



## Spring 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 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.

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### 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/purpose-of-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](mailto:fin.internalcontrol@vermont.gov)

## 2023 COSO - Self-Assessment Internal Control

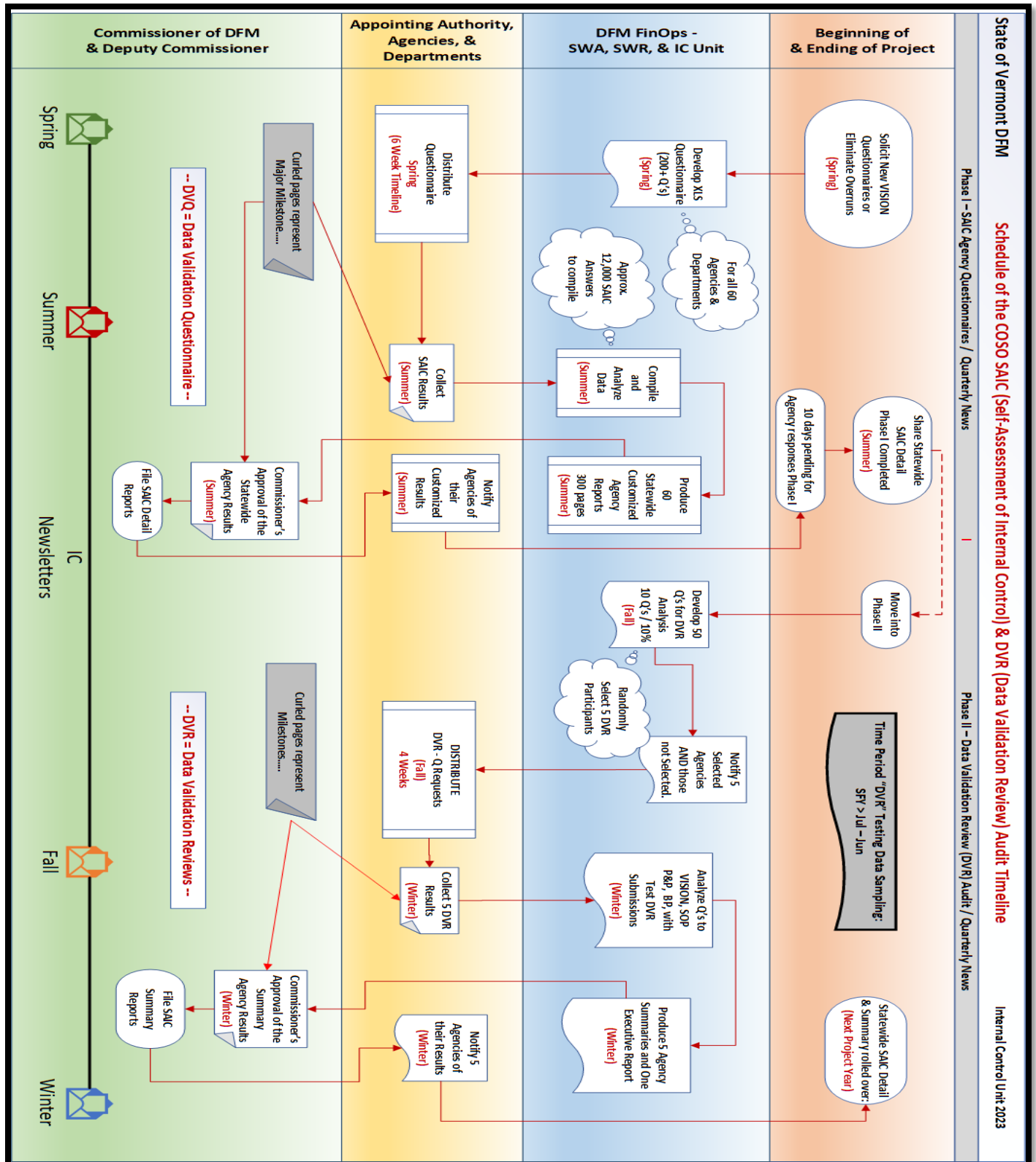
The Internal Control Unit has distributed its annual "*Committee of Sponsoring Organizations of the Treadway Commission*" (COSO), *Self-Assessment of Internal Control (SAIC)*" to our 60+ participating Agencies. This is called our *Phase I of the SAIC Annual Project - Due Monday 04.10.23*.

