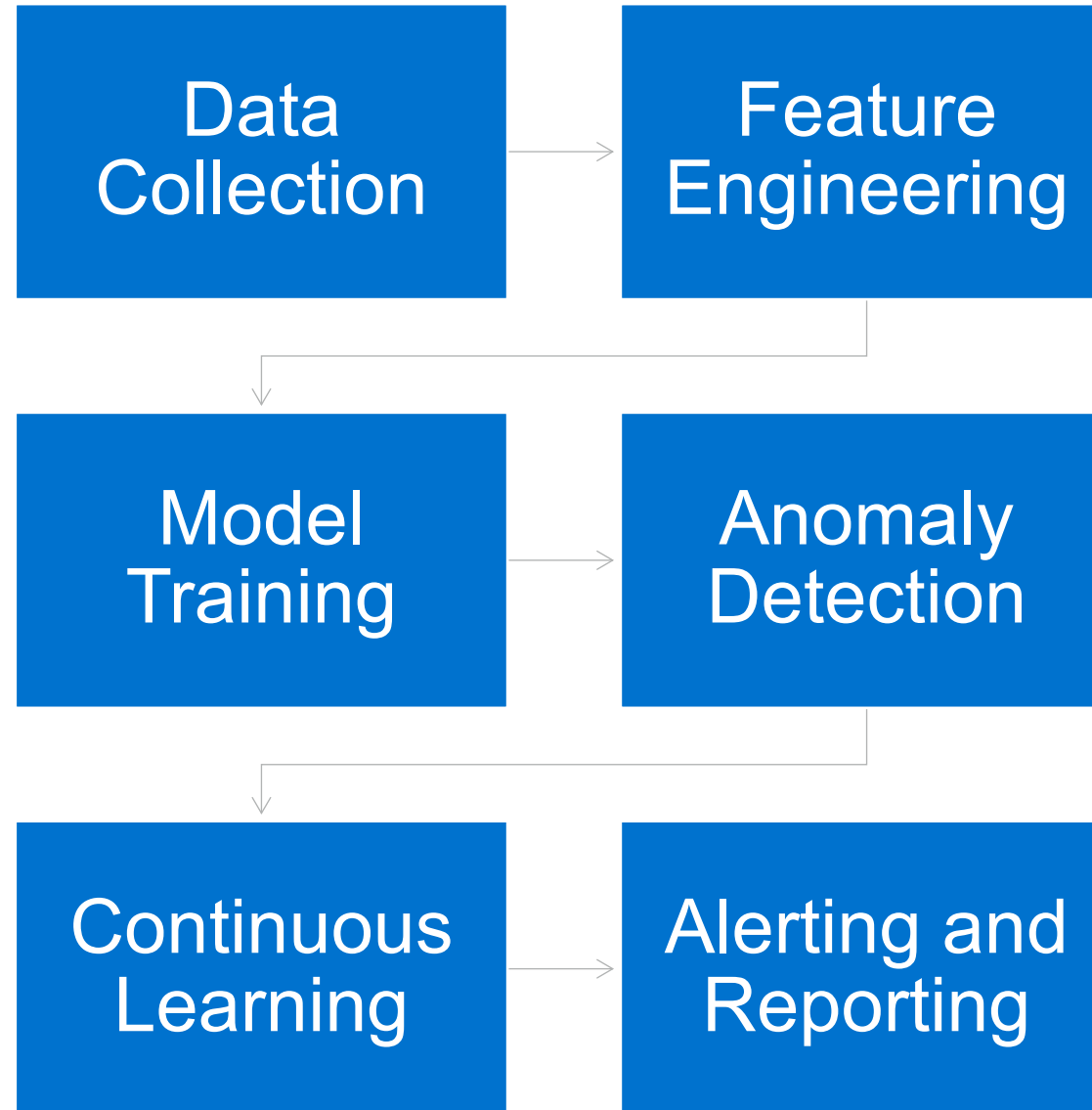
- Analyze individual communications (email or chats) to identify indications of fraud

## Continuous Learning

- AI can be continually trained with new data to improve accuracy and effectiveness over time



# How Does AI Fraud Detection Work



# Benefit of AI Fraud Detection

- Real-time detection and prevention
- Scalability
- Cost reduction
- Increased accuracy
- Stakeholder trust and satisfaction

# Challenges of AI Fraud Detection

- Data quality and availability
- Integration with existing systems
- False positives and stakeholder friction
- Keeping up with evolving threats
- Regulatory compliance and ethical considerations

# Building an AI Fraud Detection Strategy

- Establish a cross-functional fraud management team
- Monitor and update continuously
- Develop a comprehensive fraud detection strategy
- Invest in the right tools
- Practice ethical data usage
- Simulate attacks to test robustness
- Foster a culture of security



# Generative AI

- Large Language Models (LLMs) (a.k.a. ChatGPT)
- Learns from (a lot of) human input and generates “new” content
- A lot of efficiency uses, a lot of inaccuracies
- Could affect white collar world in the same way robotics affected the blue
- Already “weaponized” by hackers



# Finance worker pays out \$25 million after video call with deepfake 'chief financial officer'

By Heather Chen and Kathleen Magramo, CNN

Published 2:31 AM EST, Sun February 4, 2024



# Tools & Tech

Software and technologies to help automate, expand reach, and handle non-linear situations



