

INTERNAL CONTROL NEWS

JUNE 2011

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.

Prior Year Payables

Help Eliminate a Costly and Avoidable Audit Finding

In order to help ensure the State accurately prepares its financial statements in accordance with generally accepted accounting principles (GAAP), proper coding of prior year payables in VISION is necessary. All vouchers and journals entered in FY 2012 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, 2011. All known prior year payable transactions must be posted in VISION by August 25, 2011. However, departments must continue to use the **PY** identifier even after the August 25th deadline when processing payable transactions that pertain to a prior fiscal year. Departments should refer to pages 16-17 & 21 of the [FY 2011 Year End Closing Instructions](#) for additional instructions.

➤ **Example of when to use the PY Prefix**

PY

You receive an invoice on July 15, 2011 for services that were performed on June 25, 2011. Since the service was performed during the previous fiscal year the PY prefix must be used in the invoice number.

➤ **Example of when not to use the PY Prefix**

~~**PY**~~

You receive an invoice on June 25, 2011 for membership dues for the period beginning July 1, 2011. In a situation such as this the expense relates to services for the FY 2012 period, and it should not be entered into VISION before July 1, 2011 to ensure the charge is applied to the FY 2012 period. In this instance you would not use the PY prefix even though you received the invoice in June because the services are not to be performed until the new fiscal year starting July 1, 2011.

Business Managers, please review the prior year payables requirements with your staff at each year end. If you are unsure whether or not to use a PY, please send an email to [VISION - CAFR@state.vt.us](mailto:VISION-CAFR@state.vt.us), or call John Becker at 828-0678.

New Grants Tracking Module Going Live July 1

The Subrecipient Module in VISION will soon be replaced with an expanded Grants Tracking Module. This new module is being developed to meet several current and future grant reporting requirements such as 2010 Acts 68 and 146 performance grant tracking requirements, 2009 Act 19 reporting requirements, as well as providing assistance to departments with Federal Funds Accountability and Transparency Act (FFATA) reporting.

The new module will look and feel very similar to the existing subrecipient module, but in addition to maintaining all subrecipient monitoring functionality it will have the ability to record non-federally funded grants and federal grants not currently required to be entered in the subrecipient module. The new module is in its final stages of testing and is scheduled to go-live on July 1. At that time **all grants** issued by State of Vermont agencies and departments, **regardless of funding source**, will be required to be entered in this new module. Support materials will be posted on the Finance & Management website prior to go-live. Contact Karen Jaquish at karen.jaquish@state.vt.us if you have questions about the new module.

Expanding Tools for Employees

Imagine a world where we can submit our timesheets electronically after the pay period has closed. How nice would it be to request your address be changed and know that it will take effect immediately? Each day this world is getting closer to reality.

The Agency of Administration, as the sponsoring agency, has established a knowledgeable team of staff to upgrade the system that manages State employees' data and to implement new features that will change the way time and expense reimbursements are captured. (This system is the backbone behind **Employee Self-Service**, http://humanresources.vermont.gov/employee_self_service.) Planning for this project is on-going and the real work is just beginning. This project has far reaching impact and is expected to take about 24 months.

The State's most strategic asset is its dedicated employees and we all deserve to have our employment related information managed as effectively and securely as possible. The goal of this project is to give you, as employees and professionals, tools that are capable of supporting your needs. This project will also significantly enhance the tools available to our Human Resource and Payroll professionals. The more accurate the data is, the more easily information is shared and the more time we all can spend tending to the needs of our customers.

Projects such as this one, which will impact every State employee across all branches and anyone who applies for a job, are challenging, and the project team we have assembled is both experienced and up to the task. Keeping employees informed is important to the project team and we are pleased to announce a project website. It is located at <http://aoa.vermont.gov/erp>. The site is a work in progress and is intended to be a resource for stakeholders, end users and other interested parties to access news, publications, and general information.

Electronic Invoices



The concept of a paperless corporate America has been around since the 1970s and the evolution of the internet further fueled this notion. However, in the accounts payable domain this idea has largely not come to fruition. While going 100% paperless is more dream than reality, departments continue to look for ways, even if only incrementally, to move in this direction. The acceptance and use of electronic invoices is one approach that departments are exploring and beginning to adapt into their accounts payable processes.

What do you mean by electronic invoices?

It is a valid vendor's invoice that meets all the business requirements for an invoice but is in electronic format. For purposes of this discussion, we're generally referring to a "paperless" invoice such as a PDF or WORD file, email image, etc. The invoice may have originated from the vendor in an electronic format, or, the department may convert the vendor's paper invoice to electronic format using scanning.

Note: True ***electronic invoicing*** is a business-to-business (B2B) innovation that involves electronic data interchange from a vendor's system directly into the customer's accounts payable system; VISION is currently not configured for such an interchange from external vendors.

Why the shift towards electronic invoices?

Save money, more efficient and environmentally-friendly for departments and vendors. Electronic invoices reduce the cost and use of paper, envelopes, printing, postage, transportation, and storage. Electronic delivery from the vendor and/or the internal routing of electronic invoices via email within departments (e.g., from district office to business office) can improve processing timelines to help ensure vendors are paid timely.

