



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.

Time & Labor Enterprise Initiative

Recently an internal survey was conducted to gather information from all State of Vermont departments regarding their current business processes for recording employee time and processing of employee expense reimbursements. In addition, the survey asked for input on what areas of the processes could be improved. This information is being used as the base for a formal Business Needs Assessment that will be conducted by a consulting group with experience implementing PeopleSoft software and assessing large organizations' business needs. The RFP to hire this consulting group is being drafted and is scheduled to be posted in early October.

Additionally, some departments who manage large-scale construction projects provided information on their current project costing and project tracking processes. This information will also be used in this Business Needs Assessment in determining which PeopleSoft modules will be required to meet these departments' needs in this area as they are linked to employee time reporting.

This effort is being lead by a team comprised of staff from the Finance & Management and Human Resources Departments: Sue Zeller, Brad Ferland, Stephanie Oakes, Tim Holland, and Karen McDowell. Additional team members from other departments have also contributed to this process and will become more involved as the Business Needs Assessment and other project activities progress.

The team thanks everyone who contributed to the T&L and Expenses Questionnaire and Interview process and appreciates the very valuable input that has been provided. The enthusiasm and support for this project are critical to a successful implementation.

This project will ultimately impact virtually all State of Vermont employees. Therefore, the planning and communication components of this effort are a priority. This will ensure that business processes are reviewed and improved and the system is implemented to effectively address the requirements of the departments and the State. The team looks forward to continuing work with all departments on this very important initiative.

2006 Control Self-Assessment - Improvement Noted!

Results from the 2nd annual **Self-Assessment of Internal Control** were encouraging and indicate many employees have taken steps to improve internal controls in their departments. By strengthening controls, we improve our business processes, benefiting our employees and the citizens of Vermont. As control activities mature and become embedded in your day-to-day operations, the focus should shift from design & implementation to monitoring to ensure the controls are still relevant and operating as intended. In comparing data from this year's self-assessment to the previous year, some of the key results were:

- ✓ 5% increase in the overall number of "YES" responses *{indicator of overall control strength}*;
- ✓ 42 of 58 departments had an increase in their percentage of "YES" responses *{indicator of individual department effort}*;
- ✓ 4% increase in the success rate for data validation testing *{indicator of data quality}*.

Ten Principles of Leadership

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| <ol style="list-style-type: none">1) Improvement after improvement - seek continuous, incremental improvement2) Coordinate between groups – share ideas, best practices, and pitfalls3) Everyone speaks – encourage participation and learning by all team members4) Do not scold – don't criticize or punish mistakes; encourage problem reporting and find root causes5) Others should understand what you do – teaching and presentation encourage collaboration and make it more effective.6) Rotate and train the best employees – motivate and challenge the best | <ol style="list-style-type: none">7) Tasks without deadlines are not tasks – they are far less likely to be completed8) Rehearsal is a training opportunity – use reporting or presentation rehearsals to explore understanding and train others9) Inspection fails unless top management acts – once problems are defined and acknowledged, take action to resolve them10) Ask subordinates, "What can I do for you?" – this demonstrates commitment to employees and their jobs |
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**Adapted from Masao Nemoto of Toyota Motor Corporation*

Statewide Audit Finding Cleared

For the first time since 1997, the State of Vermont has cleared its recurring Single Audit finding pertaining to subrecipient monitoring. OMB Circular A-133 requires states to monitor their subrecipients and prior to the implementation of Bulletin 5 and its accompanying VISION Grants Tracking System, the State of Vermont did not have a comprehensive system to comply with this requirement. Although some individual

departments had implemented their own monitoring procedures, a statewide solution was needed in order to clear the finding. Through the hard work of many individuals across State government, the finding was cleared in the 2005 Single Audit and the focus of subrecipient monitoring has now shifted to program compliance with state and federal regulations.

Forms 1099-MISC: Miscellaneous Income

Annually, the Department of Finance and Management (F&M) prepares and submits **Forms 1099-MISC** to the IRS and vendors in accordance with the Internal Revenue Code. While it is the responsibility of F&M to generate and file the 1099s, it is the responsibility of all departments to provide accurate vendor information, to determine which payments are 1099 reportable income, and to code the transactions appropriately in VISION (i.e. VISION “money-bag”). Following is a brief overview of the 1099 process; it does not comprehensively cover all the laws relating to 1099 reporting.

