



Summer 2023 - Internal Control News

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The purpose of this quarterly newsletter is to provide agencies and departments with articles on good business practices, fraud prevention, and internal control responsibilities. Through articles intended to promote educational and professional development opportunities for state employees, this newsletter seeks to raise awareness across state government on the importance of internal control. We hope that by providing you with this array of information, we can keep you informed of internal control related activities, and help your staff and division implement and maintain effective internal controls.

<https://finance.vermont.gov> Volume 5, Issue 14

DFM Standard Internal Control - Helpful Web Hyperlinks:

Website Resources: <https://finance.vermont.gov/policies-and-procedures/internal-controls>

Standard Internal Control Manager's Guide: [Purpose of Guide \(vermont.gov\)](https://finance.vermont.gov/policies-and-procedures/internal-controls/guide)

Quick Hyperlink Reference Guide: [Finance/files/documents/Pol_Proc/IC/Guidelines.pdf](https://finance.vermont.gov/files/documents/Pol_Proc/IC/Guidelines.pdf)

State Auditor's Fraud, Waste, and Abuse Hotline: 1-877-290-1400 or [Reporting Fraud, Waste or Abuse](https://finance.vermont.gov/policies-and-procedures/internal-controls/reporting-fraud-waste-or-abuse)

DFM, IC Questions? Contact: fin.internalcontrol@vermont.gov

Fraudulent Activities ---> Red Audit Flags

As reported in prior years, fraud and embezzlement investigations of employees at Vermont-based businesses, have occurred at auto dealerships, supermarkets, schools, medical offices, department stores, specialty foods, municipalities, newspapers, banks, residential care facilities, and even a ski resort. As indicated by this list, and the fact that a significant amount of fraud goes unreported, fraud can and does happen to all types of organizations, including within State Governments. When employees, managers, and auditors are aware of and act upon the red flags that could occur within their workplace, it increases the likelihood that wrongdoings could be prevented, or detected. **A red flag is a set of circumstances that are unusual in nature or vary from the normal activity.** A red flag is a signal that something could be wrong and may indicate the presence of fraud. Red flags, by themselves, do not confirm or prove fraud (sometimes an "error is just an error") but rather they are warning signs that may warrant further investigation by management. Red flags may also indicate other serious issues deserving of management's attention such as employee performance problems, misunderstanding of duties, or inadequate training. Studies of fraud cases have consistently shown red flags were present but were either not recognized or were recognized but not acted upon by staff.

Once a red flag is identified it should be evaluated by a responsible person through financial analysis, observation, or other techniques to determine whether the situation merits corrective action, further investigation, or referral to legal authorities. The risk of fraud is increased when there is a presence of multiple or recurring red flags; red flags can be behavioral, or transaction based. Some examples:

- Behavioral issues that are unusual or newfound. Wealth, expensive cars, jewelry, homes, trips.
- Financial pressures at home i.e., spouse losing job, divorce, family responsibilities.
- Refusal to take vacation, sick leave, or accept promotions (for fear of detection).
- Significant personal debt and credit problems or behavioral changes, may be indication of addiction to alcohol, drugs, gambling. Defensive to reasonable questioning from management or auditors. Providing irrational or implausible responses to questions or reluctance to share or distribute workload or provide specific details on job duties like cash receipts and or payments.
- Frequent discrepancies in cash count or excessive number of voids, discounts and refunds.
- Mutilated or destroyed cash register receipts or employee working from open cash drawer.
- Unexplained increase in petty cash or personal (employee) checks included in cash funds.
- Unusual journal entries affecting cash accounts or differences between daily receipts and bank deposit. Use of "Less Cash" line on deposit tickets or discrepancies between deposits and amounts posted to customer accounts. Customer complaints about amounts owed or date differences between customer payments and deposits. Increase in delinquent accounts or write-offs or customer with unusual or unknown name, address or phone number.
- Bank accounts not reconciled in a timely manner as well as purchasing and or A/P.
- Invoice amounts just below internal dollar thresholds or high occurrence of vendor checks routed to department employee. Small initial purchases from vendor, followed by larger purchases. Unusual or suspicious request to change vendor's banking information.
- Vendor complaints or billing for past due amounts - that have already been paid.
- Vendor name anomalies, e.g., vendor name remarkably like widely recognized or used vendor, vendor name consists only of initials. Vendors without a physical address (i.e., PO Box only).
- Vendor address matches employee address. Vendors with no phone numbers or using an answering service. Altered vendor invoices or copies of vendor invoices instead of originals.
- Consecutively numbered invoices from the same vendor.
- Unusual or unexplained increase in expenses over budgeted amounts.
- Invoices for unspecified or vaguely defined services. Unusual or abnormal number of expense reimbursements to an employee. Duplicate travel expense reimbursements submitted by employee (and approved by supervisor) or inconsistent overtime hours (e.g., employee does not normally work overtime, overtime charged during non-peak periods).

State employees who suspect fraud in their workplace have an obligation to report it to management (or in accordance with State or department's policies) or by contacting the [State Auditor's Fraud, Waste, and Abuse Hotline: 1-877-290-1400](#) or on the Web @ [Reporting Fraud, Waste or Abuse](#).

DFM Staff Happenings – Agency Promotion and Transfers

Lisa Hickory, VISION Support Specialist III. Please join me in congratulating Lisa on a well-deserved promotion to VISION Support Specialist III. In her 5 years with VISION Support, Lisa has worked extremely hard to develop a stronger overall knowledge of the VISION system while also providing exceptional service to our end users. Over the past two years, she has also taken on a larger leadership role by training and mentoring new employees, as well as guiding the day-to-day work of the VISION

Support Team. Her hard work, dedication, reliability, and leadership make her a very valuable asset to Finance and Management, and we appreciate everything she does for our team.

Jenna Moran, VISION Support Specialist II, Jenna has been working as a Financial Specialist with DMV for the past five years where she has gained much VISION knowledge. She will be bringing a high energy, great personality, and a strong work ethic which will all make her a fantastic addition to the VISION Support Team.

Please join me in congratulating both of our team members.

- **Jamie Sheltra, VISION Support Manager, DFM**

Kimberly Baker, Statewide Grants Administrator, Kimberly previously worked at FINOPS as a VISION Support Specialist II. She will be working with Jorden Black-Deegan, our current Statewide Grants Administrator.



Tod Ziegler, Statewide Financial Reporting Analyst II, Tod who worked at the Public Service Department, has accepted this position and will be replacing **Brittany Wood** who has relocated to Richmond, VA with her family. We wish her the best of success.

I'm pleased to announce these two new hires in the Statewide Reporting Division.

- **John Becker, Director of Statewide Reporting, DFM**

