

# INTERNAL CONTROL NEWS

## SEPTEMBER 2015

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.

## F&M Commissioner Receives Prestigious Award



At its 70th Annual Meeting, the National Association of State Budget Officers (NASBO) awarded the Gloria Timmer Award to Finance and Management Commissioner Jim Reardon. The Gloria Timmer Award is considered the highest honor awarded to NASBO members and is awarded annually in honor of Gloria Timmer's significant dedication, special contributions, and valuable services to NASBO as a member, president and Executive Director. The Gloria Timmer Award is awarded to a NASBO member who has had a significant and positive impact on the financial situation of his or her state. Jim was recognized for his budget management efforts throughout the state's implementation of the Global Commitment Medicaid Waiver, the recovery from Tropical Storm Irene, and supporting the return to full funding of the state pension system, while maintaining and improving the state's overall credit rating. Congratulations Commissioner Reardon!!

## Self-Assessment Updates

- A report on the statewide results from the **Self-Assessment of Internal Control** was issued on July 20<sup>th</sup> and individual performance metrics were emailed to every department on July 27<sup>th</sup>. For *Metric #3: Compliance with Administrative Policies & Procedures*, departments must take corrective action as soon as



possible for any “NO” responses (i.e., non-compliance). Executive branch departments unable to achieve substantive compliance by September 30<sup>th</sup> must submit a corrective action plan to the Commissioner of Finance & Management by October 15, 2015.

- The annual *Data Validation Review* to substantiate the reliability of *self-assessment* responses is now underway. The five selected departments have been contacted to provide documentation to justify a sample of their “YES” responses and a report of F&M’s findings and recommendations will be issued later this fall.

## VISION Support’s Back to School

The fall training schedule has been posted! Class descriptions are available on the [VISION Class Schedule & Information](#) page and the registration form, to be completed by a business manager, is also [online](#). If you have particular training needs or a group who needs training, please contact VISION Support by emailing [VISION.FINHelpdesk@vermont.gov](mailto:VISION.FINHelpdesk@vermont.gov). We would be pleased to provide training specific to your needs.



A couple of reminders about training:

1. The VISION Training room is located on the 3<sup>rd</sup> floor of 109 State Street in Montpelier. A photo ID is required for entry. Bring your license!
2. VISION 101 is a prerequisite for the other classes. Students who have not had VISION 101 have a hard time following along in class which minimizes their learning and provides an unnecessary distraction for the rest of the class.
3. The Federal Draws class is specific to recording these transactions in VISION. We do not provide training on how your department requests funds from your Federal partners.

Expense module training material is in the process of getting freshened up. The UPKs are being simplified and new topics are being added. Our goal is to be able to make the expense module material easier to use and to provide more tips and tricks. Our goal is to have this new material posted by October.

By the way, did you notice the changes to the VISION login screen? Our email and phone number are there to make it easier to reach out for support.



# Know It to Stop It!

In the fraud triangle – Pressure, Opportunity and Rationalization – **opportunity** is the only element over which organizations have significant control. *Opportunity* refers to an individual's ability to commit and conceal fraud within their workplace. Key to fraud prevention and detection is managers must 1) acknowledge that fraud **can** happen and 2) develop an understanding of **how** it could occur within their operating environment. In significant cases, the fraud is most often committed by employees in positions of authority and trust; denial and willful blindness are often contributing factors in the failure to prevent or timely detect the fraudulent activity. ***“Trust is an emotion, not an internal control.”***

Following are some examples of routine business activities that could be a source of **how** fraud is perpetrated. It's not necessary (or efficient) to be overly suspicious of every transaction, in most instances maintaining **effective separation of duties** is the best control to reduce the risk and thwart these opportunities from being exploited.

→ Remember many of these are warning signs only, possibly worthy of further investigation or additional controls, but alone may not prove anything.

- **Tips/Complaints:** From employees, customers, vendors, etc., are typically the most common source of fraud detection;
- **VOIDS:** Legitimate sales transactions are voided in order to divert the cash proceeds for personal use;
- **Credit Memos:** Used to cover the theft of cash by issuing credit memos to phony customers;
- **Accounts Receivable Write-Offs or Adjustments:** Used to conceal and divert customer payments for personal use;
- **Stale or Increasing Reconciling Items:** Stolen deposits or bogus checks are frequently not removed from bank reconciliations;
- **Billing Schemes:** Payments to suspicious or unknown vendors could indicate invoices processed for fictitious goods & services or personal purchases;
- **Unusual or Unjustified Contractor/Vendor Selection:** Examine atypical situations for possible conflict-of-interest (e.g., related party), kick-backs, or bribes.
- **Purchase Returns:** Items (supplies, equipment, etc.) legitimately purchased or reimbursed with State funds are returned to the seller for a cash refund (or credit) for the personal benefit of the perpetrator;
- **ACH Transfers:** Bank account information for electronic payments (vendors, employees) is altered to divert payments to improper accounts;

- **Inventory Shortage:** Based on experience some normal shrinkage may be expected but excessive shrinkage could indicate fraud or theft;
- **Ledgers Out-of-Balance:** Examples include...payments posted to customer accounts don't balance to cash receipts & deposits; physical inventory of fixed assets doesn't match control listing of assets, etc.;
- **Overtime:** Claiming overtime on the timesheet for hours not worked;
- **Expense Reports:** Claiming reimbursement for fictitious, inflated or personal expenses;
- **P-Card:** Used to pay for personal expenses or unauthorized purchases;
- **Third-Party Reimbursements:** Duplicate payment where the State and a third-party both pay and/or reimburse an employee for the same expense;
- **Ghost Employees:** Fictitious employees used to generate bogus paychecks.

## Staff Happenings



- Commissioner **Jim Reardon** will be retiring from State service at the end of October after 30 years of dedicated and exemplary service with the Department of Finance & Management (*commissioner & deputy commissioner*), Agency of Human Services-Central Office (*chief fiscal officer*) and Division of Rate Setting (*chief accountant*).
- **Andy Pallito**, *former Commissioner of the Department of Corrections*, has been appointed Finance & Management Commissioner. Andy has 23 years of State experience in progressively senior roles of financial management and executive leadership with the Department of Corrections, Department of Environmental Conservation and Agency of Human Services-Central Office.

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