

# INTERNAL CONTROL NEWS

## MARCH 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.

## Finance & Management Receives Award for CAFR



The Department of Finance and Management would like to thank all the departments of state government that have worked so diligently with us over the years to help get our Comprehensive Annual Financial Report (CAFR) to the point where it is today. Achieving the level of quality in these statements that we have today would not have been possible without your help. The Department of Finance and Management was recently recognized for producing a CAFR that meets the highest standards as established by the Government Finance Officers Association. Please see the following statement recently released by Governor Douglas.

Governor Jim Douglas congratulated the Vermont Department of Finance and Management for receiving the ***Certificate of Achievement for Excellence in Financial Reporting*** – the highest recognition in the area of government accounting and financial reporting – from the Government Finance Officers Association of the United States and Canada (GFOA) for the 2008 comprehensive annual financial report (CAFR).

“Whether in good times or bad, Vermonters expect and deserve that their hard earned dollars are going to our most urgent priorities,” Governor Douglas said. “This is a great honor and the culmination of many years of dedicated work by talented public servants who are ensuring that every taxpayer dollar is accounted for and wisely spent.”

The GFOA is a non-profit professional association serving nearly 17,500 government finance professionals. The Certificate of Achievement for Excellence is the highest recognition in the area of government accounting and financial reporting and represents a significant accomplishment. Vermont’s 2008 CAFR, which is prepared by the Department of Finance and Management, has been judged by an impartial panel to meet the highest standards – demonstrating a constructive “spirit of full disclosure” to clearly communicate its financial story and motivate potential users and user groups to read the CAFR.

“Agencies and Departments across state government, as well as the State Auditors and State Treasurers Offices, have been working together over many years to successfully implement the statewide financial policies and procedures that are geared toward the timely, accurate and complete reporting of financial information,” said Finance Commissioner Jim Reardon.

**Again, thank you all very much for your efforts, this recognition is for all of us.**

# Avoiding Duplicate Payments



Paying an invoice correctly and only once are obvious objectives for accounts payable (AP) units, but the fact is that duplicate payments do occur. While VISION does have duplicate-invoice checking functionality, there are ways, *intentional and unintentional*, that this functionality can and has been circumvented. The consequences of duplicate payments are exacerbated by the harsh reality that identifying the source of unapplied cash (i.e., duplicate payments) is often not a priority for many vendors.

Following are some tips to help avoid duplicate payments:

1. **Pay invoices on-time.** Many vendors will submit a second invoice when an invoice is not paid timely; regardless of whether the subsequent invoice is marked “duplicate” or “copy”, having multiple copies of the same invoice increases the risk of a duplicate payment.
2. **Centralize receipt of invoices.** Request that all invoices be sent directly to accounts payable to help maintain control over invoices while minimizing lost or misplaced invoices.
3. **Keep track of invoices.** To facilitate responding to inquiries from vendors and employees, keep unprocessed invoices in a common location accessible to all AP staff; maintain a log that tracks when an invoice has been forwarded to another employee/division for approval or additional information.
4. **VISION’s duplicate-invoice checking functionality.** Ensure AP processors are aware of and understand how this preventive control works and that they do not attempt to circumvent or override it. Insist that staff not alter any of the 4 key match criteria used by VISION to prevent duplicate payments (i.e., vendor ID, invoice number, invoice date, gross amount).
5. **Original invoices only.** Adhere to the standard of only paying from original invoices and when a situation warrants deviation from this practice, verify that payment has not been previously processed.
6. **Do not split invoices.** Maintain a 1-to-1 relationship between a vendor’s invoice and a VISION voucher. When an invoice needs to be charged to multiple departments, have one department pay the entire invoice and then process a TSF to obtain reimbursement from the other department(s). Splitting invoices impairs VISION’s duplicate-invoice checking functionality.
7. **Treat invoices without numbers consistently.** For invoices without “invoice numbers” develop a standard method to create a unique invoice number and insist that all staff adhere to it; inconsistent practices greatly increase the risk that a duplicate invoice will not be detected by VISION.
8. **Do not alter invoice numbers.** Adding a blank space, employee initials, or other characters to the vendor’s invoice number impairs VISION’s duplicate-invoice checking functionality and should be prohibited (with the exception of the “PY” prefix used to identify *prior year* payables).
9. **Interfaces require more diligence.** Vouchers entered through an interface by-pass VISION’s duplicate-invoice checking functionality, therefore department’s must ensure they have alternative controls in place to detect duplicate invoices.
10. **Enhance invoice approval.** Insist authorized employees approve invoices in a timely manner and make sure all approvers understand their responsibilities when approving an invoice.
11. **Resolve disputes timely.** When an invoice dispute languishes and payment is not made, it increases the likelihood a vendor will send a second invoice (re: tip #1)

Portions of this article were adapted from: Schaeffer, Mary. “Is Your Company Following Invoice Best Processing Practices?” [www.cpa2biz.com](http://www.cpa2biz.com), April 2008.