# Leveraging Advanced Technology to Combat Fraud

## Uses of advanced tech expected to flow down from the federal level

- Data analytics to identify patterns and indications of potential fraud in vendor payments
- AI and data analytics to scrutinize Social Security payments and other federal programs
- System modernizations aimed at upgrading data and technology systems.
  - Expected to significantly reduce fraud and improper payments in federal programs like Medicare

# Advanced Technologies

**Artificial Intelligence** – analyze large data sets and identify patterns

**Data Analytics** – cross-reference data from multiple sources

**Blockchain Technology** – secure and transparent records of transactions

**Cybersecurity Protocols** – protect sensitive information and prevent cyber-attacks

**Ethics/Fraud, Waste, and Abuse Reporting Platforms** – hotlines or platforms to allow employees, vendors, and the public to report information

# What Tools Do you Need?



Everyone has it, and it does everything any other tool can (mostly), just far less automation. If you have nothing else, this will work.



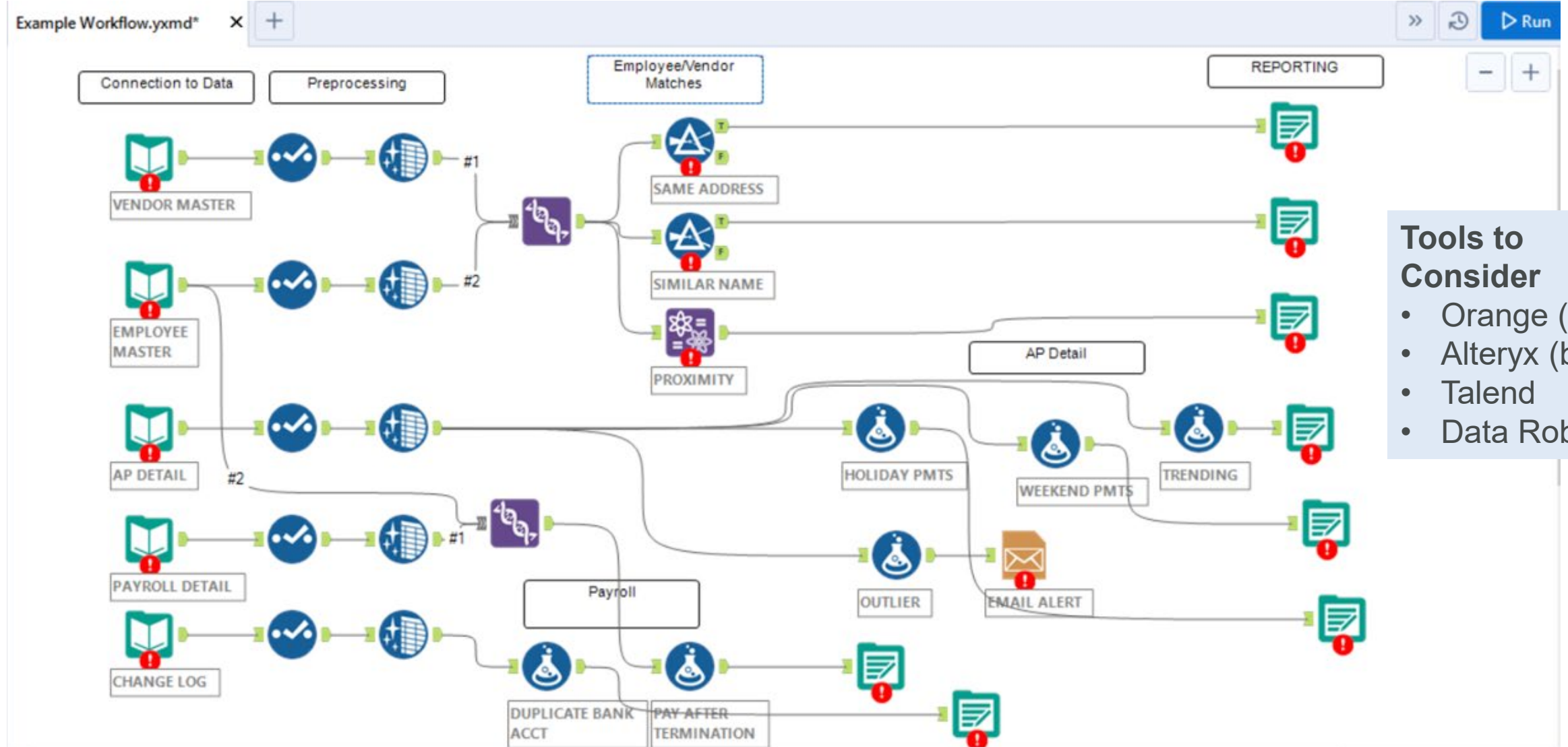
Very powerful tool that scales with size; part of the “workflow” class of tools that provide maximum automation. Lots of “extras” to enhance, plugs into anything and takes data from anything.



Essential “dashboarding” and visualization tools to report the end-product of continuous monitoring



# Workflow-Based Tools



## Tools to Consider


- Orange (free)
- Alteryx (best)
- Talend
- Data Robot




# Dashboards

## ACCOUNTS PAYABLE RISK ANALYTICS


Select an icon below to navigate to a test.