- The 200+ questionnaire is emailed to all VISION Agencies in the Spring of each year. The Self-Assessment aims to raise awareness of our internal control systems across the State of Vermont.
- The assessment is a catalyst for improving the State's internal control and the questionnaire provides areas with the tools to review and document internal control practices, while helping Senior Management identify potential areas of risk or non-compliance within their own organizations.
- The entire project is *Confidential to Each Agency*, and each Agency receives a "*Customized Report*" as to their overall Year / Year Performance Score and Statewide Comparison Ranking.



The *Phase II – Data Validation Review (DVR) Audit* starts with *five randomly selected Agencies* for an IC Detail Audit Review. Below is a Comprehensive *Swim Flowchart* of the entire *COSO SAIC Project*.

For those who have asked about our detail process of the annual SAIC reporting of our Statewide Agencies, below is a **Visual Swimlane of the Entire Project**. It includes our Stakeholders to the Top Left, the Tasks that are performed throughout the year, plus our two Milestones (Phase I & II). (Just Rotate the PDF View, follow the RED Arrows --->, Left to Right. This is how the entire SAIC is performed).



## Internal Control Systems – Insider Threat

No matter how well designed and operated, an internal control system can only provide management with reasonable assurance regarding achievement of the department's objectives. Understanding some of the most significant threats to internal control systems, can help management, auditors, and regulators take proactive steps to minimize risk and exposure to loss. Information about a department's goals, plans, control environment, risks, control activities, and performance must be communicated up, down, and across the organization. Reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to the people who need it - in a form and timeframe that is useful. Information and communication are integral elements to maintaining an effective internal control system. Here are some potential threats that can compromise a system:



- **Management Override:** Management's capability to overrule or circumvent prescribed policies or procedures for illegitimate purposes – such as personal gain, or an enhanced presentation of a department's financial condition or compliance status.
- **Access to Assets:** Unfettered access to assets (physical assets, cash, confidential data, etc.) increases the risk of misappropriation, theft, misuse, etc.; restrict access to only those with a legitimate and authorized need for the Asset.
- **Form over Substance:** Controls may appear to be well-designed but still lack substance (e.g., written procedures that aren't followed, flow charts that don't accurately depict the actual process, lackadaisical approval of documents).
- **Conflict of Interest:** When an employee's loyalties are divided and / or personal financial gain is at stake, there is a distinct risk the employee will choose a course of action detrimental to the department.
- **Failure to Anticipate Risks:** Management's inaction or inability to anticipate certain risks may result in a failure to design and implement appropriate controls.
- **Collusion:** Two or more can conspire to perpetrate and conceal an action, alter financial data or other management information in a manner that circumvents controls and avoids detection.

