VERMONT
DEPARTMENT OF FINANCE AND MANAGEMENT

March 2019 Internal Control News

The purpose of this quarterly newsletter is to provide departments with articles on good business practices, internal control, and responsibilities. Through articles intended to promote educational and professional development opportunities for employees, this newsletter seeks to raise awareness across state government on the importance of internal control. We hope that by providing this array of information, we can keep you informed of internal control related activities, and help you implement and maintain effective controls in your areas of operations.

https://finance.vermont.gov

https://finance.vermont.gov/policies-and-procedures/internal-controls

Volume 1 Issue 05

Self-Assessment of Internal Control - SAIC 2018 Results

In our Dec quarterly newsletter, we reported that the Department of Finance & Management was wrapping up the validation of our 2018 Annual SAIC review with five Agencies. Here are the summary results. We received a 96% rating from the overall scorecard. Thank you to everyone who participated in the 2018 SAIC questionnaire.

2018 Results

Agencies	# PASS	PASS-Q	# FAIL	Validation % *
Department 1	7	3	0	100 %
Department 2	7	3	0	100 %
Department 3	7	3	0	100 %
Department 4	9	0	1	90 %
Department 5	8	1	1	90 %
Total	38	10	2	96%

2019 Mileage Reimbursement Rate

Effective January 1, 2019, the mileage reimbursement rate for State employees, in keeping with the federal General Services Administration rate structure, has changed as follows:

- ✓ If no government vehicle reasonably available - $0.545 has increased to $0.58
- ✓ If government vehicle is reasonably available - $0.18 has increased to $.20

Reservations may be made on-line at the Fleet Management Services web page: https://bgs.vermont.gov/gbs/fleet/fleet_reserve or by e-mail to fleet.services@vermont.gov

All employee travel and expense information are located here: https://finance.vermont.gov/employee-travel-and-expenses and expense reimbursement rates are here: https://humanresources.vermont.gov/compensation/expense-reimbursement.

Feel free to contact John Berard 802.828.3454 or john.berard@vermont.gov if you have any questions regarding the new 2019 State mileage reimbursements.

Reminder: Updated F & M Capital Assets
Policy, VISION Procedure, and Best Practices
There is updated F & M Capital Asset information at the following locations:

- ✓ Capital Asset Policy # 10:
  https://finance.vermont.gov/policies-and-procedures/finance-and-management-policies

- ✓ VISION Procedure # 1:
  https://finance.vermont.gov/policies-and-procedures/vision-procedures

- ✓ *Best Practice Capital Assets # 6:*
  https://finance.vermont.gov/policies-and-procedures/internal-controls

Heads Up: 2019 SAIC Questionnaire….

In early April, the Department of Finance & Management will distribute the annual 2019 SAIC (Self-Assessment of Internal Control) questionnaire to Agencies and Departments. Self-assessment aims to raise awareness of internal control across state government and be a catalyst for improving the State's internal control system. The questionnaire provides departments with a tool to review and document current internal control practices, while helping Management identify potential areas of risk or noncompliance within their operations**.** Agencies and Departments will still have 3 weeks to complete and certify the questionnaire.

New this Year: the questionnaire will only be delivered in an Excel format in order to improve the efficiency of compiling your SAIC data.

New! Best Practice Series: # 12 - SOC Reporting

SOC (**S**ervice **O**rganization **C**ontrol) for Service Organization reports are designed to help Departments assess their 3rd party entity's Internal Control strengths and weaknesses. The Department of Finance and Management is requesting Departments to be aware of the financial and operational statuses of their Service Organizations as they contract with them. Departments are responsible for collecting and reviewing the SOC for Service Organization reports annually. ***Please become familiar with our BP #12 SOC Reporting since it will be part of this year's 2019 SAIC questionnaire.*** https://finance.vermont.gov/policies-and-procedures/internal-controls
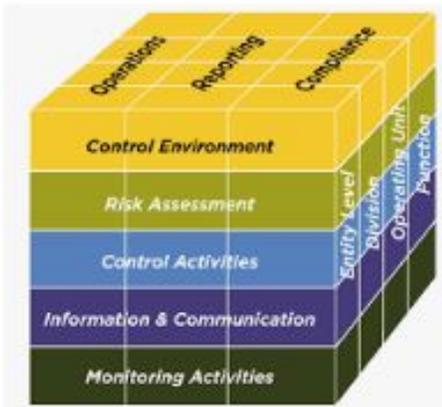
Internal Control Review

This is Part 2 of 3 (Part 2 = Control Activities & Information & Communication) in a series of articles on the five Internal Control, Integrated Framework Principles. Standards include: Control Environment & Risk Assessment, **reported last quarter**, Control Activities & Information & Communication, **this quarter**, and Monitoring Activities, **scheduled for next quarter June 2019**. These 5 areas of review comprise the COSO (**C**ommittee **O**f **S**ponsoring **O**rganizations of the Tradeway Commission).

