



THE COMMONWEALTH OF MASSACHUSETTS

CvRF Risk Management and Compliance Discussion

December 2020

RISK MANAGEMENT

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

TYPES OF AUDITS



State agencies 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



State agencies should consider four broad types of audits, which will occur several months from funding disbursement. Not everyone will be audited, but every recipient should be prepared with documentation in case

- 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.

Even if you do not have a single audit conducted on you, you could be “picked up” on a single audit of another entity (especially if you are a sub-recipient), therefore you should ensure you are maintaining proper documentation.

UNDERSTANDING RISK



The pandemic work environment combined with the new demands imposed by the COVID-19 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 three categories to help prioritize focus area and effort

Highest Risk



Lowest Risk

Highest Risk: Agencies receiving funds for the first time

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

Lowest Risk: Agencies 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
- Pressure to use CARES funding to supplant other funds due to budget restrictions

Federal Funds Management

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

Recipients should be pursuing risk mitigation efforts now so they can identify risks as early as possible

IMPROPER USE OF FUNDS



What should you do if you identify a misuse of your CvRF process, documentation, or use of funds?

Reach out to ANF ASAP and proceed with any background corrections for reconciliation!