



THE COMMONWEALTH OF MASSACHUSETTS

CvRF Risk Management and Compliance Discussion

November 2020

OVERVIEW



- Commonwealth of Massachusetts Executive Office of Administration and Finance (A&F) 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
<i>5 minutes</i>	Introductions
<i>20 minutes</i>	Federal Funds Management Best Practices
<i>20 minutes</i>	Compliance with the Coronavirus Relief Fund
<i>15 minutes</i>	Closing and Q&A

GOALS AND CHALLENGES

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

COMMON GOALS



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



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

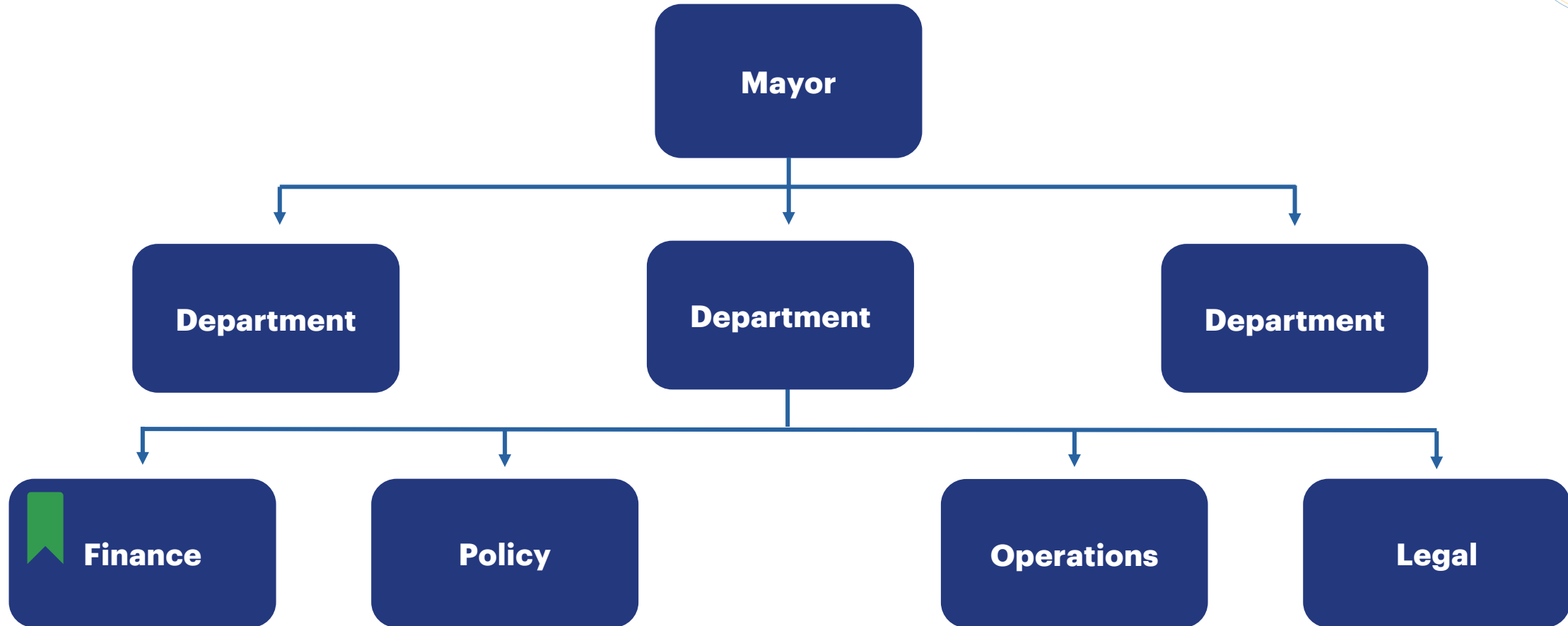
To properly manage federal funds, municipalities should ensure strong internal controls plans are in place