## DFM Staff Happenings – Promotion and Transfer:

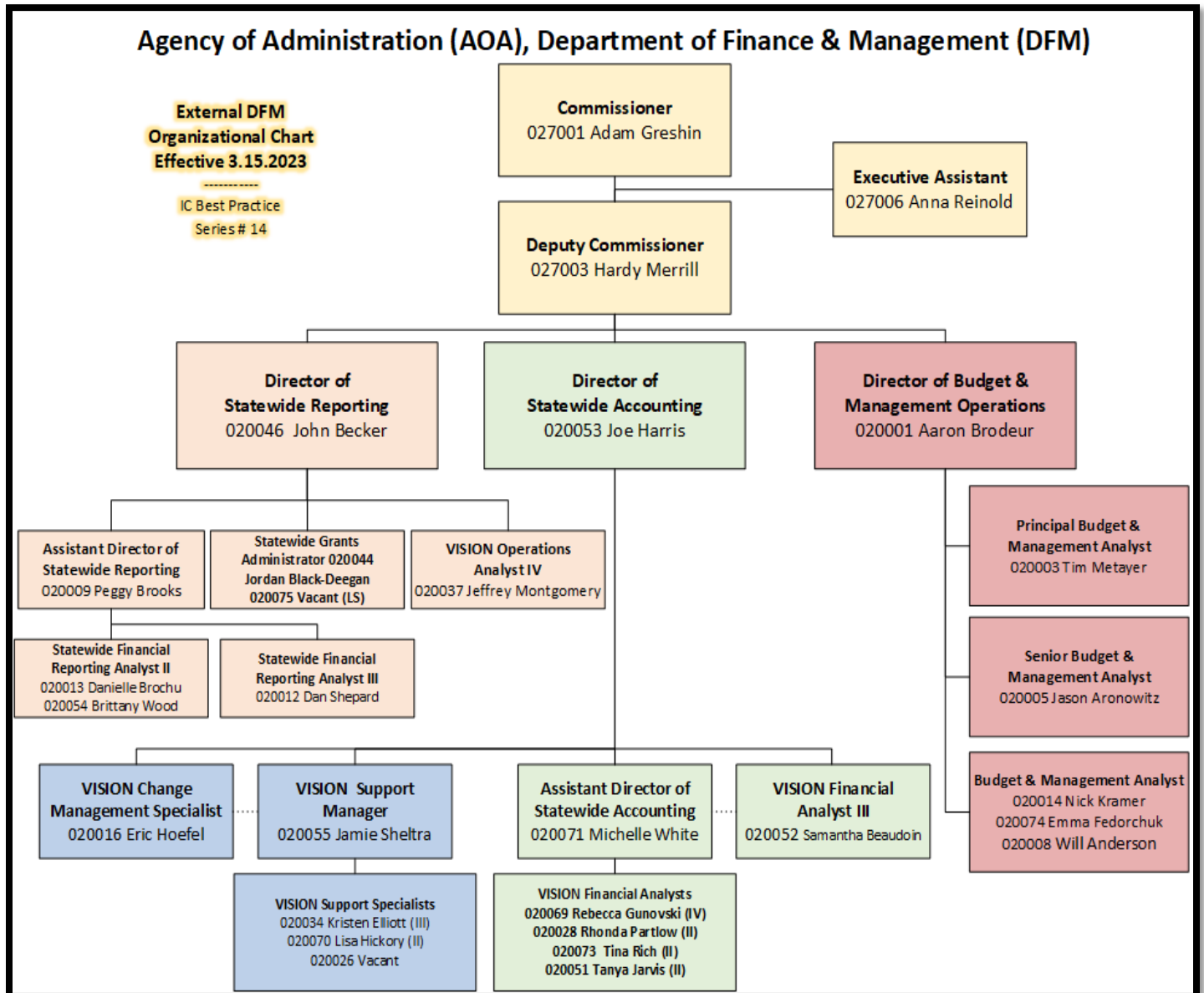
- **Daniel Shepard, Statewide Reporting Analyst III** - Please join me in congratulating Dan on his promotion to Statewide Financial Reporting Analyst III. Dan joined DFM in 2017 as a Statewide Financial Reporting Analyst II. Dan is an important member of the financial reporting team, and this promotion recognizes his hard work over the years and the increased level of responsibility of his job duties.

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



- **Rebecca Gunovski, VISION Financial Analyst IV** - It is with great pleasure that I announce Rebecca has accepted the position of VISION Financial Analyst IV. Rebecca previously worked in the business office at the Agency of Digital Services as a Financial Manager III. She brings a wealth of institutional knowledge that spans many areas of state government. In addition, she brings with her a broad knowledge of VISION that encompasses several modules. Accounting is looking forward to Rebecca joining our team and we welcome her to the Finance & Management Department!

- **Michelle White, Assistant Director of Statewide Accounting, DFM**



**Our Internal Control News** is published quarterly in the *Spring, Summer, Fall,* and *Winter* by The Department of Finance and Management (DFM). Please contact [fin.internalcontrol@vermont.gov](mailto:fin.internalcontrol@vermont.gov) with comments or future article suggestions.