 VENDOR SCORE ASSESSMENT


 VENDOR SCORE PARAMETERS


MASTER FILE TESTS


AP TESTS


 EMPLOYEE VENDOR MATCHES


 VENDOR PAYMENT TRENDING


 VENDOR MAILBOX MATCHES


 ROUND PAYMENTS


 PROXIMITY MATCHING


 WEEKEND AND HOLIDAY PAYMENTS

 VENDOR VENDOR MATCHES

 POTENTIAL DUPLICATE INVOICES

 VENDOR PO BOXES

 BENFORD'S ANALYSIS

 CHECK GAPS

## VENDOR SCORE ASSESSMENT



### Vendor Score Summary

Select a vendor to see the makeup of the vendor score.



ID	Payee Name	Payments	Vendor Score
CSU584	Koelbin-Hoeger	\$30,707,676	16
BRH385	Schultz-Dickens	\$12,862,944	15
BUP553	David Cash	\$34,983	12
IHQ327	Yundt LLC	\$3,213,078	11
RMV835	Walsica-Mertz	\$725,165	11
VCD749	Wolff and Sons	\$16,819	11
DMW994	Pacecha-Collins	\$500,967	10
EWL956	Carroll, Erdman and Cruickshank	\$49,677	10
GHZ847	Champlin-Kuvalis	\$120,936	10
IPY565	Abbott LLC	\$7,980	10
OLU645	Braun, Klein and Kihn	\$14,040	10
RAE503	Vinny's Salvage Yard	\$52,766	10
RXX861	Roberts-Wolff	\$2,528,887	10
SNL175	Murray-Toy	\$308,000	10
THE548	Champlin, Jerde and Beier	\$7,690	10
VHP376	Wyman-Howell	\$22,080	10

### TEST SCORE

Select a test name to see results.

High Score Medium Score Low Score

# Dashboards



VENDOR SCORE

## EMPLOYEE VENDOR MATCHES

8

Match Count

8



Employee Match Count

7

Vendor Match Count

\$582,260

Total Payments



Filter Release

High Score

Medium Score

Low Score

### Total Payments to Vendor

Click on a vendor to see employee(s) that matched a vendor and on what attribute(s). Select an employee to see all match details.

ID	Name	Total Payments
WXY444	Security Systems LLC	\$515,502

Match Type	ID	Name
Address	65896	Julia Hope
TIN, Phone, Address	00986	Fanchon Bambrick

30

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# Supervised Machine Learning

Historic Data

Transaction	Result
Transaction	Not
Transaction	Not
Transaction	Not
Transaction	Not
Transaction	Not
Transaction	Fraud
Transaction	Not
Transaction	Not
Transaction	Fraud
Transaction	Not
Transaction	Not
Transaction	Not
Transaction	Not
Transaction	Fraud
Transaction	Fraud
Transaction	Fraud
Transaction	Not
Transaction	Fraud
Transaction	Not
Transaction	Not



New Data

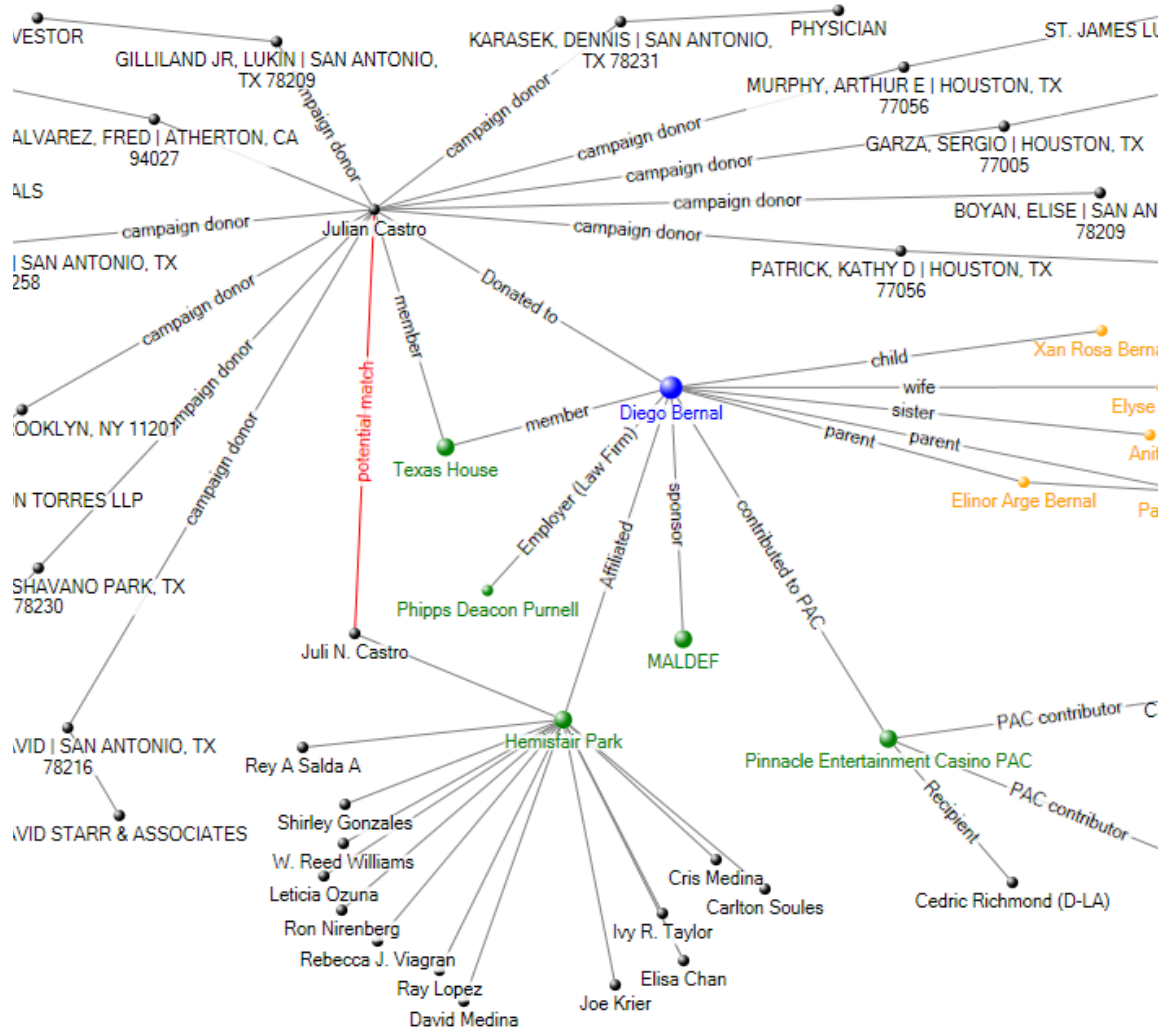
Transaction	Result
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?
Transaction	?

