

# NEADA Presentation

March 2015



## Internal Controls and You

How Internal Controls Can Improve and  
Protect Our Energy Assistance Program

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### **John Harvanko**

- Minnesota State LIHEAP Director 15 years
- Also 18 years in workforce development programs
- Participates on National Program Integrity Workgroup
- MN LIHEAP (called EAP) has been incorporating Internal Controls Framework (ICF) for the last 7 years



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## **NEADA Presentation**

### **Presentation Intentions**

- To show how internal controls work in the real world
- To explain new Green Standard requirement



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# **Internal Control Framework (ICF)**

- What is ICF?
- How does it Minnesota use ICF for EAP?
- What is the Green Standard



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### ICF Frameworks

There are a variety of framework options

- The U.S. Government Accountability Office (GAO), Standards for Internal Control in the Federal Government, is known as the Green Standard.
- The [\*Green Book\*](#) provides a standard model for organizing, documenting, and discussing internal controls.
- The *Green Book* was selected because of its government focus, use of government terminology, and its similarities to the COSO Framework. (COSO is directed to private sector)
- Luckily Minnesota used the "Green Standard" 7 years ago



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### **Internal Control Definition**

Defines internal control as a process, affected by individuals within an organization, designed to provide reasonable assurance regarding the achievement of these **objectives**:

1. Effectiveness and efficiency of operations,
2. Reliability of financial reporting, and
3. Compliance with applicable laws & regulations



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### **ICF Structure**

The three objectives are supported by the framework. The framework, is comprised of five interrelated components that can react dynamically to changing conditions:

1. Control Environment
2. Risk Assessment & Management
3. Control Activities
4. Information & Communication
5. Monitoring



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# **Green Standard & 17 Guiding Principles**

### **1. Control Environment**

1. Demonstrate commitment to integrity & ethical values
2. Exercise oversight responsibility
3. Establish structure, responsibility, and authority
4. Demonstrate commitment to competence
5. Enforce accountability

### **2. Risk Assessment**

6. Define objectives and risk tolerances
7. Identify, analyze, and respond to risk
8. Assess fraud risk
9. Analyze and respond to change

### **3. Control Activities**

10. Design control activities
11. Design activities for the information system
12. Implement control activities

### **4. Information & Communication**

13. Use quality information
14. Communicate internally
15. Communicate externally

### **5. Monitoring**

16. Perform monitoring activities
17. Remediate deficiencies





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# **Minnesota ICF**



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# Frames within Framework (ICF)




- Federal & State Controls
  - Rules and fiscal practices
  - GAO, OLA, MMB
- Department of Commerce
  - Mission & fiscal control
- EAP State Office
  - Program policy & procedure requirement
  - Risk and quality controls
  - Fiscal allocation and auditing
  - Monitoring
  - T&TA
- EAP Service Providers (SP)
  - Execute program mission
  - Implementation of policies and procedures with a quality control environment
  - Manage SP specific risks



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## EAP ICF – 1. Control Environment

