

June 2019 Internal Control News



The purpose of this quarterly newsletter is to provide departments with articles on good business practices, internal control, 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 control. 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 operations.

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Internal Control Review

This is the final Part 3 of 3 (Part 3 = Monitoring Activities) in a series of articles on the five Internal Control, Integrated Framework Principles. Standards include: **Control Environment & Risk Assessment**, reported in December 2018, **Control Activities, Information & Communication**, reported in March 2019, and **Monitoring Activities**, reporting this quarter, June 2019. These 5 areas of review comprise the COSO (Committee Of Sponsoring Organizations of the Treadway Commission).

Monitoring Activities (The 5th Building Block)

Monitoring, one of the five internal control standards, is a fundamental responsibility of management. The primary objective of monitoring is to ensure controls are adequate, functioning properly, and providing the intended results. To help meet this monitoring responsibility, managers rely on techniques such as observation, interview, and testing. Observation involves being cognizant of workplace norms and using your senses to monitor your operations. Managers develop expectations for their operations based on experience, historical data, emerging trends, external changes and, for more seasoned managers, intuition.



COSO - Monitoring Activities, Continues...

Whether it's the number of transactions processed, the volume of calls to a help line, computer system response times, caseload levels, turnaround time for customer orders...are you getting the expected results at the end of the day? Experienced managers may be able to hear (or smell) if a piece of equipment isn't working properly, detect whether routine maintenance duties are being ignored, or notice if employees aren't adhering to safety and security protocols. Are ethical standards being maintained? Is staff morale at an appropriate level? Are employees showing signs of exhaustion or do they appear to have too much idle time? Observation is one way to determine if reality is in sync with expectations. Studies have shown that people act differently when they know they are being observed. Some will improve performance because it lends credibility to the importance of their work. Others improve because they want to be noticed in a positive sense, increasing their opportunity for recognition or promotion. While some will improve out of fear of retribution (e.g., curtailing personal phone calls, proofing their work, and improving attendance, etc.)

Observation can be especially useful when implementing a process change or training a new employee to ensure instructions are clear and producing the desired results. Interview staff, customers, vendors, clients, and peers to solicit input on the effectiveness of your operations. Ask employees about their work...do they understand **why they do**, **what they do**, **what works well**, **what doesn't**. Are they **maintaining their workload** or **cutting corners** to avoid backlogs, do they **have concerns about workplace safety or security**, do they **have suggestions to improve operations**? Talk with customers, clients, and vendors about their experiences and interactions with your operations...are their **needs and expectations being met**? **Seek advice** from peers, share **best practices**, and **compare your operations** to similar organizations or industry standards? For a variety of reasons, people will generally volunteer information verbally that they would never put in writing. To get candid feedback, approach the task with humility, avoiding any tendency to be defensive or judgmental. As a manager, you will need to filter the information received, comparing it to your own observations and other performance metrics to determine the usefulness and accuracy of the information.

Testing is a review of the internal controls in place to determine if they are being followed and providing the desired outcomes (i.e., "What are we trying to accomplish?" and "What are we trying to avoid?"). Control activities such as approvals, security, reconciliations, and independent verifications are typically built into standard operating procedures and supervisory duties. But management needs to periodically test these controls to ensure they are functioning properly. Testing may include: Reviewing a sample of documents (e.g., vouchers, time reports, program applications, reconciliations, etc.) to verify the appropriateness, completeness, and accuracy of the transactions. Inspecting restricted areas to ensure security is being properly maintained. Performing unannounced counts of cash or inventory to deter improper use or mishandling of assets.

Ideally, testing is conducted both in a structured process (e.g., internal audits, self-assessments, etc.) and through less formal, more random actions. The level of risk, past performance, and the cost of failure are all factors management needs to assess in determining the frequency and extent of its testing.

*References: - NY State Internal Control Association (NYSICA). "Internal Control Testing".
Committee of Sponsoring Organizations of the Treadway Commission (COSO).
"Internal Control – Integrated Framework"*

Why promote a solid - State Internal Control System?

Just Ask - Indiana State, Madison County

State Audit: \$81,000 check not deposited for one year

By Ken de la Bastide | The Herald Bulletin Dec 10, 2018

ANDERSON – For the second time in a week, an audit by the Indiana State Board of Accounts found a lack of internal fiscal controls in several Madison County offices. The Indiana State Board of Accounts released the 2016 audit on Nov. 21 and the 2017 audit a week later. One of the findings was that in June 2017 the Madison County Council approved the transfer of \$81,000 from food and beverage tax revenues to the county’s general fund. The auditors found the check was written and given to the Madison County Board of Commissioners but was never deposited nor receipted into the general fund. The check was included as outstanding at the treasurer’s bank reconciliation on Dec. 31, 2017. The check was brought to the county’s attention during the audit and was deposited in July.