KEY INTERNAL CONTROLS QUESTIONS



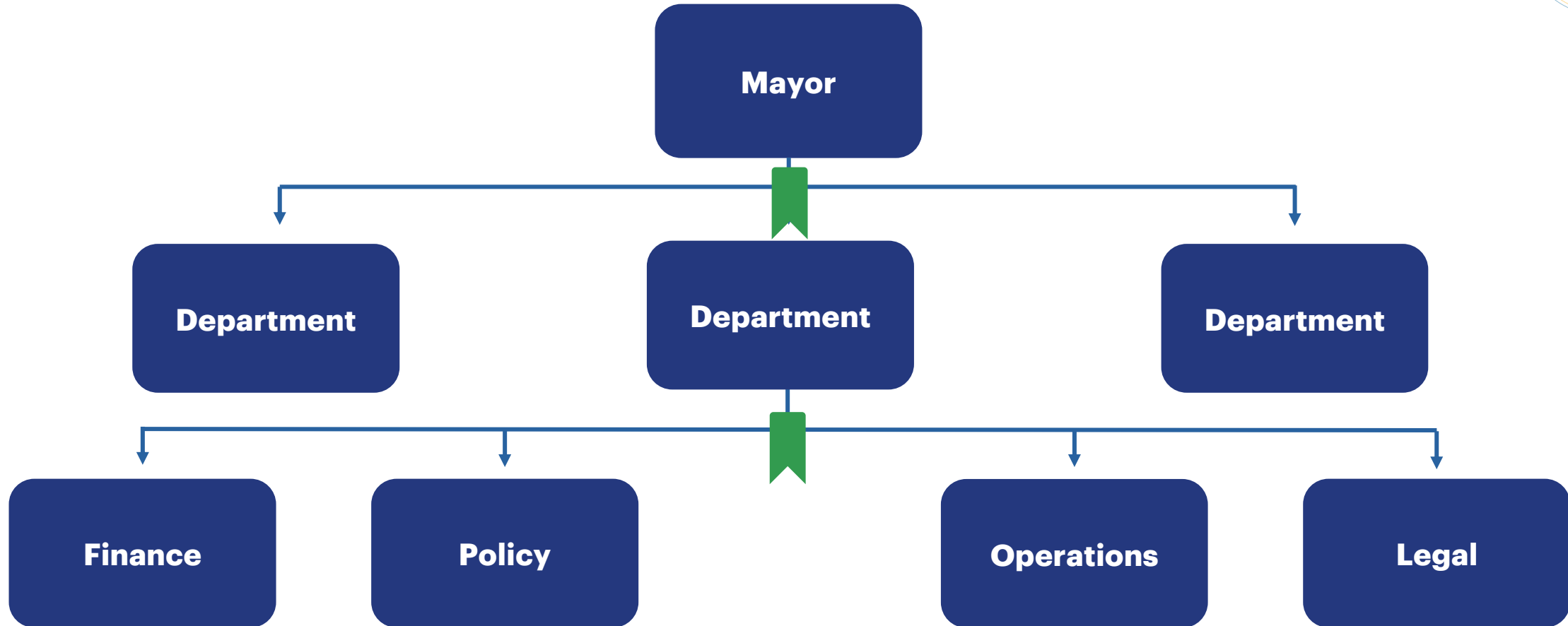
- **Does your internal control plan reflect all of your department's business?**
- **Does your plan reflect actual practice?**
- **Is the plan used?**

HISTORIC INTERNAL CONTROLS MODEL



 Point where there is an existing internal Controls Plan

NEW INTERNAL CONTROLS MODEL



We need to establish internal controls form 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



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



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.