|  |  |   |                 |  |  |  |
|--|--|---|-----------------|--|--|--|
|  <b>EAP Unit ICF</b>  |  |   | <b>Intraweb</b> |  | <b>EAP</b>   |  |
| <b>EAP Intraweb Home</b> <a href="#">Go</a>  |  |   |                 |  |  |  |
| <b>EAP State Office Internal Controls Framework</b>  |  |   |                 |  |  |  |
| <b>1. Control Environment</b> relates to management & employees establishing & maintaining an environment throughout the organization that sets a positive & supportive attitude toward internal control & conscientious management.   |  |   |                 |  |  |  |
| <b>Federal State and Departmental</b>  |  | <b>State Office</b>   |                 |  | <b>Service Provider (SP)</b>   |  |
| <b>Federal Context</b> <ul style="list-style-type: none"> <li>▪ LIHEAP Legislation <a href="#">Title XXVI of the Omnibus Budget Reconciliation Act of 1981</a></li> <li>▪ <a href="#">1.1 Guidance Policies and Procedures</a></li> </ul> <b>Department Environment</b> <ul style="list-style-type: none"> <li>▪ Commerce <a href="#">Internal Controls</a></li> <li>▪ <a href="#">Commerce</a> and Division of Energy Security Mission</li> <li>▪ Commerce <a href="#">Org. Chart</a></li> <li>▪ Human Resources <a href="#">Policies and Procedures</a></li> <li>▪ Division of Energy Resources (DOER) <a href="#">Org Chart</a></li> <li>▪ Commerce Employee Information Page</li> <li>▪ 0.5 <a href="#">Commerce Enterprise</a> efforts</li> </ul> |  | <ul style="list-style-type: none"> <li>▪ EAP Business Strategy Model <a href="#">BSM</a></li> <li>▪ 0.0 Strategic Planning               <ul style="list-style-type: none"> <li>○ <a href="#">EAP Approach to Funding</a></li> </ul> </li> <li>▪ 0.4 <a href="#">Methodology</a> <ul style="list-style-type: none"> <li>○ <a href="#">ICF</a></li> </ul> </li> <li>▪ 0.2 <a href="#">Operational Planning</a> <ul style="list-style-type: none"> <li>○ <a href="#">EAP Framing Model</a></li> <li>○ <a href="#">EAP Sponsor Meetings</a></li> <li>○ <a href="#">EAP Approach to Funding</a></li> <li>○ <a href="#">EAP LIHEAP Assurance Requirements</a></li> </ul> </li> <li>▪ 1.10 Policy Advisory Committee (<a href="#">PAC</a>)</li> <li>▪ 1.3 <a href="#">State Plan</a></li> <li>▪ 6.4 <a href="#">Staff Development</a></li> <li>▪ 2.7 <a href="#">Training</a> (2.7.1 Annual &amp; 2.7.2 ongoing)</li> <li>▪ 3.1 <a href="#">Contract</a></li> <li>▪ 3.1.2 <a href="#">Local Plan</a></li> <li>▪ 6.5 <a href="#">Office Procedure</a> &amp; <a href="#">DOC Employee Information Page</a></li> </ul> |                 |  | <b>Organizational Leadership</b><br>Service Providers Local Plan & <a href="#">Internal Controls Document</a> are organization’s descriptions of SP controls competency and their plans/objectives. <ul style="list-style-type: none"> <li>▪ SP description of how SP supports EAP mission and the</li> <li>▪ Mature fiscal controls</li> <li>▪ Human Resources competency</li> <li>▪ Complete a Local Plan</li> <li>▪ Support structure</li> <li>▪ Train Local Staff</li> </ul> |  |



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## EAP ICF – 2. Risk Management

**2. Risk Management** Identifies priority activities within the organization for risk assessment by considering area that materially impact the financial position and results of operations (e.g., assets, liabilities, revenues, expenses or expenditures account balances that are material in dollar amount)

