



# THE COMMONWEALTH OF MASSACHUSETTS

## *CRF Risk Management and Compliance Discussion*

November 18, 2020

# OVERVIEW

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- A&F's Federal Funds Office (FFO) has been charged by the Governor with overseeing COVID-related federal funding in a manner that **optimizes federal funding, targets the administration's priorities, and minimizes compliance risk.**
- Federal guidance related to COVID fund reporting and compliance is constantly evolving. FFO aims to ensure the Commonwealth, Secretariats, and sub-recipients are **well-positioned for different types of future audits.**
- This presentation first provides municipalities with **advice and considerations on internal controls, risk management, and compliance preparation efforts for federal funding.**
- The presentation then more narrowly focuses on **compliance regarding the Coronavirus Relief Fund ("CvRF") – Municipal Program** which allocated \$502M to municipalities throughout the Commonwealth.

# AGENDA



Time	Topic
	<b><i>Introductions</i></b>
5 minutes	<b>Goals and Challenges</b>
	<b><i>Federal Funds Management Best Practices</i></b>
10 minutes	<b>Internal Controls Plan</b>
10 minutes	<b>Risk Management</b>
10 minutes	<b>Compliance Preparation</b>
	<b><i>Compliance with the Coronavirus Relief Fund</i></b>
10 minutes	<b>CvRF Guidance</b>
10 minutes	<b>CvRF Commitment to Compliance</b>
	<b><i>Closing</i></b>
5 minutes	<b>Next Steps &amp; Activity</b>

# GOALS AND CHALLENGES

Municipalities have common goals of serving citizens and shared challenges brought on by the pandemic

# COMMON GOALS

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**Deliver services** to  
our citizens

Maximize services to  
residents while  
**minimizing fraud,  
waste, and abuse**

Ensure misuse of funds  
is subject to  
**heightened scrutiny**

# THE CHALLENGE

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## COVID-19 Impact

- Tightened budgets
- New responsibilities driven by the pandemic
- Work in a virtual environment provides challenges

## Examples of Challenges:

- Managing a virtual team
- New fraud and compliance risks
- Requires a review of cyber security infrastructure
- New methods and procedures to conduct compliance monitoring
- New digital structures to document compliance and maintain records for audit and meet record retention requirements

# INTERNAL CONTROLS PLAN

To properly manage federal funds, municipalities should ensure strong internal controls plans are in place

