



INTERNAL CONTROL NEWS

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.

Documentation of Policies & Procedures

Six Key Internal Control Activities

- 1) Separation of Duties
- 2) Authorizations & Approvals
- 3) Compliance
- 4) Documentation of Policies & Procedures
- 5) Physical Safeguards / Security of Assets
- 6) Reconciliation & Review

Written documentation is the vehicle to clearly communicate the **what, why, how, who, and when(s)** of our operations. They are instrumental in training new staff, retaining knowledge as staff leave/retire, ensuring consistency and accuracy, and enabling our organization to monitor and review their internal control system. As one of the six key internal control activities, documentation of policies and procedures also provides a tool for verification that the other activities are in place.

Creating, maintaining, and monitoring written policies and procedures can seem like a daunting endeavor. How do I begin? It is important to approach this critical control activity with an organized plan that includes prioritizing the work with the highest risk areas being addressed first.

Best practice guidelines recommend that you identify your processes, map out their current state at a high level, and analyze their efficiency and effectiveness. Once this analysis is complete, develop the detailed procedure documentation. You must also establish a plan

for maintaining the documentation and to continuously monitor the process for improvement opportunities (Continuous Process Improvement – CPI).

For processes that are cross-departmental, it is imperative that all departments collaborate on the process analysis and coordinate their procedures to ensure the most efficient and effective overall process.

HELP! If this is how you're feeling, we understand. Stephanie Oakes, a new member of our team, comes to us with a strong background in process management and documentation. She has assisted in many system implementations and brings a focus on the functional side emphasizing customer service and end user satisfaction.

An informational workshop providing high-level information on the value of documenting processes and procedures, where to begin, and evaluating their effectiveness and efficiency will be offered in upcoming months. It is recommended for all business managers and other managers responsible for process and procedure documentation. Please feel free to contact Stephanie at 828-0331 with questions or for more information about how we can help you improve your business processes.

Bulletin 5.5 Has Been Released!

On May 22, Administration Secretary Michael Smith released *Bulletin 5.5, Policy for Issuing and Monitoring Grants of State Funds*, which is effective July 1. The purpose of this policy is to ensure the proper use and protection of taxpayer resources by tracking and monitoring all grants funded with state dollars. Key requirements of the policy include standardized grant agreement formats and the development of State Grants Plans.

Work on this policy began last fall with a committee made up of a cross-section of financial managers from across State government under the direction of the Department of Finance & Management. Bulletin 5.5 was modeled after *Bulletin 5, Single Audit Policy for Subgrants*, which was first issued in 2003, and deals with

grants of federal funds. As a result, you will find many similarities between the two policies.

In order to assist departments with preparation of their State Grants Plans, Secretary Smith also issued a guidelines document as a supplement to the policy. This document contains the minimum requirements of a state grants plan and many recommendations for departments' consideration. State Grants Plans are due to the Department of Finance & Management by June 30.

Bulletin 5.5 and its accompanying guidelines document can be found on the VISION website at <http://finance.state.vt.us/VISIONDocuments.htm>. For questions pertaining to Bulletin 5.5 please contact Karen Jaquish at 828-3201 or Eric Nadler at 828-0678.

Like the Brakes on a Car

To paraphrase an analogy made by Vermont State Auditor Randy Brock¹...**internal controls are like the brakes on a car.** Initial reaction to this statement might be "because they slow me down or stop me from getting someplace." But if you really think about it, good-working brakes actually allow you to go faster because they provide a safety device to help control the car and the security of knowing that the brakes are there should something unexpected happen. Or as Auditor Brock queried, "*How fast would you drive if you didn't have any brakes on your car?*"²

A strong system of internal control does not "slow down" a department but, to the contrary, it facilitates effective and efficient operations, enabling management to focus more resources on achieving the department's goals and objectives. Like brakes on a car, internal controls are not a hindrance but rather a vital piece of equipment that helps you reach your destination.

1 Gram, David "Follow-Up Key to Audits' Effectiveness." *Rutland Herald* 29_Dec_2005

2 ibid

Separation of Duties In Smaller Organizations

The fundamental premise of separation of duties is that no one person should control or perform all key aspects of a transaction or event. Separation of duties is an important control activity that helps detect errors in a timely manner and deters improper activities.

In smaller organizations, where it is impractical to maintain a strict separation of duties due to limited personnel, other compensating controls can be employed to mitigate the risk. This is most effectively accomplished through the direct involvement of senior management (e.g. appointing authority, board members, executive director). Management involvement provides strong control over activities, lessening the need for more formal activities. Examples include:

- Rotation of duties among personnel;
- Increased, hands-on supervision;
- Enforced vacations;
- Having a manager perform one aspect of the transaction (e.g. making the bank deposits, approving invoices, etc.);
- Active review by management of financial data and reports (e.g. reconciliations, voucher status report, appropriation status reports).

Making Difficult Decisions

When faced with a difficult decision or ethical dilemma, consider asking yourself the following questions:

- ❖ Are your actions legal?
- ❖ Are there bulletins, regulations, rules, or procedures that restrict your choices?
- ❖ How will you feel about yourself after making the decision?
- ❖ Who are the other stakeholders...how will your decision affect them?
- ❖ What would your family think about your decision?
- ❖ Would you make the same decision if you knew it was going to be made public (e.g. newspaper article or TV report)?
- ❖ Think of a person whose judgment you respect, and envision "What would he/she do?" (*Or if appropriate, seek their counsel.*)
- ❖ Could you rationally and honestly defend your decision?
- ❖ If a colleague made the same decision, would you support him/her?

Josephson Institute of Ethics
www.josephsoninstitute.org

Prevention is Key

A newspaper article reported that a government entity spent nearly \$150,000 to investigate and unsuccessfully prosecute an alleged misuse of \$17,000. The total cost (*e.g. staff time, law enforcement, legal services, damage to reputation, employee morale, etc.*) to investigate fraud and other illegal activity often exceeds the amount of the infraction and successful prosecution is difficult.

For this and many other reasons, management should focus their efforts on prevention rather than detection. Effective separation of duties and safeguarding of assets are two examples of preventive control activities that help to dissuade and prevent employees from ever engaging in illicit activities.

Control Self-Assessment Update

Thanks to all departments for completing the 2nd annual self-assessment of internal control questionnaire. We are encouraged to find that many business managers are engaging other departmental staff in the self-assessment process and that departments are using the questionnaire as a checklist to evaluate and monitor their internal control structure.

Important Dates

June 20 th	Asset Inventory Verification form due in Finance & Management
June 30 th	Bulletin 5.5 State Grant Plans due in Finance & Management
June 30 th	All cash receipts received in FY'06 receipts must be deposited in the bank and processed in VISION
July 1 st	Happy New Fiscal Year! All FY 2007 transactions may be entered in VISION
July 16 th	Last day to enter FY'06 closing transactions (period "998")
July 17 th	FY'06 Petty Cash Verification form due in Finance & Management
July 28 th	Leases form AA-F-19a due in Finance & Management
August 18 th	All known prior year payables must be entered in VISION using "PY" prefix
August 31 st	FY'06 Schedule of Expenditure of Federal Awards (SEFA) form due in Finance & Management
September 8 th	Retainage Payable form AA-F-21 due in Finance & Management
September 12 th	Accounts Receivable form AA-F-17 due in Finance & Management

For more information and a complete listing of all FY 2006 closing deadlines please refer to the **FY 2006 Year End Closing Instructions** which are posted in the documents section of the VISION website.

http://finance.state.vt.us/Documents/FY_2006_Year_End_Closing_Instructions.pdf