

# INTERNAL CONTROL NEWS

## MARCH 2008

The purpose of this quarterly newsletter is to provide departments with articles on good business practices, internal controls, 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 controls. 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 operation.

### No Time for Internal Controls?

Finding time to beef-up your department's internal controls is challenging. Fallout from scandals at Enron, WorldCom and others has greatly intensified the requirements and scrutiny of an organization's internal control system and that burden has fallen most directly on financial staff. Financial managers, more so than most, often struggle to strike the appropriate balance for their role in an organization; from the role of financial "police officer" to that of deal-maker and creative financier, the spectrum they must straddle can be expansive and time-consuming.



But in the long-run investing in a strong and well-documented internal control system will reap "time" dividends that yield financial managers more time to spend on strategic issues relating to their department's mission and goals. Conversely, the consequences of a poor control system often result in an increase of non-value-added activities that drain time from the department's finance team, such as: fixing errors, performing re-work, increased field work by auditors, revising financial reports, resolving audit findings, addressing issues of non-compliance or violations of law, etc. A good analogy is performing routine vehicle maintenance - while the maintenance does require time and money it keeps your vehicle running better, longer, and minimizes the need for more time-consuming and costly repairs.

Adopting the strategy that internal controls are built "into", not "onto" business processes counters the perception that internal controls takes time away from the finance team's core activities. In a well-designed internal control system business processes become more standardized. The benefit of standardized and documented processes & procedures is that they take less time to manage, improve governance, and ultimately free up time for financial managers to partner with the department's other managers to identify value-added activities that the finance team can contribute to the department's mission.



### Self-Assessment Reminder

The 4<sup>th</sup> annual *Self-Assessment of Internal Control* questionnaire will be distributed to all departments in **April**. Self-Assessment is a useful tool for departments to review and document their current business practices, while helping managers to identify areas needing improvement within their operations.

# Fraud Happens

The Association of Certified Fraud Examiners' (ACFE) 2006 "Report to the Nation on Occupational Fraud and Abuse" estimated that a typical organization loses 5% of its annual revenues to fraud each year.



**Belief** and **Awareness** are two critical elements in preventing and detecting workplace fraud. **Belief** is the realization and acceptance that fraud can and does occur; an employee won't "**see**" fraud if they believe it can't happen in their organization. **Awareness** is an understanding of the organization's fraud exposures (e.g. *what can go wrong and who could do it*) and symptoms that might indicate fraud (e.g. *missing documentation, shortages/overages in cash or inventory, vendor/customer complaints, etc.*).

Over the past several months, the media has reported numerous fraud-related cases involving Vermont businesses, including a bank, a hospital, a utility company, a municipal organization, as well as other private and publicly held companies. As indicated by this list, fraud can happen to all types and sizes of organizations...no business is immune from the possibility of fraud, including VT State Government. To the extent possible, managers in VT State Government are responsible for knowing the exposures to fraud in their areas of operation and for detecting suspected wrongdoing. State employees who suspect fraud in their workplace have an obligation to report it to management (*or in accordance with their department's policies*) or by contacting the State Auditors Office [Confidential Line](#) for reporting waste, fraud, or abuse at 1-877-290-1400.

## Single Audit Review Procedures

Recently, Finance & Management conducted a roundtable discussion on the topic of coordinating single audit review among multiple departments as required by Bulletin 5. As a result of this discussion, procedures have been developed and will be issued in the form of a Bulletin 5 Issue Brief later this month.

## New Website Coming



The Department of Finance & Management is currently working with the Vermont Information Consortium (VIC), the State's partner for online services, to develop a new department website. A key change for VISION users will be elimination of the *separate* VISION website as we move towards a single integrated department website to more effectively serve our customers. In addition to a new "look and feel", the website will feature a content management system (CMS) that streamlines business processes by providing F&M functional staff the capability to manage content and publish documents directly on the website. Departments are encouraged to e-mail the VISION Help Desk with ideas for "new" content (*including ideas for Payroll and Budget related content*) or other suggestions to improve the usefulness of our website. We expect to have the new website up and running this summer.

## Developing Written Procedures

Past results from the *Self-Assessment* questionnaire and the recent customer survey indicate **documentation** of processes and procedures is the control activity departments struggle with the most. Management can support procedure documentation by establishing it as a priority and conveying to employees the value it provides. Following are some recommendations to assist departments:



- Commit:** Whether it is committing to one hour a week or to completing one procedure a month...set a goal and stick to it.
- Start:** To gain momentum and a sense of accomplishment, start with a less complicated procedure; focus should then shift to ensuring that procedures for the department's most critical processes are documented.
- Format:** Use a standardized format (e.g. header, numbering, layout, etc.)...this will make the documents more user-friendly and easier to maintain.
- Outline:** For each procedure identify the objective and begin with an outline of key steps...then fill in the details.
- Details:** Step-by-step instructions to accomplish the objective (e.g. **who** does it, **what** is done, **when** it's done, **where** it's located / performed, and **why** it's necessary).
- Skill Level:** In writing procedures assume a consistent skill level based on the typical employee performing the procedure (e.g. if employees have Excel skills, it may be sufficient to just state "sort the data" versus writing step-by-step Excel instructions.)
- Location:** Make sure procedures are readily accessible and staff know where to find them; for larger operations/multiple sites use of a shared drive or intranet site is often easier for maintenance and distribution.
- Test Drive:** To identify gaps or missing steps, have an employee who doesn't regularly perform the procedure (but has adequate knowledge/skills) try to complete the procedure using the written instructions. [*This is an excellent cross-training opportunity, too.*]
- Changes:** Make sure documentation is updated as necessary and that affected staff are informed when changes have been made; review procedures at least annually to ensure they are still valid.
- Risk:** Procedure documentation reduces the department's risk and gives managers comfort by knowing that during unexpected absences or vacancies critical functions can still be performed with less disruption and angst.
- Next:** Even exemplary employees, *who know their job from top to bottom without the aid of written procedures*, will leave some day...having written procedures and documentation will immensely help the **next person** hired as well as the rest of the department.

## F&M Staff Happenings



- **Jamie Sheltra** has recently joined Financial Operations as a VISION Financial Analyst. Previously, Jamie worked at CitiFinancial and Green Mountain Coffee Roasters.
- **Victoria (Tori) Pesek** will be joining Finance and Management on March 17<sup>th</sup> as our new Change Management Director. Previously, Tori worked as General Manager at Vermont Morning and Director of Human Resources at Sugarbush Resort.
- **Joseph Berchick** will be joining the Technical Services Division on March 31<sup>st</sup> as a Database Administrator; Joe is coming to F&M from the Agency of Human Services.
- **Brenda Berry**, former Business Manager, has taken the Asst. Director of Administration position in the Agency of Natural Resources.
- **Chris Hebert**, former Info Tech Specialist, has taken an IT position in the Agency of Transportation.
- **Matt Riven**, former Budget Analyst, has taken a financial management position in the Agency of Human Services.