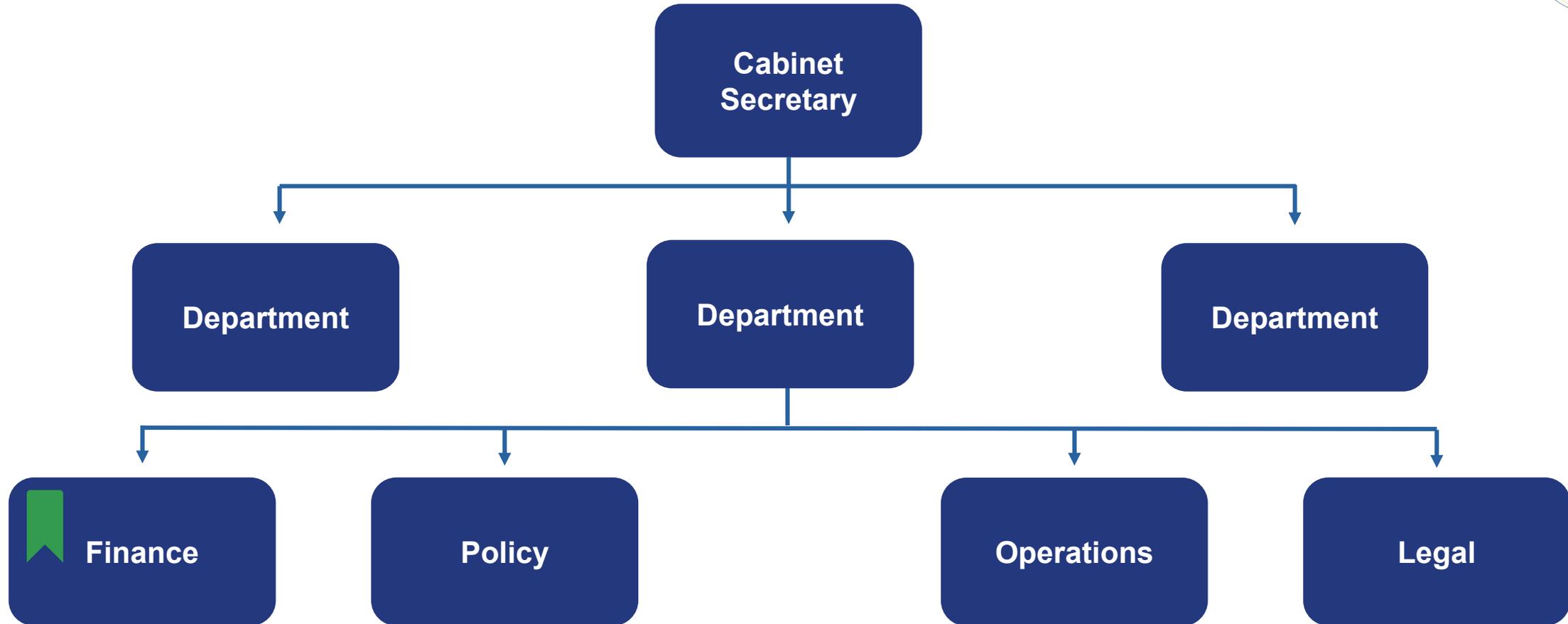
# KEY INTERNAL CONTROLS QUESTIONS

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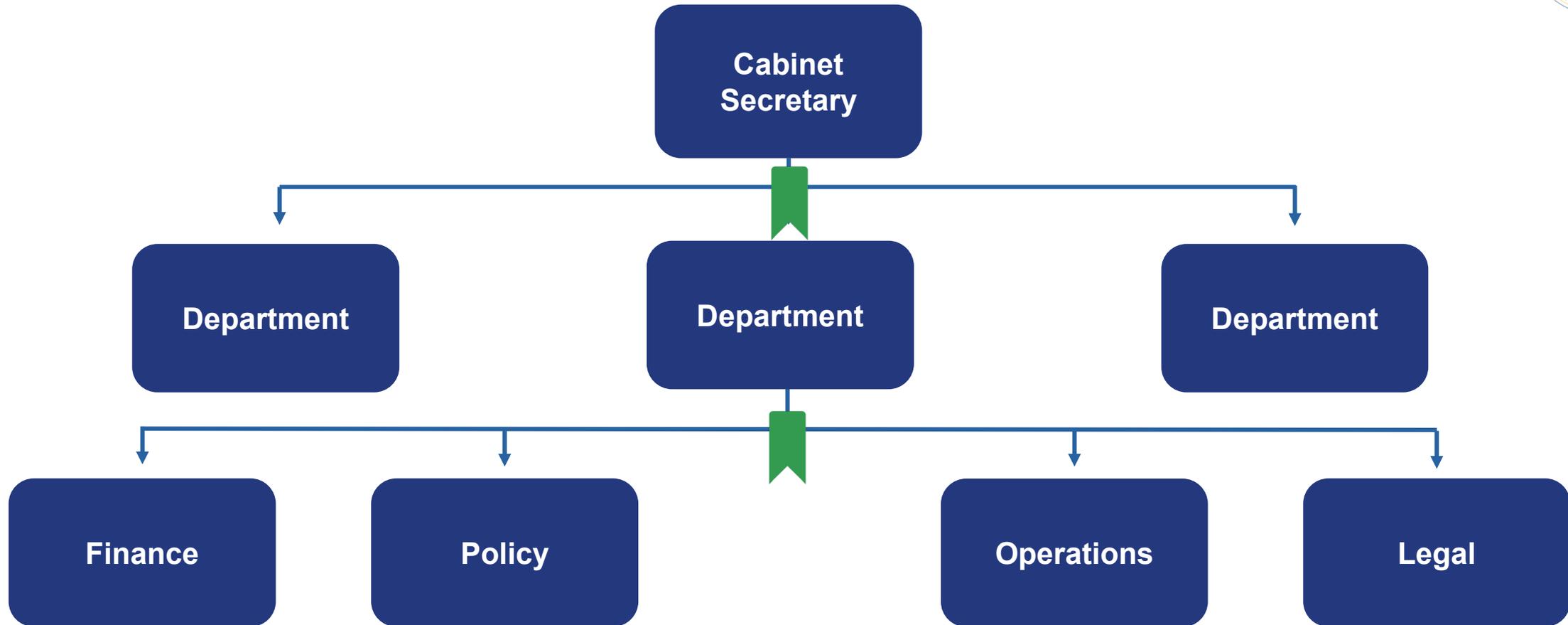
- Does your internal control plan reflect all of your department's business?
- Does your plan reflect actual practice?
- Is the plan used?