- Tools to Consider**
- Orange (free)
  - Rapid Miner
  - Alteryx
  - Python (free, scripting)

Not just fraud  
and financial risk

# Network Relationship Mapping

## A Digital “Crazy Wall” for Tracking Relationships



## Sources for Mapping

- Email
- Social Media
- Observation
- Interviews
- Documents

**nodexl.com**

- Excellent for tracking leads on larger investigations, particularly conflicts of interest and “buddy networks”.

# Robotic Process Automation

Robotic process automation (RPA) is the term used for software tools that partially or fully automate human activities that are manual, rule-based, and repetitive.

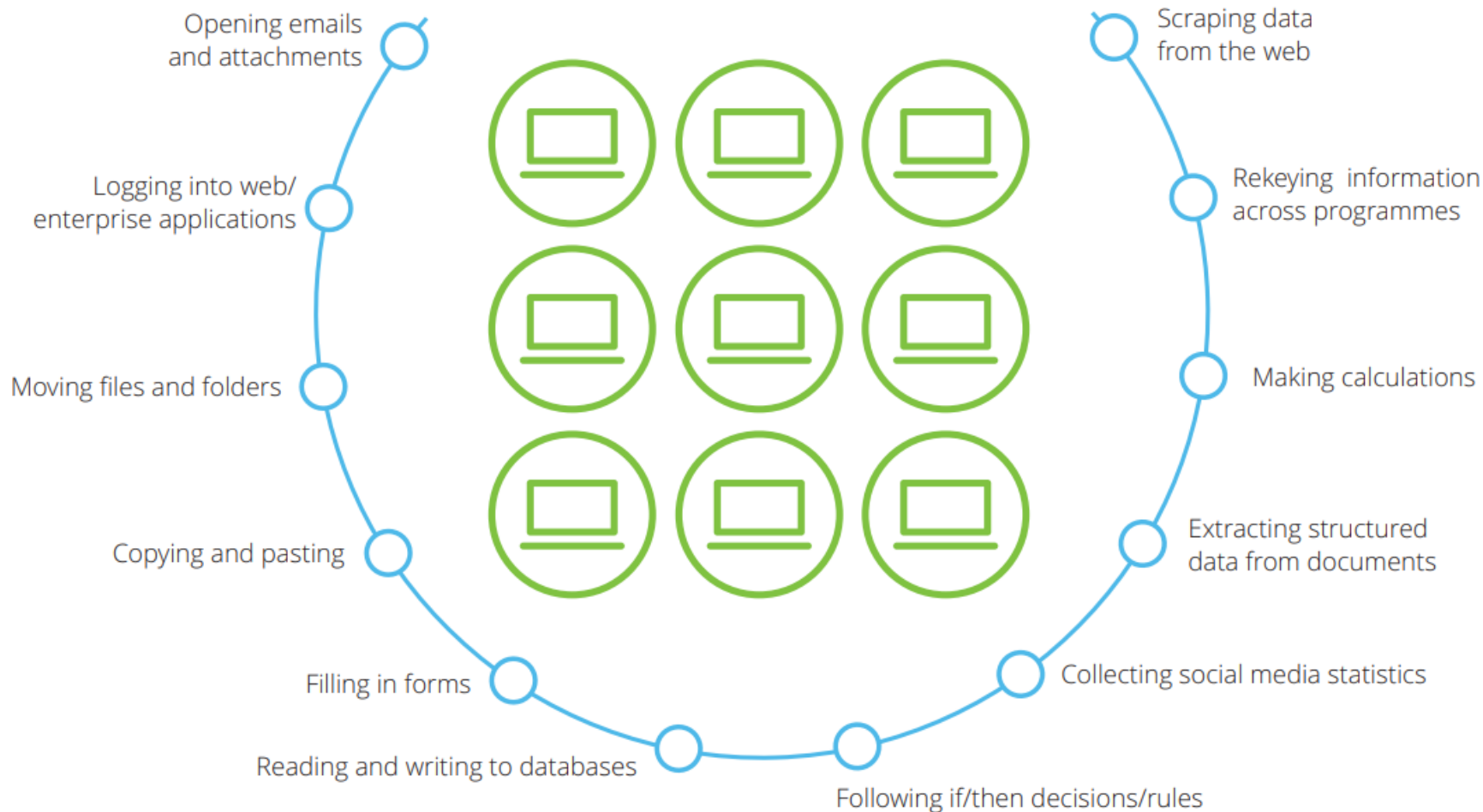
As much as 48% of our days are filled with things that can be replaced with RPA.





