

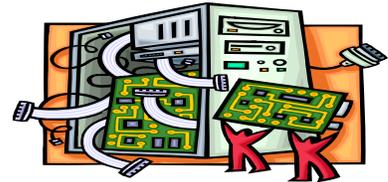
INTERNAL CONTROL NEWS

MARCH 2009

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.

Important VISION News

VISION Production and Reporting will be unavailable all day Friday, April 3rd through Sunday, April 5th. During this time we will be applying routine software releases to the VISION system.



VISION is supported by a combined team of Finance and DII Staff who have been working on implementing routine maintenance patches and Oracle updates to this system. We anticipate that this will be a seamless transition. How you log into VISION will not change – User IDs and Passwords will be the same. Navigation has not changed and for those who use “My Favorites” they will be copied forward and available. Pages have not changed with the exception of a couple of minor changes in the Accounts Payable module. Information on these changes will be available by the end of next week on the [Finance & Management](http://finance.vermont.gov/) website.

Vendor Payments/ Pay Cycles

Pay cycles will not be run on Friday, April 3rd because VISION will not be available. Payments that would be picked up in the pay cycle on the 3rd will be picked up on Monday, April 6th. If you are aware of a payment that needs to go out on April 3rd that cannot go early or on Monday, April 6th please contact Ruthellen Doyon at Ruthellen.Doyon@state.vt.us as soon as possible.

Month-end Close

Departments will have until Wednesday, April 8th to close the month of March.

Where to Get Updates

VISION System status information and scheduled maintenance can be found on the [VISION System](#) page. We encourage you to monitor the [Finance & Management](http://finance.vermont.gov/) website. News items and a calendar of upcoming events or important dates are found on the home page.

Please direct questions to the VISION Finance Support Team at VISION-Helpdesk-FIN@state.vt.us or 802-828-0407, Option 2.



Intangible Assets

The Governmental Accounting Standards Board (GASB) issued **Statement No. 51: *Accounting and Financial Reporting for Intangible Assets*** (June 2007) to provide specific authoritative guidance on intangible assets. All intangible assets subject to this *Statement* should be classified as capital assets and all existing authoritative guidance related to capital assets should be applied to these intangible assets. In the near future, the Dept of Finance & Management plans to distribute a survey to all departments and issue formal guidance on intangible assets to facilitate implementation of GASB Statement No. 51 by July 1, 2009. Following is a brief Q&A on the GASB Statement:

Why was this Statement issued?

While GASB Statement No. 34 referred to intangible assets, the absence of specific guidance has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization.

What's the objective of the Statement?

To reduce the inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of intangible assets among state and local governments.

What's the definition of an intangible asset?

An asset that possesses all of the following characteristics:

- i. Lack of physical substance
 - Asset may be **in** or **on** an item with physical substance (e.g., software on a CD, right-of-way on top of land)
- ii. Nonfinancial nature
 - Not in a monetary form similar to cash and investment securities
 - Not a claim or right to an asset in a monetary form (e.g., receivables)
- iii. Initial useful life extending beyond a single reporting period

What are some examples of intangible assets?

- Easements (right-of-way, permissive, restrictive)
- Computer Software (internally generated/developed, off-the-shelf software, websites)
- Patents, Copyrights, Trademarks
- Separately Acquired or Donated Land Use Rights (timber, water, mineral)
- Licenses and Permits

Intangible assets can be purchased or licensed (which includes acquisition through an installment contract), acquired through non-exchange transactions, or internally generated.

Does the Statement provide guidance on asset recognition?

An intangible asset should be recognized only if it is identifiable:

- or...
- The asset is separable, capable of being separated and sold, transferred, licensed, etc.
 - The asset arises from contractual or other legal rights, regardless of whether rights are transferable or separable or from other rights and obligations.

Additionally, the *Statement* establishes a specified-conditions approach to recognizing internally generated (developed) intangible assets (including computer software).

What are internally generated intangible assets (IGIA)?