# HISTORIC INTERNAL CONTROLS MODEL



*Point where there is an existing internal Controls Plan*

# NEW INTERNAL CONTROLS MODEL



*We need to establish internal controls from cabinet secretary to departments, and then from department to finance, policy, operations and legal.*

# INTERNAL CONTROLS PROCESS



An internal controls process is designed to provide reasonable assurances regarding the achievement of objectives in the following areas:

## Key Components of Successful Internal Controls

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Control environment
- Risk assessment
- Control activities
- Information communication and monitoring

***Internal controls are not merely policy manuals and forms, but people at every level of an organization. Do you have an internal controls plan in place?***

# RISK MANAGEMENT

Municipalities should consider broad risks in relation to the pandemic, as well as municipal-specific risks, and ensure mitigation strategies are in place

# UNDERSTANDING RISK

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**The pandemic work environment combined with the new demands imposed by the virus response increase and pose new risks to government service delivery.**

# FEDERAL FUNDS MANAGEMENT RISK



In considering preparations for potential audits down the line, compliance risk and fraud risk can be defined into four categories to help prioritize focus area and effort

Highest Risk



Lowest Risk

**Highest Risk:** Municipalities receiving funds for the first time

**Medium Risk:** Municipalities using CvRF for complex uses (e.g., grant programs) and/or transferring large amount of funds to subrecipients

**Lowest Risk:** Municipalities with experience in federal funds and/or using CvRF for clearly defined eligible uses (e.g., PPE, cleaning)

# SAMPLE RISK CATEGORIES



The current environment provides a unique range of risks

## Cybersecurity

- New cyber risks due to virtual workforce
- Unsecure access to networks from personal devices
- Compromised electronic communications

## Virtual Service Delivery

- Compromised service to citizens in a virtual environment

## Budgetary Constraints

- Pressure on employees to take shortcuts due to potential for staff reductions

## Federal Funds Management

- Inexperience in managing federal funds
- CvRF eligibility and time constraints
- Failure of existing documentation structure due to virtual workforce

*Are unique risks being identified and mitigated?*

# COMPLIANCE PREPARATION

To prepare for long-term compliance activities related to federal funds, municipalities should lean on existing systems, policies, and procedures.

# TYPES OF AUDITS

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**Municipalities should consider four broad types of audits, which will occur several months from funding disbursement**

- 1. *Single Audit*:** The federal government requires any entity receiving more than \$750K to engage an auditor to conduct a “single audit” in accordance with Generally Accepted Government Auditing Standards (GAGAS) and OMB circular 200 (successor to OMB circular A133). This requires the state to produce and have audited a Schedule of Expenditure Federal Awards (SEFA) for the state fiscal year and the auditors confirm compliance with federal requirements which include a requirement that agencies comply with state law and regulation.