Form 1099-MISC is a type of *information return*; information returns are a vehicle for submitting information about another person to the IRS. Information returns have two purposes: (1) the vendor copy gives the taxpayer information about reportable income to accurately prepare their income taxes, and (2) information filed with the IRS allows the IRS to match income we report against income included on the payee’s income tax return.

- ❑ **The IRS requires the State of Vermont to issue 1099s to vendors and report the information to the IRS when all of the following three criteria exist:**
 - 1) **The vendor is a reportable entity type** which includes:
Individuals, sole proprietors, partnerships, trusts, estates, clubs, joint ventures, LLCs (*depending on status...check W-9*), and corporations that provide medical or legal services.
 - 2) **The payment is a reportable income type** including, but not limited to:
Rents, leases, royalties, awards, prizes, honoraria, jury payments, fishing boat proceeds, medical & health care payments, fees, commissions, non-employee compensation including personal, professional, and technical services paid to independent contractors, witness fees, board & commission members’ per diems, crops insurance proceeds, attorney fees/legal services, and lawsuit settlements.
 - 3) **The aggregate amount paid to the vendor (*for the above payment types*) for the calendar year meets or exceeds the reportable amount, most generally \$600.**
- ❑ **Below are exceptions to 1099-MISC reporting that do NOT require reporting; exceptions include but are not limited to:**
 - Payments to corporations (*unless for medical or legal services*), State employees, government entities, tax-exempt organizations;
 - Rent/lease payments paid to real estate agents (that are not the owner of the property);
 - Payments to an informant as a reward for information about a criminal activity;
 - Scholarships, fellowship grants, or tuition reimbursements;
 - Reimbursement of expenses (e.g. travel and mileage);
 - Qualified foster care payments;
 - Payments for “goods” only (e.g. merchandise, supplies, etc.).
- ❑ **Other important 1099-MISC information:**
 - TIN is a taxpayer identification number; it can be either a Social Security Number or an Employer Identification Number (EIN).
 - Vendors that fail to provide a TIN are subject to backup withholding at the time of each payment.

- When 1099 information is filed with the IRS, they go through a process of verifying that the TIN was assigned to the name reported on the 1099. The State is subject to a \$50 penalty for each incorrect TIN / Name combination, unless we can demonstrate due diligence (e.g. a W-9 form on file which shows the vendor provided incorrect information).
- Payments that have been garnished, levied, or offset are correctly reported as income to the vendor on the 1099-MISC.
- It is important that the vendor's income be reported under the correct income type because there are income tax implications to the 1099 recipient.
- Taxpayer identification numbers are confidential and shall not be disclosed by the State without written authorization from the taxpayer.

□ **The Dept. of Finance & Management's 1099 Process Timeline:**

Date	Activity
December – January	Data validation and testing phase
January	Income adjustment phase
January 31 st	Deadline for mailing 1099s to recipients
February – March	1099 correction phase
March 31 st	Deadline for electronically filing 1099s with IRS
Post-March 31 st	Manual submission of 1099 corrections identified after the March 31 st electronic submission
October	IRS notification and penalty assessment to the State of all incorrect TIN / Name combinations from 1099 information reported by the State.
On-going	Vendor maintenance and transactions review

- **In summary, the two most crucial steps to producing accurate 1099s are:**
- Adding and maintaining VISION vendor records with the correct legal name, correct TIN, and correct income type (i.e. VISION withholding code).
 - Classifying payments correctly on payment transactions processed in VISION.

If both of these steps are done correctly, the VISION system will produce accurate 1099s with minimal intervention at year-end. If you should have any questions about the 1099 process please contact Vicki Strobbridge at 828-0676 or by e-mail at vicki.strobbridge@state.vt.us

Important Dates

- October 2nd** Responses to FY08 budget targets due in BDS *
- October 2nd** FY07 budget adjustment requests due at Secretary of Administration *
- October 13th** Executive Fee Bill requests due at Budget & Management *
- Mid-October** CherryRoad Technologies returns to resume VISION Financials upgrade project
- December 1st** Narrative sections of Appropriations Bill due at Budget & Management *
- December 1st** Final budget targets issued by Budget & Management *
- December 15th** Final budgets submitted via BDS *
- December 31st** Issuance date for FY 2006 Comprehensive Annual Financial Report (CAFR)

*** For a complete timeline and additional information on the FY08 budget process please refer to the FY 2008 BUDGET INSTRUCTIONS issued September 6th by the Budget & Management Division.**