- Intangible assets created or produced by the government entity or an entity contracted by the government.
- or...
 - Intangible assets acquired from a third-party but require more than minimal incremental effort to achieve expected level of service capacity.

Are any intangible assets specifically excluded by the scope of this Statement?

Exceptions include:

- Intangible assets acquired or created primarily for directly obtaining income or profit
- Assets resulting from capital lease transactions reported by lessees
- Goodwill created through the combination of a government or other entity

How is useful life determined?

- The useful life of an intangible asset should not exceed the period to which the service capacity of the asset is limited by contractual or legal rights.
- Renewal periods related to such rights may be considered if there is evidence that the government will be able to achieve renewal and any anticipated outlays are nominal in relation to the level of service capacity expected.
- Intangible assets should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset.

Are the requirements of this Statement retroactive?

Yes, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980. Retroactive reporting is not required for assets considered to have indefinite useful lives and those considered to be internally generated (developed).

What is the effective date of this Statement?

The requirements for GASB 51 are effective with FY 2010 financial statements; therefore, departments will need to begin capturing and recording intangible asset information on July 1, 2009. Additionally, all intangible assets meeting the criteria for retroactive reporting will need to be recorded in VISION prior to June 15, 2010 in order to be reflected in departments' year-end asset verification form and in the FY 2010 *Comprehensive Annual Financial Report (CAFR)*.

Monitoring the System of Internal Control



Monitoring, one of the five [*internal control standards*](#), is a fundamental responsibility of management. The primary objective of monitoring is to ensure controls are adequate, functioning properly, and providing the intended results. To help meet this monitoring responsibility, managers rely on techniques such as **observation**, **interview**, and **testing**.

Observation involves being cognizant of workplace norms and using your senses to monitor your operations. Managers develop expectations for their operations based on experience, historical data, emerging trends, external changes and, for more seasoned managers, intuition. Whether it's the number of transactions processed, the volume of calls to a help line, computer system response times, caseload levels, turnaround time for customer orders...are you getting the

expected results at the end of the day? Experienced managers may be able to hear (*or smell*) if a piece of equipment isn't working properly, detect whether routine maintenance duties are being ignored, or notice if employees aren't adhering to safety and security protocols. Are ethical standards being maintained? Is staff morale at an appropriate level? Are employees showing signs of exhaustion or do they appear to have too much idle time? Observation is one way to determine if reality is in sync with expectations.

Studies have shown that people act differently when they know they are being observed. Some will improve performance because it lends credibility to the importance of their work. Others improve because they want to be noticed in a positive sense, increasing their opportunity for recognition or promotion. While some will improve out of fear of retribution (e.g., curtailing personal phone calls, proofing their work, improving attendance and punctuality). Observation can be especially useful when implementing a process change or training a new employee to ensure instructions are clear and producing the desired results.

Interview staff, customers, vendors, clients, and peers to solicit input on the effectiveness of your operations. Ask employees about their work...do they understand **why** they do what they do, what works well, what doesn't, are they maintaining their workload or cutting corners to avoid backlogs, do they have concerns about workplace safety or security, do they have suggestions to improve operations? Talk with customers, clients, and vendors about their experiences and interactions with your operations...are their needs and expectations being met? Seek advice from peers, share best practices, and compare your operations to similar organizations or industry standards.

For a variety of reasons, people will generally volunteer information verbally that they would never put in writing. To get candid feedback, approach the task with humility, avoiding any tendency to be defensive or judgmental. As a manager, you will need to filter the information received, comparing it to your own observations and other performance metrics to determine the usefulness and accuracy of the information.