If the state issues subgrants to subrecipients **the compliance obligation flows down to subrecipients and monitoring of subrecipient compliance flows to the Commonwealth**. The auditor will also test to see that the Commonwealth has procedures in place to monitor this subrecipient compliance. This audit is released 7 to 10 months after the close of the state FY.

- 2. *Single Audit Follow-up*:** If item one above results in a compliance finding for a program, the federal granting agency is obligated to follow up. This is typically a letter or some type of desk audit but could result in a subject specific on-site audit by federal auditors.

# TYPES OF AUDITS

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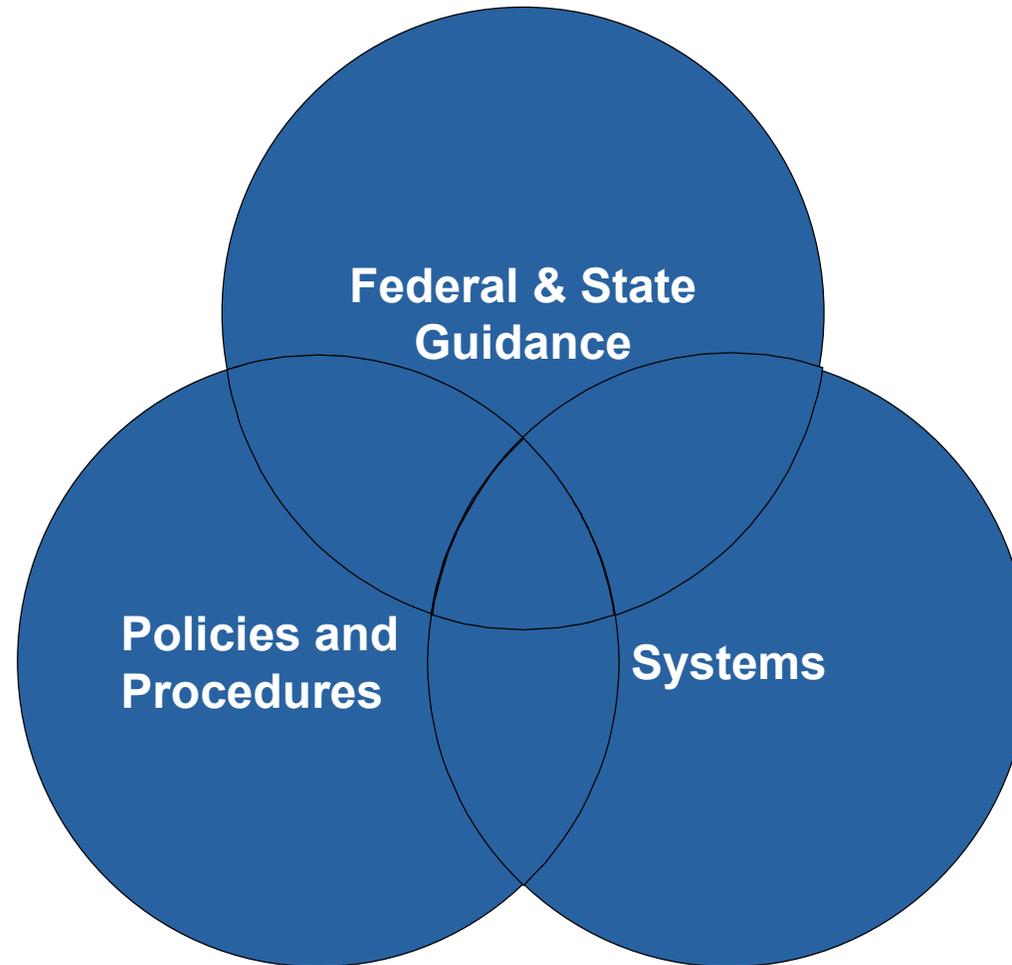