| Federal State and Departmental   | State Office   | Service Provider (SP)   |
|--|--|---|
| <ul style="list-style-type: none"> <li>▪ Commerce <a href="#">COOP</a></li> <li>▪ DOC <a href="#">Pandemic Flu Response</a></li> <li>▪ Emergency Procedures</li> <li>▪ Fiscal Oversight</li> </ul> | <ul style="list-style-type: none"> <li>▪ 3.10 Risk Management <a href="#">Directory</a></li> <li>▪ 3.10.2 State EAP <a href="#">Risk Assessment</a> &amp; <a href="#">Effort Definition</a></li> <li>▪ SP Risk Assessment (See <a href="#">EAPHome</a>)               <ul style="list-style-type: none"> <li>○ <a href="#">Directory 3.10.10</a></li> <li>○ <a href="#">Definition</a></li> <li>○ <a href="#">Key Components</a></li> </ul> </li> <li>▪ 3.10.4 <a href="#">Disaster Management</a></li> <li>▪ 3.5.1.3 <a href="#">DupChecks</a> (DupVendor &amp; DupAdd)               <ul style="list-style-type: none"> <li>○ <a href="#">Definition</a></li> </ul> </li> <li>▪ 3.15 <a href="#">Data Privacy</a></li> <li>▪ 2.10.4 <a href="#">eHEAT User Management &amp; Agreements</a></li> <li>▪ 3.7.3 <a href="#">Incident Management</a></li> <li>▪ 3.10.3 <a href="#">Employee Apps</a></li> <li>▪ 3.10.5 EAP <a href="#">COOP</a></li> <li>▪ 6.5.1 <a href="#">DOC Evacuation Emergency Response</a></li> <li>▪ 3.10.7 <a href="#">Government Shutdown</a></li> </ul> | <ul style="list-style-type: none"> <li>▪ EAP Risk assessment</li> <li>▪ Mitigation Activities</li> <li>▪ Disaster Plan</li> <li>▪ Employee Apps</li> <li>▪ Incident Reporting</li> <li>▪ Report on Dup checks</li> <li>▪ Respond to Q&amp;PC</li> </ul> |



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## EAP ICF – 3. Control Activities

**3. Control Activities** The financial accounting and budgeting operations for exercising control over the various activities. Management regularly relies on accounting/financial and programmatic data from its systems for decision making purposes and performance evaluation. Management looks to the information management function for critical operating data and supports efforts to make improvements in the systems as technology advances. Personnel operations have a high priority and senior executives emphasize the importance of good human capital management. Management places a high degree of importance on the work of the Inspector General, external audits, and other evaluations and studies and is responsive to information developed through such products

| Federal State and Departmental  | State Office  | Service Provider (SP)   |
|---|---|---|
| <ul style="list-style-type: none"> <li>▪ Allocation</li> <li>▪ Assurances</li> <li>▪ Fiscal Division Support               <ul style="list-style-type: none"> <li>▪ Budget &amp; Expenditure oversight</li> <li>▪ Travel rules &amp; oversight</li> <li>▪ Purchase processes</li> </ul> </li> </ul> | <p><b>1.0 EAP Business Models</b></p> <p><b>Core Business Models</b></p> <ul style="list-style-type: none"> <li>▪ 1. EAP Essential Service process Framing <a href="#">Model</a></li> <li>▪ 2. Application &amp; PH Handling Process <a href="#">Model</a></li> <li>▪ 3. Crisis Handling Process <a href="#">Model</a></li> <li>▪ 4. ERR Handling - Payments &amp; Reporting <a href="#">Model</a></li> <li>▪ 5. Payment Quality Control, Certification, Handling and Refunds Process <a href="#">Model</a></li> </ul> <p><b>Policy and Procedure</b> Offering</p> <ul style="list-style-type: none"> <li>▪ 2.1.3 <a href="#">Roundup</a></li> <li>▪ 2.4 <a href="#">Benefit Tables</a></li> <li>▪ 2.3 <a href="#">EAP Policy Manual</a></li> <li>▪ 2.3.2 <a href="#">Vendor Agreement &amp; Chapter</a></li> <li>▪ 3.1 <a href="#">Contracting</a></li> <li>▪ Issues Management (EAP Home – SM Review))</li> </ul> <p><b>Program Operational Support</b> Offering</p> <ul style="list-style-type: none"> <li>▪ 3.3 <a href="#">Start Up Initial Allocation</a></li> <li>▪ 2.2 <a href="#">EAP Application</a></li> <li>▪ 2.5 <a href="#">Annual Mailing</a></li> <li>▪ 3.4 <a href="#">Consumption Gathering</a></li> <li>▪ 2.13 <a href="#">EAP Notifications &amp; Letter</a></li> <li>▪ 3.16.4 <a href="#">eHEAT Rollover</a></li> <li>▪ 3.2 <a href="#">Budget &amp; Allocation</a></li> <li>▪ 3.3 <a href="#">Program (Start Up) Implementation</a></li> <li>▪ 3.6 <a href="#">Program Field Auditing</a> <ul style="list-style-type: none"> <li>▪ Program Audit <a href="#">Methodology</a></li> </ul> </li> <li>▪ 3.7 <a href="#">Incident Management</a> <ul style="list-style-type: none"> <li>▪ 3.7.1 <a href="#">Appeal</a></li> <li>▪ 3.7.2 <a href="#">Exceptions</a></li> <li>▪ 3.7.3 <a href="#">Incident Reports</a></li> <li>▪ 3.7.5 <a href="#">Fraud Investigations</a></li> </ul> </li> <li>▪ 3.8 <a href="#">Outreach</a></li> <li>▪ 3.11 <a href="#">Vendor Management</a></li> <li>▪ 3.2.5 <a href="#">Spend down &amp; ROOM</a></li> <li>▪ 3.2.6 <a href="#">Program Closeout</a></li> <li>▪ 3.12 <a href="#">SP Purchase Oversight</a></li> <li>▪ 3.16 <a href="#">eHEAT</a></li> </ul> | <p>Program Operational Support Offering</p> <ul style="list-style-type: none"> <li>▪ Receive Application (Log&gt;Process&gt;Pay)</li> <li>▪ Process Applications               <ul style="list-style-type: none"> <li>▪ Assure documentations</li> <li>▪ Enter info</li> <li>▪ Initiate Consumption Gathering</li> <li>▪ Request info as needed</li> </ul> </li> <li>▪ Determine Eligibility (PH, Crisis, ERR, A16)</li> <li>▪ Distribute payments and process refunds</li> <li>▪ Outreach</li> <li>▪ Vendor Management (Agree, Train, Register, User)</li> <li>▪ Program Closeout</li> <li>▪ Reporting (FSR, etc.)</li> <li>▪ Request Funds</li> </ul> |