Testing is a review of the internal controls in place to determine if they are being followed and providing the desired outcomes (i.e., "*What are we trying to accomplish?*" and "*What are we trying to avoid?*"). Control activities such as approvals, security, reconciliations, and independent verifications are typically built into standard operating procedures and supervisory duties. But management needs to periodically test these controls to ensure they are functioning properly. Testing may include:

- Reviewing a sample of documents (e.g., vouchers, time reports, program applications, reconciliations, etc.) to verify the appropriateness, completeness and accuracy of the transactions.
- Inspecting restricted areas to ensure security is being properly maintained.
- Performing unannounced counts of cash or inventory to deter improper use or mishandling of assets.

Ideally, testing is conducted both in a structured process (e.g., internal audits, self-assessments, etc.) and through less formal, more random actions. The level of risk, past performance, and the cost of failure are all factors management needs to assess in determining the frequency and extent of its testing.

References:

- NY State Internal Control Association (NYSICA). "*Internal Control Testing*".
- Committee of Sponsoring Organizations of the Treadway Commission (COSO). "*Internal Control – Integrated Framework*".



The 5th annual **Self-Assessment of Internal Control** questionnaire will be distributed to departments in early April. At this point, we're not anticipating any substantial changes to this year's questionnaire. To allow time for internal review and discussion, departments will be given a minimum of three weeks to complete, certify, and submit the questionnaire.

VISION Training

This spring we are offering to train your organization on topics you are most interested in instead of our traditional open enrollment classes based on module. By working one-on-one with your organization we hope to improve your efficiency and use of VISION. Ideally, a class would consist of members of your organization who perform or serve as back up for a particular business function. A class size of two to six works best and all training will be held in the training room at 109 State Street in Montpelier. A training session could focus on more in depth information on a specific topic or could be a combination of many topics. Understanding your needs, concerns and objectives before we meet will be important to our success. Please contact us at the link below and include what topics you are interested in and how many people would be attending.

Examples include:

- Guidance on compliance with VISION procedures & requirements
- Recommendations to help you manage purchase orders
- Providing helpful hints on entering assets
- Explaining the difference among available queries and reports



Please email the VISION Finance Support Staff at VISION-Helpdesk-FIN@state.vt.us with any training needs.

As in previous years, the VISION Finance Support Team will be scheduling **Asset Management** and **Purchase Order** workshops to assist departments with year-end closing requirements. Stay tuned to the [Finance & Management](#) website for more information on upcoming VISION training opportunities.

Revised VISION Manuals

The VISION Finance Support Staff has revised two of the VISION Training Manuals. New versions of the [Contracts Manual](#) and the [Asset Management Manual](#) are posted on the Finance & Management website. The changes deal with printing contracts to include the business unit's address and adding donated assets into VISION. A *Revision* page has been added to the beginning of each manual to highlight the exercise(s) that have changed. All manuals and the current revision date are on the [VISION Manuals](#) page.

Employee Self-Service Passwords



Many users will soon be forced to change their passwords. Please be prepared! Employee Self-Service requires that a user change his or her password every 90 days. It has been about 90 days since we have all been required to use Employee Self-Service to view pay advices. In an effort to best serve employees the information below explains the password change process.

Additional information can be found in both the *"How to access your account for the first time"* and *"What to do when you forget your password"* documents located on the [State Employee Login](#) page. Although they address other issues, these documents include instructions on how to use the Change Password page.

When a password expires:

1. After signing in, a "Your password has expired" message appears.
2. Click on the "Click here to change your password" link.
3. On the Change Password page, enter the current password, enter a new password and confirm the new password.
4. Click the "Change Password" button.
5. After a successful password change, a "Password Saved" message appears.
6. Click the "OK" button.

Important reminders:

- Passwords must include at least 8 characters, one number, and one capital letter.
- If a password has been forgotten, click on the "I forgot my password" link on the State Employee Login page. A new password will be emailed to the address entered in "My System Profile".
- Accounts are locked after three unsuccessful login attempts.
- Email or call the HR Help Desk for assistance. DO NOT do both!

If the department's personnel officer is unable to assist with the change password process, the HR Help Desk can be reached by emailing VISION-helpdesk-HR@state.vt.us or 802-828-0407, option 1.