



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.

Conflict of Interest

Conflict of interest can generally be defined as any situation in which an individual is in a position to exploit a professional or official capacity in some way for their personal benefit. Even if there is no evidence of improper actions, a conflict of interest can create the appearance of impropriety that can undermine public confidence in the ability of that person to act properly and impartially in his/her position.

A conflict of interest may take many forms, but arises when an employee is in a position to influence the State's business, policy, or other decisions in ways that could lead directly or indirectly to personal gain for the employee (or employee's family member), or give improper advantage to others to the detriment of the State. A possible conflict of interest exists when an employee (or family member):

- Has a financial interest that may impair their independent judgment to perform their duties.
- Has a significant business or personal relationship with an individual or company engaging in, or seeking to engage in, business with the State.
- May receive financial or other benefits from knowledge or information that is confidential to the State.

The intent of policies that address conflict of interest is to promote integrity and preserve public trust by avoiding bias. Refer to the following State of Vermont policies for more information:

- [Executive Order: Executive Code of Ethics](#)
- [Personnel Policy 5.2: Conflicts of Interest Arising from Employment](#)
- [Personnel Policy 5.6: Employee Conduct](#)

Evaluating Business Risks

Business risks are simply those events or activities that could adversely affect the achievement of objectives. Managing risk is a key responsibility of management. Managers should (1) ensure that adequate

and effective controls are in place to minimize risk exposures and (2) develop monitoring processes to periodically reassess risk and the effectiveness of controls (i.e. *Are they working as intended?*). One useful

and efficient tool for managers to assess and evaluate control activities is the Self-Assessment of Internal Control questionnaire administered annually by the Dept. of Finance & Management. Control self-assessment allows management to identify risks and exposures while assessing control activities that can help mitigate or manage those risks. Staff participation in the self-

assessment process raises the control consciousness of the organization, while helping train staff to assess and manage risks. Positive outcomes of a self-assessment include staff taking ownership of control processes in their units and taking responsibility for corrective actions. Below are some examples of potential Risks and mitigating Controls:

RISK	CONTROL
Purchases may be inappropriate.	Step-up the approval level for purchases / expenditures.
Incorrect data may be erroneously reported.	Review reports and perform reconciliations to source documents or systems.
Funds could be misappropriated.	The same person does not initiate, authorize, and process a transaction.
Critical operations could be seriously interrupted due to the absence of a key individual(s).	Alternate employees receive timely & effective training; cross-training is conducted; processes & procedures are well-documented.
Key deadlines may not be met.	Assign tasks/responsibilities to specific employees; utilize checklists to periodically monitor and assess the completion status of tasks.

Test Your Knowledge of Internal Controls

(Answers are at the end of the newsletter.)

1. When processing a voucher (or journal) for goods received or services performed in a prior fiscal year, departments must do the following:
 - a. Indicate the payment is for a prior year in the Description field.
 - b. Use a PY prefix in the Invoice field (or Journal Class field for journals).
 - c. Both "a" and "b".
 - d. Nothing.

2. In smaller organizations, where it is impractical to maintain a strict separation of duties due to limited staff, controls can most effectively be enhanced by:
 - a. Employment of temporary personnel to aid in the separation of duties.
 - b. Hiring a CPA to perform monthly reviews.
 - c. Direct participation by senior management in the business activities (e.g. approving invoices, making bank deposits, reviewing key financial reports, etc.)
 - d. Requiring the employee responsible for each business function to double-check all their work.

3. Fraud is most often detected through:
 - a. Tips.
 - b. Internal controls.
 - c. External audits.
 - d. Internal audits.

4. An example of an internal control weakness in the payroll function is to assign a departmental supervisor the responsibility for:
 - a. Distributing payroll checks to employees.
 - b. Initiating requests for salary adjustments for employees.
 - c. Interviewing and hiring applicants for subordinate positions.
 - d. Reviewing and approving time reports for subordinates.
5. Per VISION Procedure #2: Records Retention, documentation supporting payments must include the system generated VISION voucher number and shall be filed by:
 - a. Voucher number.
 - b. Vendor name, in voucher number sequence.
 - c. Payment date, in voucher number sequence.
 - d. Any of the above as long as it is consistent throughout the department.
6. Per the Agency of Administration's Bulletin 3.3: Delegation of Authority which of the following documents must be signed by the organization head and may not be delegated (except in an emergency or the organization head's protracted absence):
 - a. Applications for and acceptance of grants.
 - b. Requests to transfer funds between appropriations (DA-B-26) or expend excess receipts.
 - c. Contracts and grant awards over \$10,000.
 - d. All of the above.
7. _____ is a control activity designed to ensure events or transactions are initiated and executed only by those employees designated by management.
 - a. Reconciliation.
 - b. Safeguarding of assets.
 - c. Documentation.
 - d. Authorization.
8. The State of Vermont's standard payment terms for vendors is _____ days from invoice date.
 - a. 10.
 - b. 20.
 - c. 30.
 - d. 40.
9. Which of the following indicators represents an increased risk for fraud?
 - a. Maintenance of multiple cash collection points.
 - b. Inadequate segregation of duties over collection and disbursement of funds.
 - c. Poor physical safeguards over cash.
 - d. All of the above.
10. Per the Agency of Administration's Bulletin 3.4: Reimbursement for Travel-Related Expenses, fines for traffic or parking violations incurred while on official State business are a reimbursable expense.
 - a. True.
 - b. False.

Flood Update: VISION Availability

In the event of a flood in downtown Montpelier, the Department of Finance & Management has made plans, contingent upon the availability of power, to manage the VISION statewide accounting system from remote locations to ensure continuity

of operations for mission-critical functions. Further communications will be forthcoming from the Department of Finance & Management including contingency plans should power be disrupted causing the unavailability of the VISION system.

Important Dates

March 9 th -18 th	VISION system unavailable to end-users during upgrade; the <i>Sandbox</i> will remain available to end-users through March 16 th .
March 19 th	VISION 8.8 available to end-users.
April	Annual <u>Self-Assessment of Internal Control</u> questionnaire distributed by Finance & Management to departments for completion.
April	FY 2007 Year-end Closing Instructions issued by Finance & Management.
April 25 th	Quarterly business manager's meeting @ Pavilion Auditorium.

Answers to Test Your Knowledge of Internal Controls:

1. (b); 2. (c); 3. (a); 4. (a); 5. (b);
6. (d); 7. (d); 8. (c); 9. (d); 10. (b);