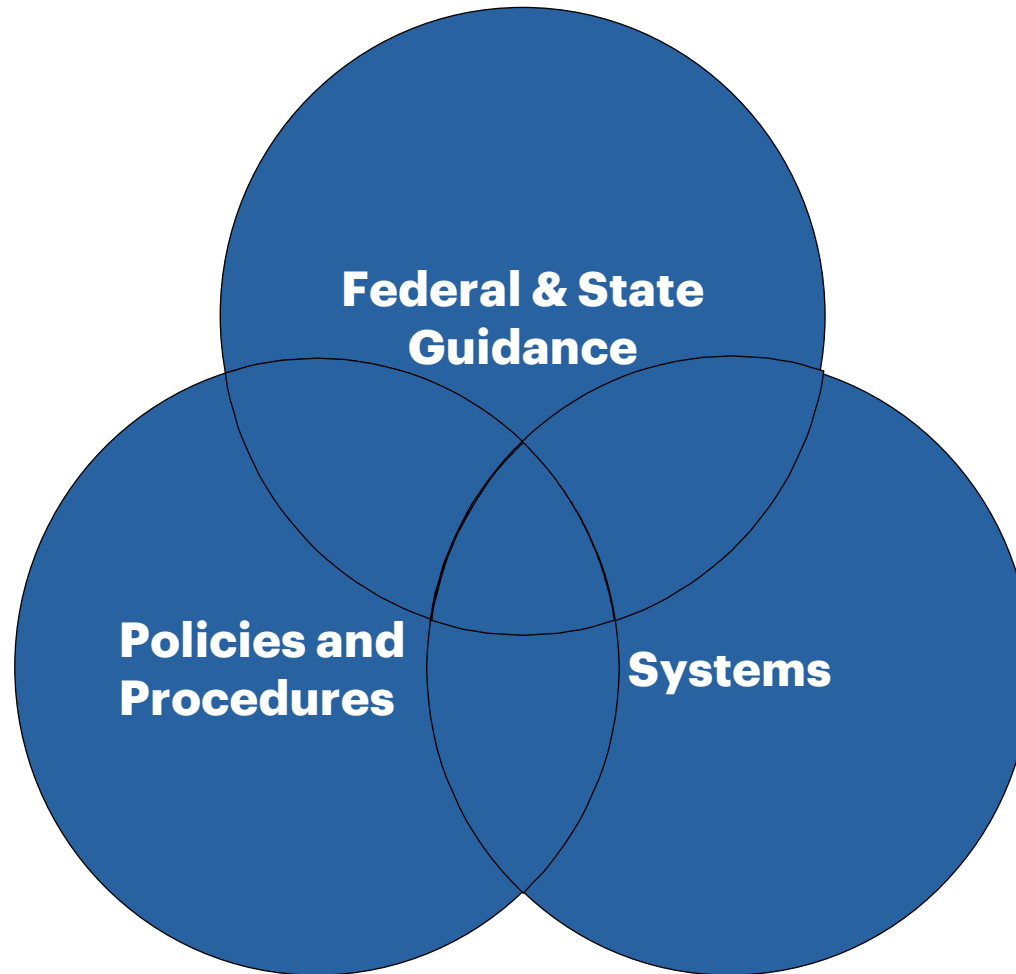
TYPES OF AUDITS



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- 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



SYSTEMS



Reporting to A&F should reconcile to Municipal systems

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 (A&F) have issued guidance. A&F has also declared a commitment to compliance, which includes three key efforts: reporting, documentation, and desk audits

CORONAVIRUS RELIEF FUND (CVRF)



Purpose

The Coronavirus Relief Fund (CvRF) 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.

