THE COMMONWEALTH OF MASSACHUSETTS

CvRF Risk Management and Compliance Discussion

December 2020

INTERNAL CONTROL AND RISK

Risk is mitigated through effective internal controls

INTERNAL CONTROL 101

The U.S. Government Accountability Office's Standards for Internal Control ("Green Book") provide a guide for implementing the five main internal control components:

Control Environment	Risk Assessment	Control Activities	Information and Communication	Monitoring Activities
• Involves setting the tone for competency, accountability, ethics and compliance from the top, and ensuring that the organization has sufficient and capable staff to meet program goals. • Should ensure that sufficient staff are in place to disburse funds properly in accordance with clear criteria.	• Consists of identifying, analyzing, and responding to risks, including the potential for fraud. • Agencies should assess the significance of a risk by considering the magnitude of impact, likelihood of occurrence and the nature of risk. • Risk should be assessed on an ongoing basis, including reviewing: existing internal controls; prior audits; developing strategies for mitigating risks; assessing agency capacity and staff's ability and expertise in managing and overseeing funds; and performing existing internal audit functions.	• Consist of the specific policies and procedures put in place to mitigate risk of error, noncompliance and fraud. • Some examples include: physical control of assets to minimize loss or misuse; ensuring backup records; segregation of duties; delegation of authority; enhancing accountability; and storing and retaining documents.	• Involves the external communication of quality information between internal and external stakeholders	• Involves reviewing internal control systems and taking steps to remediate deficiencies. • Also involves testing for inconsistencies, duplication, errors, policy violations, missing approvals, incomplete data, dollar or volume limit errors, or other breakdowns.

INTERNAL CONTROL PROCESS

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

Key Components of Successful Internal Control

- 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 control is not merely policy manuals and forms, but people at every level of an organization. Do you have an internal control plan in place?

OFFICE OF THE COMPTROLLER GUIDANCE

The Comptroller takes Internal Control 101 and incorporates COSO's Enterprise Risk Management (ERM) framework.

This framework helps ensure:

- Goals and Objectives are defined

- Risks to achieving these are identified and assessed

- Resources are limited so risks are prioritized according to impact and likelihood

Once prioritized, controls are applied in the most effective, efficient way in order to achieve agency objectives

OFFICE OF THE COMPTROLLER GUIDANCE

- The Office of the Comptroller requires each department to have a system of internal controls summarized in an Internal Control Plan (ICP) (see guidance <u>here</u>).

- Because COVID-19 has affected all departments, the Comptroller, in consultation with the Office of the State Auditor, has provided examples for departments to update their ICPs due to this impact.

- Examples are outlined in the form of two goals:

Goal 1: Prepare for the current and long-term impacts of COVID-19 pandemic

Goal 2: Properly account for COVID-19 related awards and expenditures

GOAL 1: PREPARING FOR COVID-19 IMPACTS

Objective 1		Objective 2
Perform a risk assessment of the impact of COVID-19 on the operations of the department		Develop safety protocols for the protection of staff, visitors, clients, patients, customers and vendors
Risk: Insufficient exploration of all facets of impact		**Risk**: Lack of preparedness can result in spread of illness and impact operational performance
Control 1: Stay up to date on alerts from Governor's Office, MEMA, state oversight agencies, etc.	**Control 2**: Involve all stakeholders (internal & external) in risk exercises	**Control 1:** Appoint a COVID-19 leadership team as subject matter experts that assure departmental compliance with laws, protocols, etc. and disseminate all related notices and communications

GOAL 1: PREPARING FOR COVID-19 IMPACTS

Objective 3	Objective 4		
Memorialize changes to business processes and internal controls necessitated by the response to the pandemic	Draft telework and return to work plans		
Risk: New programs, sources of funds, and/or working remotely may require doing normal business in different ways. Lack of documentation of changes to procedures, and the decisions leading to them may leave the departments exposed.	**Risk:** Inability to continue operations remotely	**Risk**: Exposure of department network to malware, etc.	**Risk**: Lack of return-to-work plan creates increased risks if staff becomes ill
Control 1: Each business unit will identify, document and train on new protocols **Control 2:** Decisions are vetted and documented at a senior staff level	**Controls:** Identify critical tasks along with responsible parties and their back-ups and identify, procure and distribute necessary equipment for remote work	**Controls:** Use only department-issued equipment; make sure IT staff are up-to-date on cyber alerts and needed patches; ensure all equipment used for business is inventoried; and educate staff on cyber threats	**Controls:** Stay up-to-date on available guidance

GOAL 2: PROPERLY ACCOUNTING FOR COVID-19 AWARDS

Objective 1
Track COVID-19-related awards and expenditures separately from other federal, state and local activities
Risk: Including COVID-19-related federal fund activities and reports with activities of other federal funds could result in an audit finding that jeopardizes COVID-19-related federal funding

Control 1: Numerous controls exist in MMARS to develop separate accounting and reporting for C19	**Control 2:** Follow the Comptroller's guidelines on transaction coding for C19 funds (see policy [here])	**Control 3:** The CFO and Internal Control Officer should work closely with Comptroller's office as processes evolve

INTERNAL CONTROLS FOR WORK FROM HOME

Ensure all employees are trained on the following protocols:	
RISK	**CONTROL**
Unsecured home Wi-Fi connections	• Add a strong password to your Wi-Fi connection • Do not perform work business using a work device on 'free' Wi-Fi (ex. Airport Wi-Fi, coffee house, trains while commuting)
Leaving browsers open	• Close browsers when not in use and shut down your work computers overnight
Using work equipment for personal use	• Follow your agency's Internet Usage Policy at work and at home
Family members using a work issued computer	• Work equipment should not be shared with anyone else
Unpatched software and operating systems	• Make sure operating systems, virus and malware protections are up-to-date according to your Department security requirements