Control Activities (Building Block 3)

Typically, it is the control activities of a department that people most readily associate with the term internal controls. Control activities are the tools - policies, procedures, mechanisms and practices - that help a department achieve the three primary objectives of internal controls: (1) effective and efficient operations, (2) timely, accurate and reliable financial records, and (3) compliance with applicable laws and regulations. Well-designed control activities are essential for ensuring proper stewardship and accountability of government resources.

Key Terms:

- ✓ **Preventive Controls:** Designed to prevent a "risk" (i.e., errors, irregularities, operational breakdowns, accidents, fraud, theft, etc.) from occurring. Developing preventive controls involves predicting "what could go wrong" and implementing ways to avoid it. Examples include: Separation of duties, documented policies & procedures, authorizations, approvals, physical control over assets (e.g., locks, fences, safes, etc.), system passwords, safety clothing & equipment, anti-virus software, supervision, standardized forms, continuity of operations plans, cross-training, etc.

- ✓ **Detective Controls:** Designed to detect a "risk" when it occurs or after-the-fact. Detective controls alert employees to undesirable events in a timely manner, enabling management to initiate prompt corrective action to minimize the impact of the risk. Examples include: Reconciliations, exception reports, financial monitoring, performance evaluations, smoke detectors, security alarms, complaints/tips to a call-center or hotline, rotation of duties, periodic audits & reviews, required vacations, physical inventory counts, etc.

- **Hard Controls:** Formal, objective, quantifiable activities that help ensure management's directives are carried out; most preventive and detective control activities are described as hard controls.

- **Soft Controls:** Intangible, subjective, informal elements that foster the culture of the organization and influence employees' behavior. Soft controls are most commonly linked with the control environment ("tone at the top") component of the internal control system and include high ethical values and integrity, commitment to competence, strong leadership, setting expectations, etc.

Key Concepts:

- Design controls activities to prevent, detect, or reduce the risks that can impede a department from accomplishing its objectives.

- Periodically test controls to determine whether they're operating as intended; the level of risk increases when key controls have not been implemented or are not achieving their intended purpose.

- Emphasize preventive controls over detective controls but a combination of both is needed.

- Build control activities into business processes and systems as they're being developed; adding control activities after-the-fact is generally less efficient and costlier.

- While management has responsibility for designing and implementing control activities, all employees of the department are responsible for carrying them out.

- Allocation of resources among control activities should be proportional to the impact and likelihood of the risk that is being mitigated.

Information & Communication (Building Block 4)

Information about a department's goals, plans, control environment, risks, control activities, and performance must be communicated up, down, and across the organization. Reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to the people who need it - in a form and timeframe that is useful. Information and communication are integral elements to maintaining an effective internal control system.

Information systems that provide operational, financial, and compliance-related data are critical to effectively managing the department's operations and determining whether goals and objectives are being met. Management must strive to establish information systems and communication channels that:

- Provide timely information on the operation's: goals, performance, and financial condition.

- Inform employees of their duties, responsibilities and performance expectations.

- Convey the importance of the department's internal controls.

✓ Establish expectations for acceptable employee conduct.

✓ Facilitate reporting of fraudulent or unethical activities.

✓ Encourage employees to provide suggestions for improving the department's operations.

✓ Solicit feedback on the department's performance from external stakeholders (e.g., customers, vendors, recipients, etc.).

Information and communication are simple concepts yet remain a constant challenge requiring effort and diligence. From sophisticated computer technology to structured meetings to informal conversations, all are valuable and necessary methods to provide input, receive feedback, and identify risks and opportunities relative to the department's operations and performance.

F & M Promotion & New Hire:

- **Danielle Brochu** – former VISION Support Specialist I, was promoted in December to the position of VISION Support Specialist II.

- **Lisa Gilman** – VISION Support Specialist II, joined the VISION Support team in January. Lisa started working for the State in the Department of Finance 29 years ago and has worked in several departments throughout her career, most recently with the Department of Motor Vehicles as a Financial Manager. Lisa was a Train the Trainer for the original rollout of VISION in 2001 and has worked in the Financial system since then. We welcome her extensive VISION, Accounting and Customer service experience to our Team.

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