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## EAP ICF – 4. Communication & Information

**4. Communication & Information** relates to communicating the internal control policies and procedures to all staff so they understand what is expected of them and the scope of their freedom to act.

| Federal State and Departmental  | State Office  | Service Provider (SP)   |
|---|---|---|
| <ul style="list-style-type: none"> <li>▪ DHHS Circulars</li> <li>▪ LIHEAP Clearinghouse</li> <li>▪ NLIEC</li> <li>▪ NEADA</li> <li>▪ DOC IntraWeb</li> <li>▪ News &amp; Notes</li> <li>▪ DOC Communication <a href="#">Policies &amp; Procedures</a></li> <li>▪ <a href="#">Staff Media Protocol</a></li> <li>▪ <a href="#">Website Content Request Protocol</a></li> <li>▪ <a href="#">Twitter Account Protocol</a></li> </ul> | <p><b>Communication</b> (Internal &amp; External)</p> <ul style="list-style-type: none"> <li>▪ 5.0 <a href="#">EAP Communication Plan</a></li> <li>▪ <a href="#">EAP Unit IntraWeb</a></li> <li>▪ EAPHome <a href="#">Database</a></li> <li>▪ 5.6.2 <a href="#">EAP Tools on the Web</a> <ul style="list-style-type: none"> <li>▪ EAP <b>Tools</b> On the <a href="#">Web</a></li> </ul> </li> <li>▪ <a href="#">EAP Policy Manuals</a></li> <li>▪ 5.1 <a href="#">The Energizer</a> &amp; 5.2 <a href="#">A Spark</a></li> <li>▪ 5.5 <a href="#">Partners</a></li> <li>▪ 5.5.1 <a href="#">EACA</a>,</li> <li>▪ 5.5.4 EAP SP MinnCAP <a href="#">Executive Directors</a></li> <li>▪ 5.5.5. PUC</li> <li>▪ OEO</li> <li>▪ <a href="#">WAP</a></li> </ul> <p><b>Information &amp; Reports</b></p> <ul style="list-style-type: none"> <li>▪ 5.8 <a href="#">Summary Data &amp; Info Requests</a></li> <li>▪ 5.10 <a href="#">Press &amp; Media</a></li> <li>▪ 5.6 <a href="#">State Web &amp; 800 &amp; Language Line</a></li> <li>▪ 4.4 <a href="#">Reports</a></li> <li>▪ Carryover and Re-allotment Report</li> <li>▪ <a href="#">HHD Report</a></li> <li>▪ <a href="#">EPR</a></li> </ul> | <ul style="list-style-type: none"> <li>▪ Disseminate Program Info to Agency and partners</li> <li>▪ Outreach</li> <li>▪ Attend Meetings</li> <li>▪ Read EZ's etc.</li> <li>▪ Ask Questions</li> </ul> |