# Robotic Process Automation

**In an RPA solution, robots are capable of mimicking most user actions**



## Tools to Consider

- Blue Prism
- UI Path (Alteryx)
- RPA Express



# Tools to Try for Free or Low Cost

- **Excel** – Data Analysis Toolkit, ASAP Utilities, Fuzzy Match Tool
- **Orange Data Mining** – Perfect introduction to workflow tools, and built-in machine learning, with pre-built examples. When ready, move up to Alteryx
- **Background Intelligence** – familytreenow.com, custrmaps.com, and peoplesearchnow.com are all free. TruthFinder.com for low-cost monthly service (\$60 range per month)
- **Relationship Mapping** – NodeXL (<https://www.smrfoundation.org/nodexl/>)
- **Social Media, Email, and Text** – Begin with visual monitoring and built-in search functionality within platform or tool

# Update on Occupational Fraud in the Public Sector

Association of Fraud Examiners' 2024  
Report to the Nations



# Occupational Fraud

## Top occupational frauds in public sector

- Corruption (52%)
- Billing (24%)
- Payroll (18%)
- Noncash, Cash Larceny, & Expense Reimbursement (each 15%)

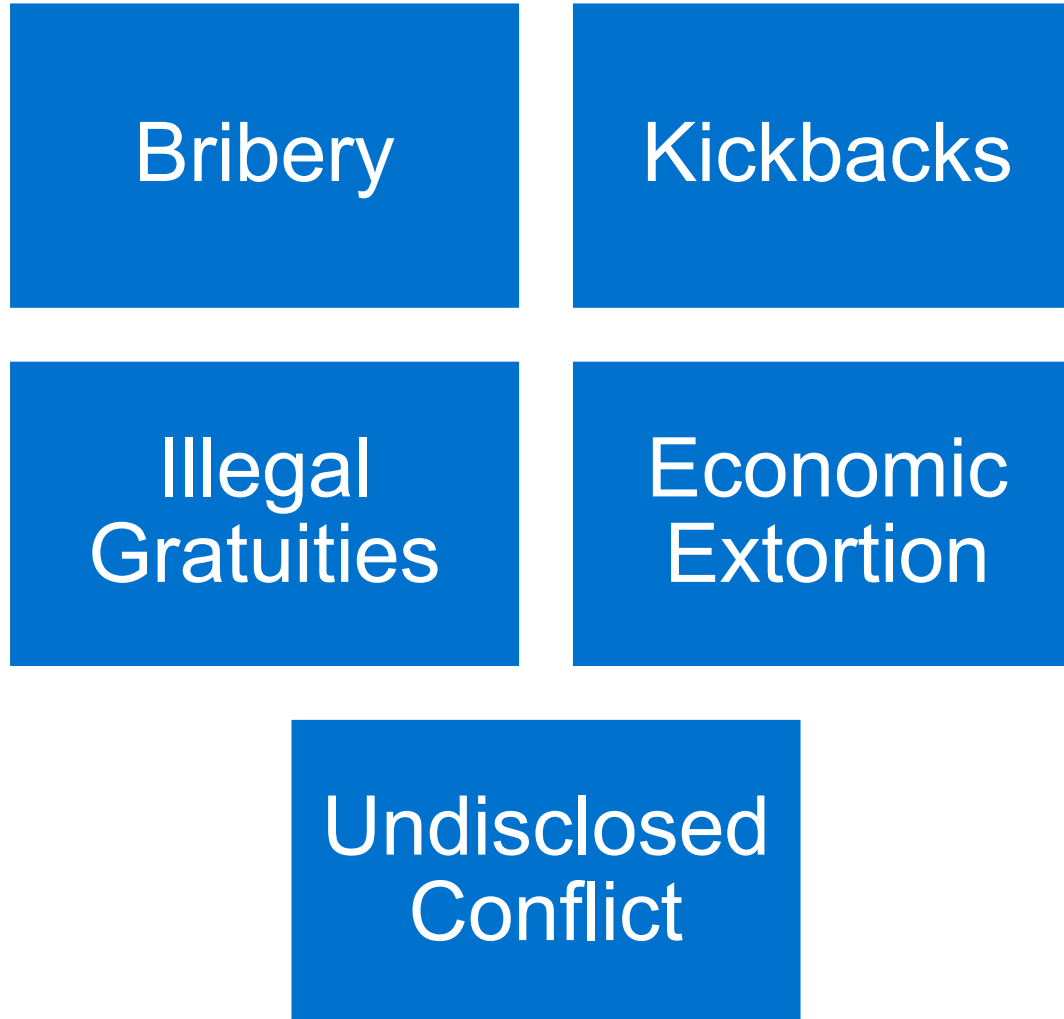
## Median loss per occurrence

- Federal \$210,000
- State \$92,000
- Local \$148,000

FIG. 26 WHAT ARE THE MOST COMMON OCCUPATIONAL FRAUD SCHEMES IN VARIOUS INDUSTRIES?