What about invoice approval?

Regardless of format, invoices must be approved by an authorized employee prior to VISION processing; the delegation of invoice approval authority is managed at the individual department level. Generally, the most verifiable and auditable method to indicate approval has been for the authorized employee to affix their signature directly to the invoice. But when dealing with electronic invoices this may not be practical, as printing the electronic invoice to approve it reduces some of the intended benefits. So invoice approval may also be performed electronically most generally via email or software applications with built-in workflow/approval functionality (e.g. Adobe). If approval is done via email, it should provide credible evidence that the approver actually reviewed the attached invoice file; for example:

- *Insufficient*: "Please pay the attached invoice."
- ✓ *Acceptable*: "Please pay the attached XYZ Corp. invoice in the amount of \$95.20 for computer supplies."

Also, departments may approve (sign) a vendor's paper-based invoice then scan it to a PDF file for payment processing. Whatever the approval method, there should be sufficient evidence that documents who the approver was and that their approval is retained with the invoice for audit purposes.

But aren't we only supposed to pay from "original" invoices?

An invoice in electronic format, including scanned invoices, meets the criteria of an original invoice. The electronic invoice becomes the official record for the transaction. Per *Title 9 VSA §276. Legal recognition of electronic records, electronic signatures, and electronic contracts*:

- a) A record or signature may not be denied legal effect or enforceability solely because it is in electronic form.
- b) A contract may not be denied legal effect or enforceability solely because an electronic record was used in its formation.
- c) If a law requires a record to be in writing, an electronic record satisfies the law.
- d) If a law requires a signature, an electronic signature satisfies the law.

What isn't considered an original invoice for accounts payable purposes is paying from:

- **statements** (except for vendors who only bill via statements)
- **packing slips**
- **delivery tickets**
- **no invoice** (e.g., employee or vendor requests business office to issue a payment with no documentation)
- **"invoice-copy"** (unless the department has determined & documents the original invoice was lost).

Do we need to print electronic invoices?

It's not required as long as there exists an audit trail that readily allows the department to go from a VISION voucher to the invoice and vice versa...which means somehow associating the vendor name and VISION voucher number with the electronically stored invoice (re: [VISION Procedure #2](#)). So whether the department retrieves the invoice from a file cabinet or a disk drive the expectation is the same. Regardless of format, all applicable record retention requirements remain the same, too.

What are some of the risks?

Any change in a process presents increased risk that departments should assess and attempt to mitigate before implementing. For example, with an electronic invoice there exists the possibility that the business office may receive both an electronic version and a hard-copy of the same invoice. Therefore AP staffs need to be diligent to ensure invoices are not processed twice and departmental procedures should be developed to establish protocols (e.g., print/don't print) for the processing and storing of electronic invoices.

While the risk of vendor fraud exists in the AP process, it is likely no more or less using electronic invoices provided departments adhere to the same controls and standards as when processing paper invoices. A bogus invoice can be submitted by mail, fax or electronically but the internal steps an invoice must go through before payment is issued are designed to minimize that risk.

Regardless of whether the invoice is in paper or electronic format, the objective for business offices remains the same....to pay valid, approved invoices accurately, timely and in accordance with issued bulletins, policies and procedures. Key criteria include:

- It is a valid vendor invoice that the department is legally responsible for.
- The billed goods/services have been satisfactorily received.
- The invoice is accurate, sufficiently detailed, and in accordance with agreed upon pricing & terms.
- The invoice was approved by an authorized employee.
- The invoice has not been previously paid.
- There exists an audit trail from the VISION voucher to the invoice and vice versa.
- The approved invoice is retained and accessible as back-up documentation for audit and record retention purposes.

For additional information on electronic records management and electronic signatures, departments can refer to *best practice* documents on these topics issued jointly by the [Dept of Information & Innovation](#) (DII) and the Secretary of State's [VT State Archives & Records Administration \(VSARA\)](#).

Staff Happenings

- **John Becker** has been hired as the Assistant Director of Statewide Reporting. John recently obtained his CPA license, and most recently worked at the Public Service Department as a Utilities Financial Analyst.
- **Joanne Cyr** has returned to her previous position as a Payroll Administrator after having left in 2010 to take a position with a school supervisory union. Joanne's previous experience in this position, as well as her other accounting and payroll experience, will be a great asset to the Payroll Division.
- **Bill Hall** has been hired as the *interim* Director of Statewide Reporting. Bill is a CPA with significant governmental GAAP experience, has had his own CPA practice, and worked for several years as the Finance Director for the Town of Hartford (VT). Bill will be back-filling Nancy Collins' position for approximately 2 years while Nancy is assigned to the Human Capital Management (HCM) upgrade & expansion project.
- **Tanya Jarvis** has been hired as a VISION Support Specialist. Tanya brings with her knowledge of the PeopleSoft ERP system as well as training, customer support and system testing experience. Tanya most recently worked as Employment Coordinator for the Dept of Human Resources.
- **Tina Stilwell** has been hired as a VISION Financial Analyst I. Tina has experience in multiple VISION modules having most recently worked in the Dept. of Corrections' business office.
- **Tammy Griggs**, Payroll Specialist, has retired from state service.

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