**Municipalities should consider four broad types of audits, which will occur several months from funding disbursement**

- 3. State Audit Entities:** The state Auditor tends to conduct performance audits and the Inspector General investigates suspected abuse of law and regulation.
- 4. Special Federal Program Audits:** During ARRA the Government Accountability Office (GAO) launched special teams to monitor the use of ARRA funds. During ARRA, GAO focused on larger states and had a special team who conducted periodic reviews in real time. GAO and Pandemic Response Accountability Committee (PRAC) received a special appropriations for this work in the COVID legislation and we expect they will reach out as they engage.

# EXISTING COMPLIANCE TOOLKIT

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# SYSTEMS

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## Municipal systems provide a strong foundation for tracking federal funds

*Existing systems, such as financial management and payroll systems can be used to:*

1. Track federal funds received by the municipality
2. Create special tracking mechanism to record COVID related spending for federal funds
3. Record all payments, including payments of federal funds
4. Document the name and address, amount obligated, and amount paid to sub-recipients and contractors
5. Track municipal employees' time allocated to federal funds (time and labor systems)

# POLICIES AND PROCEDURES



Tested policies and procedures should be leveraged to ensure compliance with state and federal law

## Relevant Policies and Procedures:

1. Requirements for internal control plans and procedures
2. Public procurement rules
3. Use and retention of contracts and subrecipient agreements
4. Guidance for subrecipient reporting and monitoring
5. Draw down of funds in compliance with CMIA
6. Tools to monitor performance against policy

### *Example: Internal Controls*

Municipalities may have policies and procedures in place requiring comprehensive internal control plans

### *Example: Accountability & Subrecipient Monitoring*

Municipalities may have processes in place for subrecipient monitoring due to the Single Audit Act

# CORONAVIRUS RELIEF FUND GUIDANCE

For the Coronavirus Relief Fund, the U.S. Treasury Department and the Massachusetts Office of Administration & Finance have issued guidance

# CORONAVIRUS RELIEF FUND (CVRF)



## Purpose

The Coronavirus Relief Fund (CRF) provided, in Section 5001, \$150 billion to be used to make specific payments to states and local governments to offset certain costs associated with the COVID-19 Pandemic.

## Restrictions

CRF can only be used for certain expenditures:

- Necessary public health (COVID-19) emergency expenses
- Not accounted for in the budget approved as March 27, 2020
- Incurred from March 1 to December 30, 2020<sup>1</sup>

The State's portion of the CRF is being distributed across municipalities and state agencies:



**State-Wide Allocation**  
Including direct portions to the City of Boston and Plymouth County

**State Portion**  
Without City of Boston and Plymouth County portions

**Allocated Distribution**  
For municipalities and other local entities<sup>2</sup>

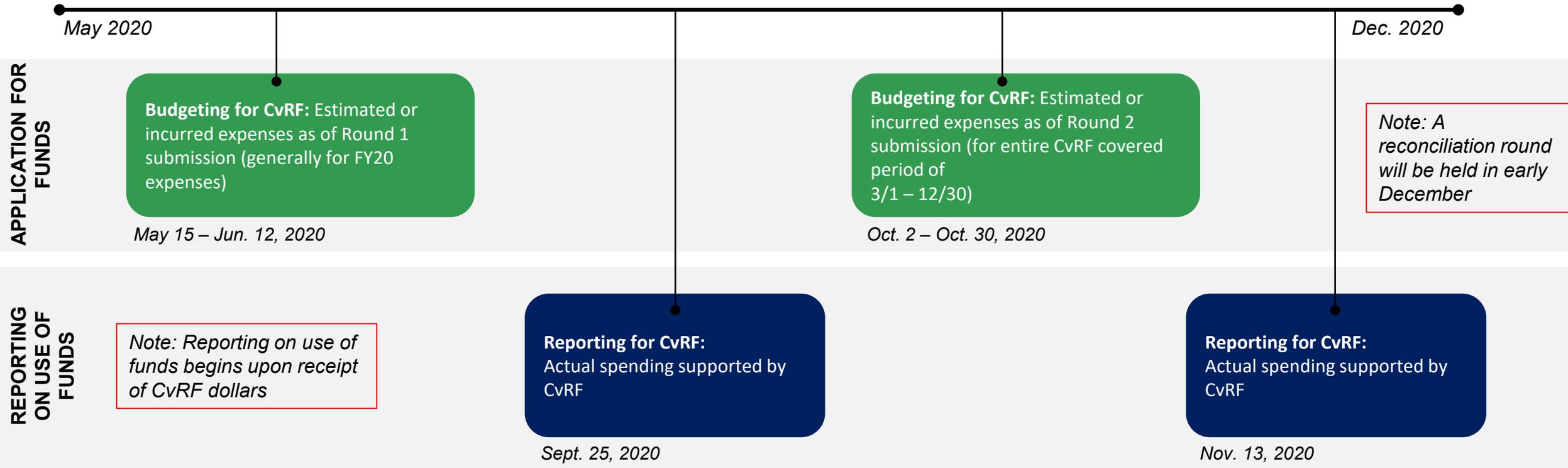
<sup>1</sup>Users must receive a beneficial use from the expense by December 30, 2020. Also, note that the deadline is December 30, 2020. The deadline is *not* December 31, 2020

<sup>2</sup>Local entities include municipalities, local school districts, local boards of health, and counties

# CVRF – MUNICIPAL PROGRAM



The MA Coronavirus Relief Fund – Municipal Program (CvRF-MP) provides up to \$502 million for municipalities to address unanticipated costs incurred as a result of the public health emergency caused by COVID-19



# CVRF – MUNICIPAL PROGRAM



## PROHIBITED USES

- Due to significant audit and compliance risk, A&F established specific, permitted uses for which cities and towns could request funds. These prohibited expense categories include, but are not limited to, the following:
  - Municipal business assistance programs
  - Vehicle purchases
  - New building construction
  - Most items that would be otherwise purchased through the issuance of municipal bonds

## UNSPENT FUNDS

- A&F expects that municipalities with an unspent balance from the CvRF-MP will return this money to the Commonwealth in January 2021
- The Commonwealth reserves the right to recover such funds through an assessment or deduction on local aid payments to municipalities that fail to return an unspent balance in a timely manner

# CORONAVIRUS RELIEF FUND COMPLIANCE

The Office of Administration & Finance has demonstrated a commitment to compliance with the CvRF. This commitment involves three key compliance efforts: reporting, documentation, and desk audits

# COMMITMENT TO COMPLIANCE



A&F is using a three-pronged approach to ensure compliance with the CvRF

## REPORTING

- Quarterly reporting required by the Treasury OIG
- A&F is requiring all relevant stakeholders to report on a quarterly basis
- First reporting submission covered expenses incurred between 3/1 – 6/30/2020
- Second reporting submission is due 11/13/2020 and covers expenses from 7/1 – 9/30/2020

## DOCUMENTATION

- A substantial federal audit of Coronavirus Relief Fund spending will be conducted
- It is imperative municipalities document that costs were eligible
- If costs are deemed ineligible, the state will have to return funds to the federal government.

## DESK AUDITS

- To test compliance, A&F will conduct desk audits on a random sample of municipalities
- Desk audit will ask municipalities to present documentation that supports:
  - Eligible use of the expense
  - Dates of payment and receipt of good/service

# REPORTING



## Quarterly reporting is required on obligated or expended CvRF costs

### CARES Act Coronavirus Relief Fund - Municipal Program Reporting Template

#### Overview:

The US Department of the Treasury Office of Inspector General (hereafter, "Treasury OIG") requires recipients of the CARES Act Coronavirus Relief Fund dollars to file periodic reports that describe the uses of these funds. Please use this template to report obligated or expended CARES Coronavirus Relief Fund costs.