Industry	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Banking and financial services	305	12%	12%	18%	14%	44%	6%	5%	16%	4%	4%	8%
Manufacturing	175	27%	6%	4%	7%	55%	17%	6%	29%	10%	1%	9%
Government and public administration	170	24%	15%	8%	14%	52%	15%	4%	15%	18%	4%	11%
Health care	117	38%	9%	8%	12%	47%	21%	1%	22%	16%	2%	9%
Energy	78	19%	8%	9%	8%	60%	13%	4%	29%	10%	3%	6%
Retail	78	17%	10%	13%	5%	40%	6%	0%	32%	3%	9%	14%
Construction	73	38%	12%	7%	19%	52%	25%	10%	25%	23%	4%	23%
Education	70	36%	9%	13%	10%	43%	17%	0%	16%	7%	6%	19%
Insurance	69	19%	6%	6%	20%	49%	12%	9%	16%	10%	6%	9%
Technology	65	28%	9%	2%	9%	65%	11%	3%	32%	14%	0%	5%
Transportation and warehousing	60	18%	10%	18%	7%	52%	12%	2%	33%	10%	3%	7%
Religious, charitable, or social services	58	36%	17%	24%	17%	45%	29%	3%	10%	7%	2%	16%
Information	52	15%	10%	10%	0%	62%	10%	2%	27%	6%	0%	10%

# Categories of Corruption



# Red Flags for Corruption

- Off-book fraud can be difficult to detect
  - Payments often do not go through the organization's accounting records
  - Payments can be anything of value, not just cash
- Look for behavioral red flags in employees and vendors
- Look for internal control deficiencies in the procurement process
- Look for lack of transparency and documentation in the procurement process

# Behavioral Red Flags

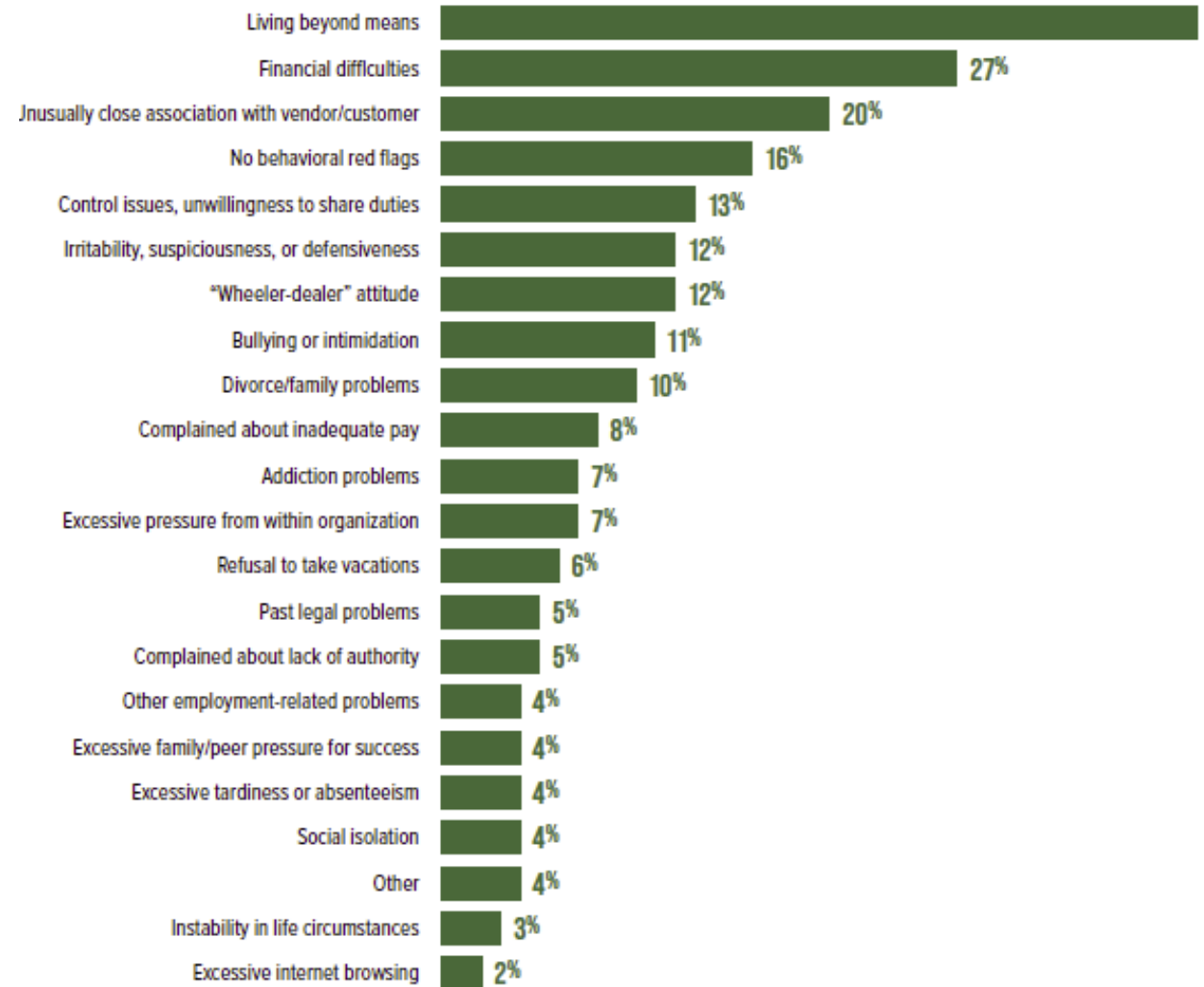
## My experience:

- Living beyond means
- Too close of an association with vendors/customers
- Control issues and unwillingness to share duties
- ‘Wheeler-dealer’ attitude

## Digital forensics

- Always check the browsing history on their work computer for evidence of online gaming or checking on casino loyalty/reward points

FIG. 54 HOW OFTEN DO PERPETRATORS EXHIBIT BEHAVIORAL RED FLAGS?





# Prevention & Detection Guidance

## Prevention Strategies

- Strong policies and procedures
- Education and training
- Transparency
- Whistleblower protections
- Regular audits

## Detection Strategies

- Monitoring systems
- Data analytics
- Internal controls
- Investigations
- Collaboration with law enforcement

# Billing Schemes

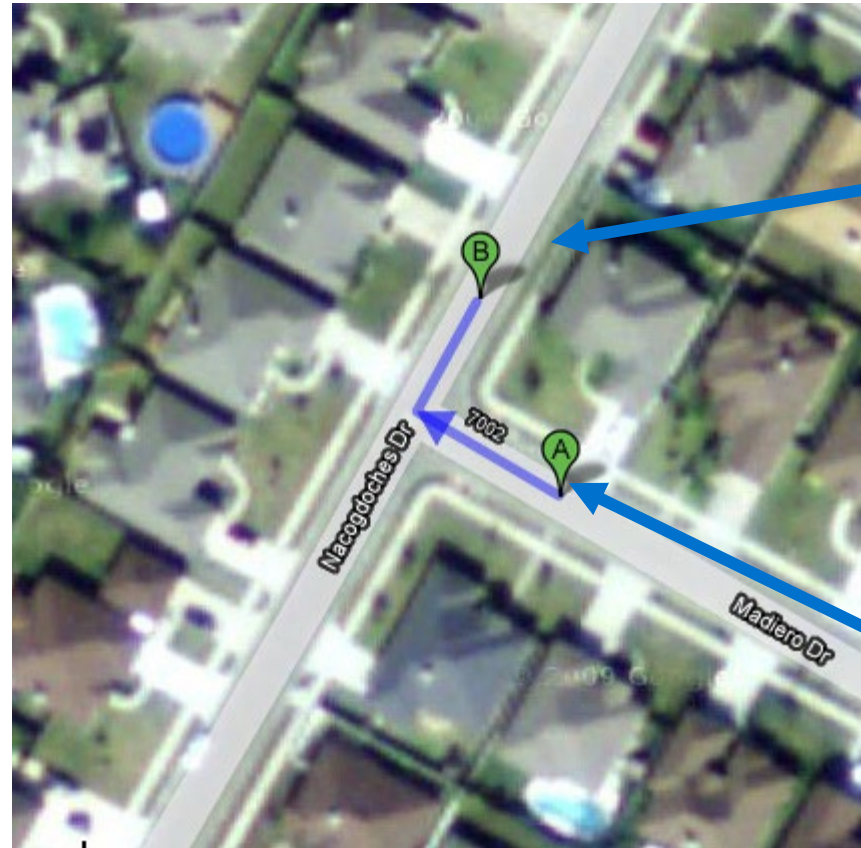
Fraudster creates false support for a fraudulent purchase, causing the organization to pay for goods or services that are nonexistent, overpriced or unnecessary

- Invoicing via shell company (fictitious vendor)
- Invoicing via an existing vendor
  - False invoicing for non-accomplice vendors
  - Pay-and-return schemes
- Personal purchases with organization's funds

# Red Flags for Billing Fraud

- Vendors that seem unusual or are unapproved
- Increases in payments to a vendor without corresponding increase in goods/services
- Very large payments to one vendor
- Vendor prices that seem unusually low or high
- Repeated purchases from a vendor with a record of poor-quality goods/services
- Sequentially numbered invoices
- Duplicate invoices
- Invoices that look unprofessional or photocopied
- Invoices missing key information such as address or phone number