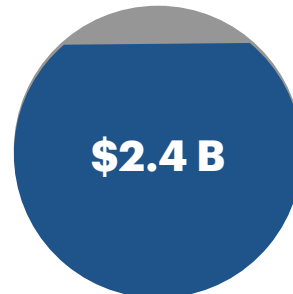
Restrictions

- CvRF 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, 2020¹

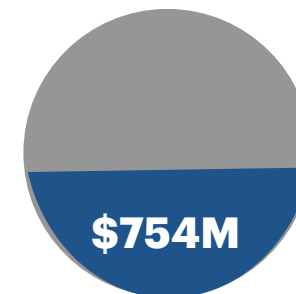
The State's portion of the CvRF is being distributed across municipalities and state agencies:



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 entities²

¹Users 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

²Local entities include municipalities, local school districts, local boards of health, and counties

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

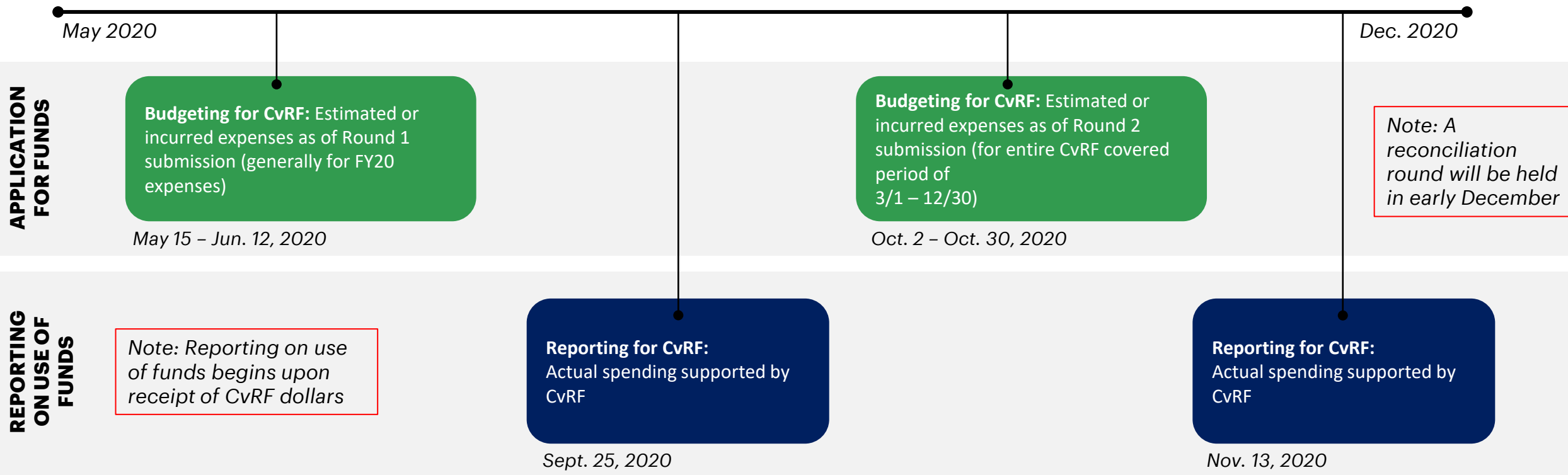
DUPLICATION OF BENEFITS

- A duplication of benefits occurs when an entity receives multiple sources of federal funding assistance for a specific eligible cost or activity where funding has already been used for the entirety of that particular cost or activity, or in excess of the amount needed for that specific eligible cost or activity.
- The CARES Act requires agencies to ensure there are adequate procedures in place to prevent duplication of benefits¹

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



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
1	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



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



The purpose of desk audits is to assist the Office of Administration & Finance in performing compliance monitoring of municipalities' receipt, disbursement, and use of CvRF 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.

A NOTE ON PROCUREMENT



Unlike FEMA and other federal funding sources, the Coronavirus Relief Fund does not have special procurement requirements.

In the absence of specific rules, please follow normal municipal procurement rules.

NEXT STEPS

NEXT STEPS



1. Ensure CvRF expenditure documentation is collected and saved centrally
2. Comply with A&F's desk audit if selected for review
3. Prepare for next reporting submission that covers the period from 10/1/2020 – 12/30/2020 (due on 1/29/2021)
4. Review other resources from the Association of Government Accountants and the Office of the Comptroller (*see next slide*)

OTHER RESOURCES

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](#)



QUESTIONS?