



Summer 2024 - Internal Control News

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The purpose of this **DFM Internal Control 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 6, Issue 16

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

• Understanding the Impact of Ethics and Fraud in Business

State of Vermont March 2024 Presented by: Emilie Deveraux, CFE – Signing Director, Forensic Practices and Ayla Grady, CPA, CFE – Manager, Forensic Practices.

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CliftonLarsonAllen (CLA) LLP, our external Auditors, recently presented a web presentation on **Internal Controls from the perspective of the Impact of Ethics and Fraud in Business for the State of Vermont**. The DFM IC Unit would like to highlight some of the segments of their presentation that could potentially impact or assist your Agency.



We'll get you there.

CPAs | CONSULTANTS | WEALTH ADVISORS

Understanding the Impact of Ethics and Fraud in Business

March 12, 2024

Learning Objectives

At the end of this session, you will be able to:

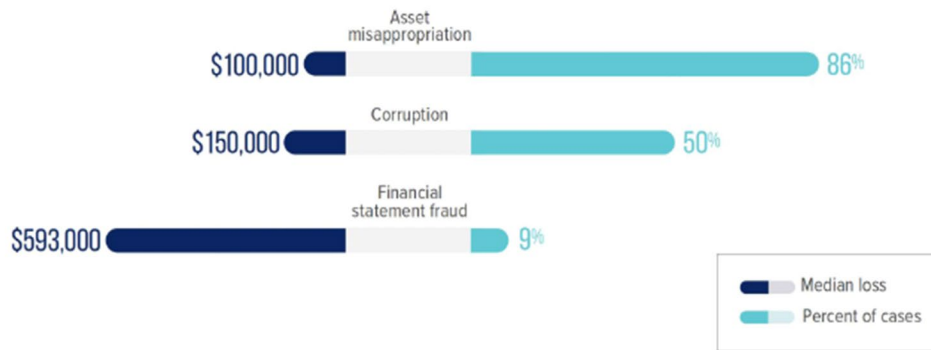
- Define fraud and begin to think forensically
- Recall what you learned about fraud detection, cost, awareness, and anti-fraud measures
- Discuss ethical challenges by today's society and personal accountability

Defining Fraud

How and Who

Three Categories of Fraud

FIG. 2 HOW IS OCCUPATIONAL FRAUD COMMITTED?



Most Common Fraud Schemes in Government

FIG. 21 WHAT ARE THE MOST COMMON OCCUPATIONAL FRAUD SCHEMES IN VARIOUS INDUSTRIES?

INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Government and public administration	198	21%	8%	7%	9%	57%	12%	8%	16%	16%	3%	8%

Who Commits Fraud

FIG. 31 HOW DOES THE PERPETRATOR'S LEVEL OF AUTHORITY RELATE TO OCCUPATIONAL FRAUD?

- Higher level of authority = Higher median loss
- Higher level of authority = Longer duration of scheme
- Longer tenure = Higher median loss



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Source: 2022 ACFE Report to the Nations



Thinking Forensically

Awareness of Red Flags

Behavioral Red Flags

At least one red flag was identified in 85% of the cases in the study.

Multiple red flags were present in 51% of cases.

FIG. 44 HOW OFTEN DO PERPETRATORS EXHIBIT BEHAVIORAL RED FLAGS?



Source: 2022 ACFE Report to the Nations

Financial Red Flags

Accounting Records

- Missing documents
- Alterations on documents
- Excessive voids or credits
- Common names or addresses of payees or customers
- Revisions to vendor files (address, payee name, bank info)

Unrealistic Records

- Excess purchases
- Multiple payments to the same vendor in a month
- Unreasonable expenses or reimbursements
- Significant increases or decreases in account balances

Fraud Awareness

Action Items to Prevent and Detect Fraud

Fraud Prevention & Detection Strategies



At least two people are looking at every transaction (adequate segregation of duties)



Ensure secondary approval by someone with knowledge of the business area



Trust is NOT an internal control – ensure proper and sufficient supporting documentation for all transactions



Ensure regular and timely reconciliation of asset accounts; ensure the reconciliations are reviewed

Fraud Prevention & Detection Strategies



Conduct regular monitoring and management review



Mandatory job rotation and/or vacations



Implement the use of positive pay with your bank (if available, include payee/account name positive pay)



EFT/ACH/Wires – Third-party services that verify bank account information



Require confirmation when vendor change requests are received



Ensure adequate IT and system controls (multi-factor authentication, firewalls, etc.)

