Department of Finance and Management
Financial Operations Division
http://finance.state.vt.us/

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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.

Vendor Payment Terms & VISION

While departments have the capability to change the vendor's payment terms at the VISION voucher level, this practice should be minimized and only used when there is a valid and documented business reason. VISION is configured to issue timely payments to vendors based on the vendor's invoice date and default payment terms. Relying on the invoice date and payment terms, VISION calculates when the payment (check, ACH, or wire) must be issued in order to be received on-time by the vendor. For example, a voucher entered on October 1st with an invoice date of Sept. 19th and payment terms of NET30 will be picked up in the daily pay cycle for Oct. 15th to ensure the check will reach the vendor by the Oct. 19th due date. If that voucher is not entered in VISION until after October 15th then it will automatically be picked up in the next day's pay cycle…it is not necessary to change the terms. However, VISION cannot pay a voucher that has not been properly approved and budget checked, nor can it make a ***timely*** payment for a voucher that was never entered into the system until ***after*** its due date.

Despite the State's standard vendor payment terms of net 30 days from the invoice date (i.e. NET30), a significant number of vouchers are processed with payment terms of NET00 (i.e. pay immediately). Clearly, there are numerous vendors whose default payment terms are not NET30 but, in evaluating this noticeable inconsistency, it was determined that in many instances departments are changing the payment terms at the voucher level to NET00. Some of the most common, but largely unjustified, reasons are:

- ***Convenience of the Vendor:*** The department simply wishes to pay the vendor as soon as possible but without a valid justification or regard to the State's cash flow.
- ***Convenience of the Department:*** The department finds it more efficient to process a voucher on one day and on the very next day be able to record the payment reference number and file the voucher as completed…again without regard to the State's cash flow.

- ***Payment Terms are Incorrect:*** If the vendor's default terms in VISION are incorrect, send confirmation of the correct payment terms to Financial Operations so that the vendor's master file can be updated.
- ***Lack of Understanding of VISION Voucher Processing***: The department enters a voucher in VISION for an invoice that is past due (or nearly due), so the department changes the payment terms to NET00 in order for payment to occur immediately; this change to payment terms is unnecessary as the VISION system calculates the scheduled payment date based on the payment terms and invoice date…not the date the department enters the voucher in VISION.

While the impact of late payments – wasted State resources (e.g. responding to vendor inquiries), negative perception of State government, late payment charges, financial consequences to the vendor – can be substantial, so can the fiscal impact of imprudent cash management practices that result in disbursing of cash before it is necessary. While the mere use of NET00 payment terms does not indicate how timely an invoice was paid (that is dependent upon when the department actually processes the voucher in VISION), the extensive use of NET00 payment terms does not signify optimal cash management practices. When the State unnecessarily pays its bills **too early**, without the benefit of a cash discount, it loses interest income. Financial Operations will be reviewing vouchers at the department level to identify transactions where the voucher payment terms differ from the vendor's default payment terms. A sound cash management policy is one where the State pays its bills on-time and according to terms, but not prematurely.

Training is Back!

In September, the VISION Help Desk launched its revamped training program for VISION-Financials. The program includes classroom sessions at 109 State St., Montpelier and comprehensive training manuals available on the VISION website. The schedule for the first round of training classes has been released and the Help Desk is currently accepting registrations; classes will be repeated periodically throughout the year. Please visit the VISION Training Info & Documentation website to view the current training calendar & course descriptions, register for a class, or to download a training manual for a specific module or process.

Internal Controls 101: A Primer

This brief PowerPoint presentation provides a general overview of internal controls and has been posted on the Internal Controls page of the Finance & Management website; this presentation serves as a complement to the previously issued *Internal Control Standards: A Guide for Managers* document. One of the many challenges financial managers face is attempting to demystify internal controls for staff and management (e.g. *What do you mean by internal controls? Why should I care about internal controls?*). This presentation aims to provide viewers with a broad understanding of key internal control concepts and terminology, and how internal controls benefit organizations and their employees.

Operational Guidance - FAQ

Question: Why is it important to have an attendance list when paying an invoice for a state-sponsored conference?

Answer: Vermont's *Internal Control Standards: A Guide for Managers* identifies "documentation" as a key control activity in an effective system of internal control. Documentation involves preserving evidence to substantiate a decision, **event**, **transaction**, or system. By documenting attendees at a conference (*or meeting*), the department enhances the fiscal integrity of the transaction and preserves a historical record of participants at the event. Departments are responsible for ensuring their expenditures are reasonable, necessary, and properly documented. Proper justification and documentation of a conference should include the following information:

- ✓ How much the event cost?
- ✓ What was the purpose of the event?
- ✓ Who participated?
- ✓ When the event took place?
- ✓ Where the event took place?

Besides the department's responsibility for maintaining adequate documentation to support the transaction, as required by *VISION Procedure #2: Records Retention*, an attendance list provides a more thorough audit trail for auditors, federal officials, and other interested parties who may have reason to examine a department's records. Furthermore, accurate entry of accounts payable vouchers into VISION requires certain expenses to be apportioned between "employees" and "non-employees" which is most effectively accomplished through use of an attendance list.

Staff Happenings

- Welcome to **Susan Chapman** as the new Assistant Director of Statewide Reporting. Susan comes to us with twenty years experience as an accounting manager in the Controller's Office for Orange County Florida where her responsibilities included day-to-day management of accounting operations and supervising production of the Comprehensive Annual Financial Report (CAFR).

- Congratulations to VISION Financial Analyst **Michelle White** (*formerly Michelle Lamell*) on her recent wedding.