# A Picture is Worth 1,000 Words...



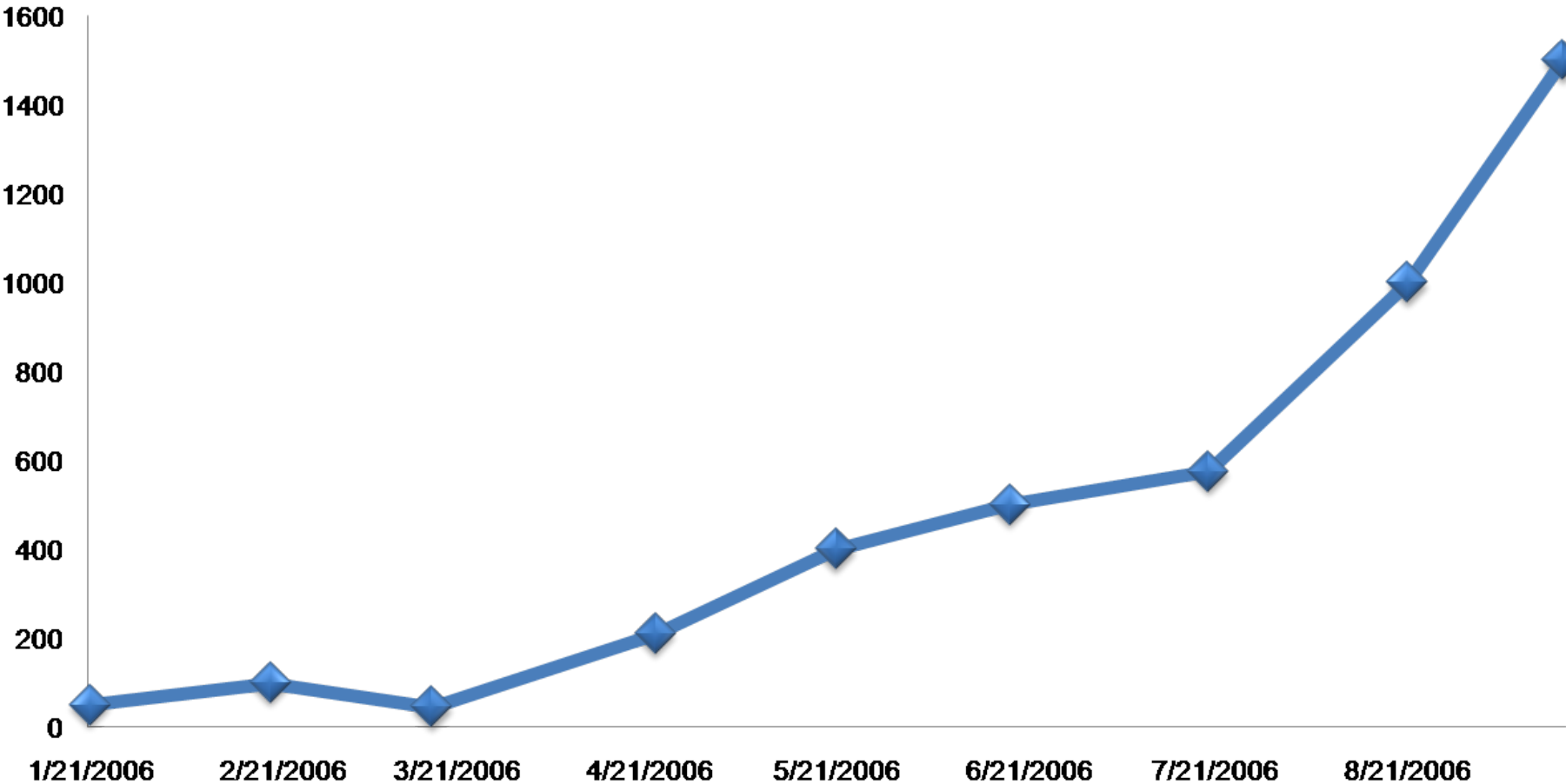
**AP Manager**

**Vinny's  
Salvage Yard**

# Vendor Trending Analysis

Vendor: JLM Plumbing

Authorized: Janice L. McPhearson



# Prevention & Detection Guidance

## Prevention Strategies

- Segregation of duties
- Vendor verification
- Employee training
- Multi-factor authentication
- Secure communication channels

## Detection Strategies

- Regular audits
- Data analytics
- AI and machine learning
- Vendor master file
- Monitoring systems



# Payroll Schemes

- **Ghost employees** – payments to former employees or employees who do not exist
- **Timesheet fraud** – employees claim hours they did not work or falsify their timesheets in some form or fashion
- **Rate adjustment** – change pay rate to increase wages
- **Unauthorized bonuses** – payment of bonuses not authorized by management
- **Benefit schemes** – receiving benefits or extra compensation not earned, such as excessive leave
- **Payroll diversion** – change bank account information for direct deposits to benefit the fraudster

# Red Flags in Payroll

- Although payroll is usually an automated function, it is a vulnerable area especially if collusion is involved
  - Inconsistent overtime hours for a cost center
  - Overtime charged during a slack period
  - Overtime charged for employees who normally would not have overtime wages
  - Budget variations for payroll by cost center
  - Same employee assigned to multiple departments
  - Employee in payroll but not on phone list or active employee files

# Data Analytics for Payroll Fraud

- Employees with duplicate SSN, names, addresses, phone numbers, or bank account numbers
- Employees with no sick/vacation/time off
- Employees with few or no payroll deductions
- Employees with no bank account information for electronic payments
- Payments before hire or subsequent to termination

# Prevention & Detection Guidance

## Prevention Strategies

- Segregation of duties
- Access controls
- Employee verification
- Regular audits
- Whistleblower policies
- Training programs

## Detection Strategies

- Data analytics
- Continuous monitoring
- Variance analysis
- Employee feedback
- Investigations

# Questions?



**forv/s**  
**mazars**

# Thank You!

## Forvis Mazars

Rand Gambrell

[rand.gambrell@us.forvismazars.com](mailto:rand.gambrell@us.forvismazars.com)

303.837.3594

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