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## EAP ICF – 5. Monitoring

**5. Monitoring** Monitor the internal control system to assess its quality over time. This can be accomplished in two ways or a combination of the two:

| Federal State and Departmental   | State Office  | Service Provider (SP)  |
|--|---|--|
| <ul style="list-style-type: none"> <li>▪ <a href="#">Office of Legislative Auditor</a></li> <li>▪ Self Monitoring</li> <li>▪ Government Accountability Office (<a href="#">GAO</a>)</li> </ul> | <ul style="list-style-type: none"> <li>▪ 3.5 <a href="#">Operations Monitoring</a> <ul style="list-style-type: none"> <li>▪ Q&amp;PC <a href="#">Definition</a></li> <li>▪ Report <a href="#">Descriptions</a></li> </ul> </li> <li>▪ 4.1 <a href="#">EAP Production Report</a></li> <li>▪ 4.3 <a href="#">Program Audit</a> OLA</li> <li>▪ 3.5.1 <a href="#">Quality &amp; Performance Control</a> <ul style="list-style-type: none"> <li>▪ Aging Apps &amp;</li> <li>▪ Aging payments</li> <li>▪ Average Days</li> </ul> </li> <li>▪ <a href="#">ROOM</a></li> <li>▪ 3.5.2 <a href="#">WACT</a></li> <li>▪ Desk Monitoring</li> <li>▪ 6.2 <a href="#">Staff Meetings</a></li> </ul> | <ul style="list-style-type: none"> <li>▪ Vendor Monitoring</li> <li>▪ Self Monitoring of controls</li> <li>▪ Agency Fiscal Audit</li> <li>▪ Respond to Program Audit – Findings and Recommendations</li> </ul> |



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## Green Standard & 17 Guiding Principles

One significant change is the codification of seventeen principles that support the five internal control components. The seventeen principles of effective internal control to implement with examples of EAP control activities are as follows:

### Control Environment

1. *Demonstrate commitment to integrity and ethical values*
  - a. *EAP Program Mission*
  - b. *Business Strategy Model (BSM) – States management values*
  - c. *Commerce Code of Conduct*
2. *Exercise oversight responsibility*
  - a. *Conducts program audits and Q&PC*
  - b. *Develops guidance (Policies & Procedures)*
  - c. *Conducts risk mitigation activities*
3. *Establish structure, responsibility, and authority*
  - a. *EAP State Staff Structure*
  - b. *EAP Methodology assigns leads and taskers*
  - c. *Coordinator responsibilities (In Manual)*
  - d. *Require SP authorization for allocation, communication etc.*
4. *Demonstrate commitment to competence*
  - a. *Conduct annual training*
  - b. *Conduct ongoing interaction at EACA*
  - c. *Offer T&TA*
  - d. *State staff learn and practice common methodology*
  - e. *State staff performance reviews*
5. *Enforce accountability*
  - a. *Issues finding and recommendation requiring corrective action*
  - b. *Need consequence for underperforming and non-compliance SP*

