

# INTERNAL CONTROL NEWS

## JUNE 2010

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.

## New Fiscal Year Reminders

With the start of the new state fiscal year on July 1st, departments are reminded of two important requirements:

- ❖ Before being able to successfully budget check in VISION, **organizational budgets** must be set up. Information on how to do this is available in the Commitment Control Manual on the [VISION Manuals](#) page on the [Finance & Management website](#).
- ❖ All vouchers and journals entered in FY 2011 which pertain to a **prior year payable** must be identified in VISION by using the **PY** prefix in the **Invoice Number** field for vouchers and a **PY** in the **Journal Class** field on the header tab for journals. Prior year payables are defined as payment for goods *or* services that were received *or* performed prior to July 1, 2010. All known prior year payable transactions must be posted in VISION by August 20, 2010. However, departments must continue to use the **PY** identifier even after the August 20<sup>th</sup> deadline when processing payable transactions that pertain to a prior fiscal year. Departments should refer to pages 17-18 & 21-22 of the [FY 2010 Year End Closing Instructions](#) for additional instructions.



## PeopleSoft Expansion Project, including Time & Labor

Preparation continues for this project and this legislative session was productive in terms of funding. The Fiscal Year 2011 Appropriations Bill included a funding mechanism so that the project can potentially move forward. The funding for this project is contingent upon a strong finish to FY 2010 and securing additional Federal funds to enhance State spending. Neither of these contingencies has been met, as of the date of this publication, but we are hopeful. As we gain confidence that one or both of these scenarios will yield the necessary funding, we will begin the Request for Proposal process to select an implementation partner.

Although the upgrade to HCM and the addition of new functionality has not started, work continues to position the Departments of Finance & Management, Human Resources, and Information and Innovation for a successful implementation. Toward the end of the summer HCM will be running on new hardware and some new software components. These changes will enhance HCM performance and provide a solid foundation for some of the tools that will be used for the implementation.

## The Great GASB

Have you ever wondered, “*Who the heck is this GASB that Finance & Management is always referring to?*” Following is a brief explanation of the **Governmental Accounting Standards Board** (GASB) from their website ([www.gasb.org](http://www.gasb.org)):



The Governmental Accounting Standards Board (GASB) is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. Established in 1984 by agreement of the Financial Accounting Foundation (FAF) and 10 national associations of state and local government officials, the GASB is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP) for state and local governments.

Accounting and financial reporting standards designed for the government environment are essential because governments are fundamentally different from for-profit businesses. Furthermore, the information needs of the users of government financial statements are different from the needs of the users

of private company financial statements. The GASB members and staff understand the unique characteristics of governments and the environment in which they operate.

The GASB is not a government entity; instead, it is an operating component of the FAF, which is a private sector not-for-profit entity. Funding for the GASB comes in part from sales of its own publications and in part from state and local governments and the municipal bond community. Its standards are not federal laws or regulations and the organization does not have enforcement authority. Compliance with GASB's standards, however, is enforced through the laws of some individual states and through the audit process, when auditors render opinions on the fairness of financial statement presentations in conformity with GAAP.

**Note:** The **Financial Accounting Standards Board** (FASB) is the designated organization for establishing financial standards in the **private sector**. These standards govern the preparation of financial statements, and, are officially recognized as authoritative by the Securities & Exchange Commission (SEC) and the American Institute of Certified of Public Accountants (AICPA).

# Information & Communication

This is the 5<sup>th</sup> in a series of articles on the five [internal control standards](#) – **control environment, risk assessment, control activities, information & communication, monitoring** - that comprise the general framework of an internal control system.

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 department's operations, 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.

## Threats to the Internal Control System



Internal controls, no matter how well designed and operated, only provide management with reasonable assurance regarding achievement of the department's objectives. Understanding some of the most significant threats to internal control systems, can help management, auditors, and regulators take proactive steps to minimize risk and exposure to loss:

- **Management Override:** Management's capability to overrule or circumvent prescribed policies or procedures for illegitimate purposes – such as personal gain, or an enhanced presentation of a department's financial condition or compliance status.
- **Access to Assets:** Unfettered access to assets (physical assets, cash, confidential data, etc.) increases the risk of misappropriation, theft, misuse, etc.; restrict access to only those with a legitimate and authorized need.
- **Form over Substance:** Controls may appear to be well-designed but still lack substance (e.g., written procedures that aren't followed, flow charts that don't accurately depict the actual process, lackadaisical approval of documents).
- **Conflict of Interest:** When an employee's loyalties are divided and/or personal financial gain is at stake, there is a distinct risk the employee will choose a course of action detrimental to the department.
- **Failure to Anticipate Risks:** Management's inaction or inability to anticipate certain risks may result in a failure to design and implement appropriate controls.
- **Collusion:** Two or more individuals can conspire to perpetrate and conceal an action, alter financial data or other management information in a manner that circumvents controls and avoids detection.

## Staff Happenings



- **Jen Baranski** has joined the Finance Support Team as a Help Desk Specialist II focusing on supporting Payroll functions. Jen brings a wealth of knowledge in Help Desk support, training and software implementation.
- **Brandy Robillard** has joined the Payroll Section as a Payroll Specialist II. Brandy comes to F&M from the Tax Department.
- **Lindsay Kurrle**, former Assistant Director of Statewide Reporting, has left F&M to accept a position in the healthcare industry.

*Internal Control News* is published quarterly by the Dept of Finance & Management. Please contact [Kevin Gilman](#) with comments or suggestions.