This template has been adjusted based on the first reporting cycle submissions to make the template more user friendly, consistent, and accurate. Costs reported in the first reporting submission have been transferred into this reporting template and should be reviewed and adjusted as needed.

As a reminder, this is a reporting submission and is different than the Round 2 application for funding distributed in early October.

#### Municipality Key Data - Populate Fields Highlighted in Yellow\*

Municipality Name:		Total Eligible Amount:	N/A
Contact First Name:	N/A	Total Amount Received Round 1 Application:	N/A
Contact Last Name:	N/A	Total Amount Reported Reporting Submission 1	N/A
Contact E-mail Address:	N/A	Reporting Cycle:	2
Contact Phone Number:	N/A	Reporting Period:	3/1/2020 - 9/30/2020
DOR Code:	N/A	Reporting Deadline:	11/13/2020

\*Note: If contact information is incorrect, please provide updated information in the "municipality notes" section below.

Cycle	Reporting Period	Filing Deadline
4	3/1/2020 – 6/30/2020	9/25/2020
2	7/1/2020 – 9/30/2020	11/13/2020
3	10/1/2020 – 12/31/2020	1/29/2021
4	1/1/2021 – 3/31/2021	4/30/2021
5	4/1/2021 – 6/30/2021	7/30/2021
6	7/1/2021 – 9/30/2021	10/29/2021

# DOCUMENTATION

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Consideration needs to be given to both the type of documents stored, and the process for storing it

## What documentation do you need to be storing?

Across all transaction types, documentation needs to include (and match) key fields provided in quarterly reports. This includes:

- **Contract:** Obligations and expenditures, contract date, period of performance dates, expenditure category. *Example documentation: Invoices*
- **Grant:** Obligations and expenditures, grant payment type, grant date, expenditure category  
*Example documentation: Grant award letter*
- **Transfers:** Obligations and expenditures, transfer date, expenditure category  
*Example documentation: Notice of transfer*
- **Direct Payments** – Obligations and expenditures, payment date, expenditure category  
*Example documentation: Receipts, time sheets with employee signature and evidence of time spent on eligible COVID-related work*

## How are you storing this documentation?

Documentation needs to be stored in a central location and in a logical file structure that will allow documents to be easily retrieved in the future.

# DESK AUDITS

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The purpose of desk audits is to assist the Office of Administration & Finance in performing compliance monitoring of municipalities' receipt, disbursement, and use of CRF funds as reported in quarterly submissions

## WHO

The FFO and broader A&F team will lead the audits with input and collaboration from the Comptroller's Office, the Auditor's Office, and the Commonwealth's external auditor, as needed.

## WHAT

The desk audit aims to obtain and evaluate municipalities' documentation used to support reporting. We will review documentation to ensure:

1. Use of funds is consistent with eligible guidelines
2. Documentation matches expenses reported

## WHEN

Desk audits will occur on a **two-week basis** and will begin mid-November. Municipalities will receive notice of their selection for audit through a **standard compliance letter** and will have two weeks to provide documentation.

**NEXT STEPS**

# OTHER RESOURCES

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Association of Government Accountants and the Office of the Comptroller offer several tools to support

[Office of the Comptroller Risk Management Tools](#)

[Office of the Comptroller Cyber Security Tips](#)

[Internal Control Plan Tools](#)

[Fraud Prevention Tool](#)

[Subrecipient Monitoring](#)



**NOW WE WANT TO HEAR  
FROM YOU!**

# MENTI QUESTIONS

- 1. What are you most concerned about in terms of risk and compliance related to COVID-19 funding?**
- 2. Are we missing any steps / actions to ensure compliance?**

**QUESTIONS?**