### Risk Assessment

- How EAP does:*
- *SP Risk Assessment*
  - *State Level Risk assessment*
  - *Require SP to conduct EAP risk assessment*
6. *Define objectives and risk tolerances*
    - a. *Deduct based on risk level and appropriate mitigation*
    - b. *Have some tolerances determined in file examinations*
    - c. *Need to do this Needs improvement*
  7. *Identify, analyze, and respond to risk*
    - a. *Very strong*
  8. *Assess fraud risk*
    - a. *Strong – part of each*
  9. *Analyze and respond to change*

### Control Activities

10. *Design control activities*
  - a. *Strong Policies (Manual)*
  - b. *Benefit limits*
  - c. *eHEAT central Payments & other controls*
  - d. *Documented business processes (Shared, understood, extensibility and available for examination and re-engineering when controls issues are found)*

*Weakness/risk: Limitation on EAPWX oversight*
11. *Design activities for the information system*
  - a. *eHEAT*
  - b. *Service Delivery*
  - c. *Grants management –*
    - i. *Allocation*
    - ii. *Fiscal oversight FSR, Cash request.*





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# Meeting the 16 Assurances



Minnesota Department of Commerce Energy Assistance program

### LIHEAP Assurances Section 2605

August 2014

**Background:** The Minnesota Department of Commerce plans, develops, and administers the Minnesota Energy Assistance Program (EAP). On the federal level the program is funded and administered by the U.S. Department of Health and Human Services through the Low-Income Home Energy Assistance Program (LIHEAP), a federal block grant. The block grant legislation (Title XXVI of the Omnibus Budget Reconciliation Act of 1981, Public Law 97-35, as amended) gives states broad latitude to develop programs that assist low income households to meet their immediate home energy needs. (Refer DHHS web site at <http://www.acf.hhs.gov/programs/ocs/liheap/>.)

Federal law also requires states to agree to comply with sixteen assurances specified in Section 2605 of the LIHEAP statute and included in the EAP State Plan. The assurances provide the principles states must use to develop their policies and procedures. The following table illustrates the list of LIHEAP Assurances and Minnesota Department of Commerce approaches to meet these conditions enumerated in LIHEAP Applications and Requirements, Section 2605.

| APPLICATIONS AND REQUIREMENTS Section 2605.  | Minnesota Department of Commerce Status or Approach |
|--|---|
| (1) use the funds available under this title to—   |   |
| (A) conduct outreach activities and provide assistance to low income households in meeting their home energy costs, particularly those with the lowest incomes that pay a high proportion of household income for home energy, consistent with paragraph (5);  |   |
| <p>Based on the LIHEAP statute DOC administers the required outreach activities to ensure households with the highest home energy burdens or needs, including the elderly or disabled, are made aware of potential EAP benefits. In doing so, Service Providers are required to plan and conduct outreach activities to meet these requirements.</p> <ul style="list-style-type: none"> <li>▪ Publishing articles in local newspapers or broadcast media announcements.</li> <li>▪ Providing inserts in energy vendor billings to inform individuals.</li> <li>▪ Execution of interagency agreements with other low income program offices to provide outreach to targeted populations.</li> <li>▪ Non-EAP outreach worker helping households to complete EAP applications during home visits.</li> <li>▪ Providing intake service via home visits or by telephone for seniors or people with disabilities.</li> <li>▪ Placing posters, flyers or applications in local and county social service offices, clinics, offices of aging, Social Security offices, and VA offices.</li> <li>▪ Mailing reminders to past recipients of EAP.</li> <li>▪ Accepting applications for energy crisis assistance at sites geographically accessible to all households in the area to be served (required by the LIHEAP Act).</li> </ul> |   |
| (B) intervene in energy crisis situations;   |   |
| DOC intervene in energy crisis situations to prevent shut-off of residential energy sources, to reinstate service of residential energy sources, and to enable delivery of residential fuel in a timely manner. Crisis   |   |



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## **Q & A**