

# INTERNAL CONTROL NEWS

## JUNE 2012

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 (PY) Payables



All vouchers and journals entered in FY 2013 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, 2012. The proper coding of prior year payables in VISION is necessary to help ensure the State accurately prepares its financial statements in accordance with generally accepted accounting principles (GAAP).

All known prior year payable transactions must be posted in VISION by **August 24, 2012**. However, even after the August 24<sup>th</sup> deadline, departments must continue to use the **PY** identifier when processing any prior year payable in VISION. Please refer to pages 16, 17 & 21 of the [FY 2012 Year End Closing Instructions & Requirements](#) for additional instructions.

**Business Managers:** Please review the VISION coding requirements for prior year payables with your staff before the start of the new fiscal year. If you are unsure whether or not to use a **PY**, please contact VISION Finance Support at 828-0407 option 2, option 2 or [VISION-helpdesk-FIN@state.vt.us](mailto:VISION-helpdesk-FIN@state.vt.us).

## More or Less Controls?

Well-designed control systems are intended to promote effective and efficient operations, not hinder them (contrary to the belief of some!). Striking the appropriate balance between **too many** or **too few** controls (~*goldilocks principle*) is a challenge all organizations face. Too few controls leave risks unaddressed, increasing the chance of errors, failure or fraud; too many controls drive up



compliance costs, frustrate staff resulting in deliberate circumvention of controls and can distract management from its core mission. A risk-based approach that considers the following factors can be helpful in determining the proper level of controls:

- ✓ **History:** Has the functional area experienced...significant operational breakdowns - major audit findings – considerable lost revenue or avoidable expenses - misuse or loss of assets - fraud or embezzlement - financial or legal sanctions - high volume of complaints, etc.?
- ✓ **Consequences of Failure:** If objectives are not met, what are the likely impacts on...health & safety – staff morale & productivity - finances – legal - continuity of operations - public confidence & reputation, etc.? What worries you the most or keeps you awake at night? What could occur that you would least like to have land in the news?
- ✓ **Staffing & Operating Environment:** Have there been changes in the regulatory environment, complexity of operations, technology, or organizational structure of the department? What are the priorities of executive management? Are staff seasoned or inexperienced? How well could the department react to the sudden departure of a key staff member? Do employees have the necessary knowledge & training? [Never rely solely on the experience of a trusted employee as a justification to bypass adequate separation of duties.]
- ✓ **Presence of Cash:** Activities involving cash, cash equivalent benefits and highly portable items such as laptops, cell phones, cameras, small equipment, etc. have greater inherent risk and a higher risk of theft or misappropriation.

## Payment for Professional Licenses - Exemption Approved

Agency of Administration [Bulletin 3.4](#) restricts agencies/departments from paying for employee professional or occupational licenses *unless* specifically provided for under collective bargaining agreements *or* with the approval of the Commissioner of Human Resources based on a valid and binding past practice. Last month the Secretary of Administration approved the following specific exemption to this rule:

- Individual agencies/departments in the executive branch may pay attorney license fees under the following conditions: 1) the agency wants to pay the fee, 2) the attorney is in an exempt position, 3) the agency has sufficient funds in its budget to pay the fee, and 4) the attorney is actively practicing law, and the license is a job requirement.

All other restrictions and requirements of the Bulletin remain in effect. Departments may contact the Department of Human Resources for more information.

# Imagining a Better World

Remember that we invited you to “imagine a world where you request that your address be changed and know that it takes effect immediately?” The ERP Expansion Project used this phrase early on in our communication to employees. We’ve got another challenge for your imagination. **Imagine a world where no one had to chase a colleague to submit or approve a timesheet or expense report.** Are you that person who is always hunting for a piece of paper or signature? It’s not very efficient, is it?



Spring is internal controls season. It’s a time not only to complete the self-assessment questionnaire but also to renew the focus on internal controls. Internal controls serve many purposes including reasonable assurance that operations are effective and efficient. We know that everyone understands the expectations and has operations where:

- Review and approval is necessary for payment. Did we get what we ordered? Does the invoice match the voucher? Who has the responsibility and authority to approve the payment?
- Timelines need to be met for federal draws, grants, and cash receipts. Does the timing of the draw meet federal requirements? Does the grant awarded get recorded in VISION within 10 days? Do any cash or checks received get deposited promptly?

Payroll costs are over half a billion dollars a year. Why is it that the discipline we apply to pay a \$100 voucher or deposit \$100 doesn’t apply to half a billion dollars?\* Today, there isn’t a good answer to this question. But, going forward, we know that the expectations and guidelines that support effective and efficient operations need to extend to timesheets and expenses. The ERP Expansion Project, with the changes that it entails, presents an opportunity to reset our internal controls in these areas. The system will provide tools that provide insight into how we are doing with review, approval and timeliness, but it’s up to people to make it happen.

\* If you have an answer or idea, email it to [AOA – ERP – OrgReadiness](#).

## Staff Happenings



- Benjy Hodgdon joined the Payroll Section on June 4<sup>th</sup>. Benjy most recently worked in the business office at the Agency of Natural Resources.

**Internal Control News** is published quarterly by the Dept. of Finance & Management.

Please contact [Kevin Gilman](#) with comments or suggestions.