The 6<sup>th</sup> annual **Self-Assessment of Internal Control** questionnaire will be distributed to departments in early April. We're not anticipating any substantial changes to the format of the questionnaire, although there will be some new questions. As in past years, departments will be given approximately three weeks to complete, review, certify, and submit the questionnaire.

## New Subrecipient Annual Report



Finance & Management has issued a new subrecipient report document that replaces the Certification of Audit Requirement and Subrecipient Schedule of Federal Expenditures forms. The new format consolidates the two old forms onto one page, eliminates redundant information, and includes detailed instructions. The new report was created in order to improve the efficiency and accuracy of the reports submitted by subrecipients. The new report is available on the Finance & Management [website](#). The old forms are now considered obsolete and should not be used. For further information, please contact Karen Jaquish at (802) 828-3201 or by email at [karen.jaquish@state.vt.us](mailto:karen.jaquish@state.vt.us)

## Control Activities

This is the 4<sup>th</sup> in a series of articles on the five [internal control standards](#) – **control environment, risk assessment, control activities, communication & information, monitoring** - that comprise the general framework of an internal control system.

Typically, it is the **control activities** of a department that people most readily associate with the term internal controls. Control activities are the tools - policies, procedures, mechanisms and practices - that help a department achieve the three primary objectives of internal controls: (1) effective and efficient operations, (2) timely, accurate and reliable financial records, and (3) compliance with applicable laws and regulations. Well-designed control activities are essential for ensuring proper stewardship and accountability of government resources.



### ❖ Key Terms

**Preventive Controls:** Designed to prevent a “risk” (i.e., errors, irregularities, operational breakdowns, accidents, fraud, theft, etc.) from occurring. Developing preventive controls involves predicting “what could go wrong” and implementing ways to avoid it. *Examples include:* Separation of duties, documented policies & procedures, authorizations, approvals, physical control over assets (e.g., locks, fences, safes, etc.), system passwords, safety clothing & equipment, anti-virus software, supervision, standardized forms, continuity of operations plans, cross-training, etc.

**Detective Controls:** Designed to detect a “risk” when it occurs *or* after-the-fact. Detective controls alert employees to undesirable events in a timely manner, enabling management to initiate prompt corrective action to minimize the impact of the risk. *Examples include:* Reconciliations, exception reports, financial monitoring, performance evaluations, smoke detectors, security alarms, complaints/tips to a call-center or hotline, rotation of duties, periodic audits & reviews, required vacations, physical inventory counts, etc.

**Hard Controls:** Formal, objective, quantifiable activities that help ensure management's directives are carried out; most preventive and detective control activities are described as hard controls.

**Soft Controls:** Intangible, subjective, informal elements that foster the culture of the organization and influence employees' behavior. Soft controls are most commonly linked with the **control environment** ("tone at the top") component of the internal control system and include high ethical values and integrity, commitment to competence, strong leadership, setting expectations, etc.

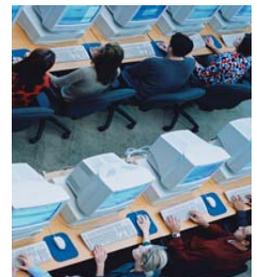
### ❖ Key Concepts

- Design controls activities to prevent, detect, or reduce the risks that can impede a department from accomplishing its objectives.
- Control activities occur throughout the department, at all levels and in all functions including financial, operational, and information systems.
- Periodically test controls to determine whether they're operating as intended; the level of risk increases when key controls have not been implemented or are not achieving their intended purpose.
- Emphasize preventive controls over detective controls but a combination of both is needed.
- Build control activities into business processes and systems as they're being developed; adding control activities after-the-fact is generally less efficient and more costly.
- While management has responsibility for designing and implementing control activities, all employees of the department are responsible for carrying them out.
- Allocation of resources among control activities should be proportional to the impact and likelihood of the risk that is being mitigated.

## VISION Training Announcement

The VISION Finance Support Team is in the process of scheduling open-enrollment training classes during March and April for all VISION modules. This session we are offering two VISION 101 classes for new users. We ask that all new users attend one of these sessions before attending a module specific class.

These hands-on training classes take place from 8:00 AM to 12:00 PM (except Billing) and will be held at our Montpelier training room on the 3rd floor of 109 State Street. Stay tuned to the [VISION Training](#) page on the Finance & Management website for specific dates, times and sign-up information. VISION End-Users will be notified by email once this information is posted to the website.



Departments may also contact the VISION Finance Support Team to arrange individualized training sessions to address their organization's specific VISION training needs and business requirements.

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.

Some of the VISION manuals have minor revisions. The Accounts Payable and Purchasing related manuals incorporate some more Office of Purchasing & Contracting details. The *Revision* page at the beginning of each manual highlights the exercise(s) that have changed. All manuals and the current revision date are on the [VISION Manuals](#) page.

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