State law requires funds to be deposited no later than the end of the next business day. The 2017 audit found that the Madison County Clerk’s Office had not separated incompatible activities related to cash and investments. “There was no evidence of review, oversight or approval processes of the bank reconciliations throughout the audit period,” the state agency reported. It said there was no review or oversight of the approval process except by the person preparing the deposits. Clerk Darlene Likens didn’t agree with the determination by the state auditors. “The last audit by SBOA (State Board of Accounts), no one communicated to us any wrong doing,” Likens wrote in response. “If we are not in compliance why were we not informed at that time.” The audit also found no separation of responsibilities for the receipt and disbursement of funds in the Madison County Sheriff’s Department Commissary, Inmate Trust and Civil Office. “I realize that our lack of understanding and lack of effort to create detailed reports has to be corrected,” Sheriff Scott Mellinger responded. “My assumptions that the Trust Fund was being handled in a manner which you require were wrong. “SBOA examiners were clear that no monies are missing, there is no allegation of fraud or theft,” he wrote, “rather we do not possess documentation to clearly follow all transactions.” The state auditors found that the Madison County Auditor’s Office lacked supporting documentation such as receipts, canceled checks, tickets, invoices, bills, and other public records to support the validity and accountability of money disbursed. It also found the county paid penalties and interest in the amount of \$703 from Jan. 1, 2017 to Oct. 10, 2017 because credit cards payments were not made in a timely manner. “We informed the auditors of the SBOA that the Board of Commissioners credit card bill is always turned in late by the Board of Commissioners and frequently only requests partial payments,” Auditor Rick Gardner responded. “They (auditors) refuse to hold the Board of Commissioners responsible putting the responsibility back on the Auditor’s office.” Gardner said the credit card statements in the future will be mailed directly to his office for payment.

So why promote “Segregation of Duties” (SOD) in VISION?

Segregation of Duties (SOD) is a basic building block of sustainable risk management and internal controls for any business or government. The principle of SOD is based on **shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department**. Without these separations in key processes, fraud and error risks are far less manageable. Coercion, blackmail, fraud, human error and disinformation could cause serious financial impacts, plus breach of trust to the citizens of Vermont. Without SOD there is the possibility of devastating outcomes. As a result, the risk management goal of SOD control is to prevent unilateral actions from occurring in key processes where irreversible affects are beyond an organization’s tolerance for error or fraud.

Finance and Management implemented approval workflow in the accounts payable, general ledger, commitment control and billing modules in VISION, our Statewide Accounting System, during the upgrade to Oracle PeopleSoft Financials version 9.2. The workflow approval process requires transaction approval by an authorized user other than the user who submits the transaction for approval, thus realizing SOD control.

F & M Staff Happenings - Retirement and Promotion

Retirement:

Nancy Collins, CPA, Director of Statewide Reporting, Financial Operations Division, Department of Finance and Management. Nancy started her State career in government service on October 5th, 1992 while Alexander Acebo was Auditor and served under Ed Flanagan for most of her time at the Auditor's Office. She then moved to the Treasurer's office in September of 1998 during the Jim Douglas' tenure there, and then a year later moved to the Department of Finance and Management. At the time, Tom Pelham was Commissioner when she arrived in October 1999. Nancy will be greatly missed by her co-workers, department heads, and agency leaders. She was known for her tremendous institutional knowledge of the interworking's of State Government & VISION.

- Good luck Nancy, enjoy your retirement,

The Finance & Management Team

"Nancy has been an incredible resource to the department of Finance and Management and the entirety of our State's financial operations for many years. Her knowledge, skills, work ethic and credibility are unmatched, and have resulted in immeasurable benefits to the state. It has been a pleasure to work with, and learn from, Nancy over the years. She leaves us all in a much better place, me included. Nancy received a nice letter from the Governor, which was presented at Nancy's retirement party with a flag that was flown over the capitol on April 18th, 2019. We wish Nancy the best in retirement, enjoying her family time, travel, and the challenge of taking three-to-five strokes off her golf handicap."

**- Brad Ferland, Deputy Secretary,
Vermont Agency of Administration**

Promotion:

John Becker, CPA, Assistant Director of Statewide Reporting, Financial Operations Division, Department of Finance and Management has been promoted the position of Director of Statewide Reporting, Financial Operations Division, Department of Finance and Management.

- Congratulations John, enjoy your promotion,

The Finance & Management Team

"I am delighted to announce that John Becker will become Director of Statewide Reporting upon the retirement of Nancy Collins at the end of April. John has had a varied professional career, which includes 4 years in the Navy and over a decade as a power plant operator & engineer on Long Island. He came to Vermont in 2006 when he joined the Department of Public Service as an energy program specialist and, later, as a utilities analyst. In 2011 he joined Finance & Management to become the Asst. Director of Statewide Reporting. His strong background in financial reporting, he is a CPA, and his calm demeanor have made him an asset to his department and to the state. Please join in welcoming John to his new role."

**- Adam Greshin, Commissioner,
Finance and Management**

***F & M Internal Control News is published quarterly by the
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Please contact Jeffrey.montgomery@vermont.gov with any comments or suggestions.***