Limitations for Mitigating Fraud Risk

No set of internal controls guarantees the prevention of fraud

- What is your fraud risk tolerance?
- Lower tolerance = more controls



Attributes of an Anti-Fraud Program

- Person or office responsible for anti-fraud, ethics, and compliance
 - ✓ Empowered by management and governance
- Lead by example (“tone at the top”)
 - ✓ Management and governance promote an environment of integrity
- Encourage transparency and accountability
 - ✓ Review, oversight, monitoring
- Well-developed anti-fraud and ethics policy and/or code of conduct
 - ✓ In writing, communicated to and acknowledged by employees
- Well-developed and updated written policies and procedures
 - ✓ Kept current and acknowledged by employees

Attributes of an Anti-Fraud Program (continued)

- Regular technical training of employees on policies, procedures, applicable laws, ethics, fraud awareness, etc.
 - ✓ Internal or external instructors
- Strong compliance/internal audit programs
 - ✓ Internal, outsourced, or combination – prioritized by management and governance
- Established fraud and ethics hotline
 - ✓ Anonymous, confidential, protect whistleblowers – prioritized by governance
- Reinforce good behavior and don’t reinforce bad behavior
 - ✓ Follow through on reports of misconduct – encourages people to come forward

The Cost of Fraud

Costs Associated with Fraud

Proactive

- Invest in good control environment and knowledgeable staff
- Invest in relevant technology
- Conduct trainings to make staff aware of expectations and consequences

Reactive

- Cost to investigate a large fraud scheme is substantial
- Consultants and attorneys may be needed
- Additional costs in the form of lost productivity of staff and loss of trust by staff and the public

Ethics in Business

Ethical Leaders Start at Home

Personal Ethics

- Values
- Moral choices
- What we do when no one is looking
- Can change over time or by situation or role
- Defined by:
 - Faith, spirituality
 - Upbringing, family
 - Laws, civil rights, academia

Business Ethics

- Personal Ethics
 - Values of the employees
- Organizational Culture
 - Tone at the top
 - History of the company
 - Perception of what is acceptable
- Organizational Systems
 - Policies and rules in place
 - Regulatory oversight
 - Code of ethics and how it's monitored and enforced

Principles of Ethics in Business



The following CLA Full Presentation can be found here: <https://finance.vermont.gov/policies-and-procedures/internal-controls>

CLA Presentations:

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- [Fraud Prevention](#) Apr 2022
- [SOC Reporting](#) Aug 2022
- [Internal Controls](#) Mar 2023
- [Ethics & Fraud](#) Mar 2024

• DFM Staff Happenings: **Transfer and Retirements:**

Claudia Brousseau, Assistant Director of Statewide Reporting

Claudia has been with the State for 10 years, recently joining us from the Tax Department. She is a CPA with 30 years' experience in financial reporting and taxation.

Peggy Brooks, Assistant Director of Statewide Reporting

Peggy will retire from the State of Vermont at the end of August. Peggy has been a valuable member of the financial reporting team for the past 15 years. Peggy's strong accounting knowledge has helped the State implement and manage many of the complex GASB accounting standards that have come out during her tenure at DFM.

Please join us in welcoming Claudia to the DFM Team as well as congratulating Peggy and wishing her luck in retirement.

- ***John Becker, Director of Statewide Reporting, Department of Finance & Management (DFM)***

Eric Hoefel, Change Management Specialist

Eric will retire from the State of Vermont at the end of December. Eric has provided his excellent background in Change Management to the Department and the State. He has been instrumental in preparing users for changes that have been implemented to VISION and those that will soon be implemented in VTBuys.

Please join us in congratulating Eric and wishing him luck in his retirement.

- **Joe Harris, Director of Statewide Accounting, Department of Finance & Management (DFM)**

DFM Org Chart

