

Sept 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.

<https://finance.vermont.gov>

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

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Protecting Confidential VISION Information

When processing VISION vouchers (and other transactions) departments must take reasonable precautions to safeguard confidential and protected health information from unnecessary disclosure. Generally, the following guidance applies to transactions for healthcare services but may apply to other information classified as confidential based upon state or federal law (departments should consult their legal counsel as necessary). In all cases an individual's social security number should be treated as confidential information and should never be entered into the VISION voucher record. Some additional tips can be found below:



- Information entered on a voucher by a department becomes part of VISION's electronic data record. This data is potentially accessible to other VISION users through reports and queries, as well as to external users through public information requests.
- To minimize the risk of unnecessary disclosure of confidential or protected health information, departments must avoid entering any confidential or individually identifying information such as the recipient's name and/or social security number into the VISION voucher fields {i.e., 'Invoice Number', 'Payment Message', 'Description' or 'Voucher Comments'}.

- If the healthcare provider uses the recipient's name and/or SS# as an "invoice number", the department should contact the provider to discuss an alternative method.
- Remember this guidance applies to confidential or protected health information. For example, including an employee's name in the invoice number field of a VISION voucher for a conference registration would not be considered confidential and is acceptable.

Fraud.....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 acknowledge that fraud can happen and 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." The 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:



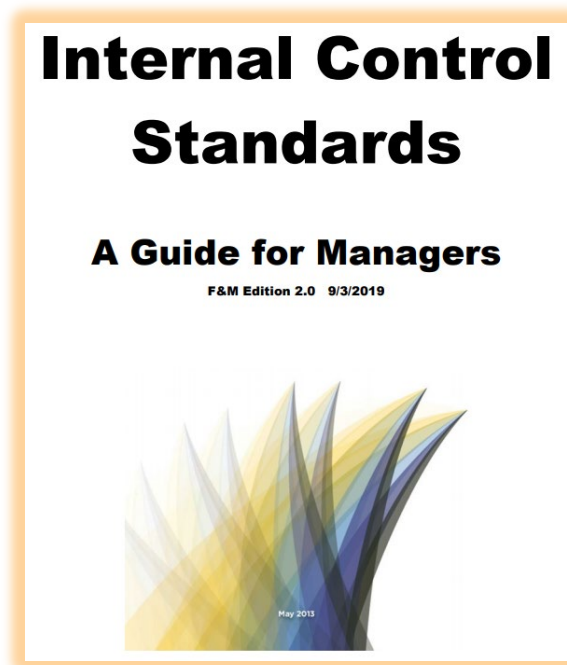
- Tips / Complaints: From employees, customers, vendors, etc., are typically the most common source of fraud detection.
- Voids: Legitimate sales transactions are voided in order to divert the cash proceeds for personal use.
- Credit Memos: Used to cover the theft of cash by issuing credit memos to phony 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), kickbacks, 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.

Fraud.....continued

- 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.
- 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.

Internal Control – An Updated Guide for Managers 2.0

The Finance and Management team has updated the latest guide to assist new and existing Agency Managers on the components of *Internal Control for Managers*. Please consider utilizing this guide to enhance your department's knowledge and understanding of Internal Control Standards. ***A special "Thank You" from F & M to Brenda Buker, Operations and Internal Controls Manager at the Department of Public Safety. Brenda did a great job in assisting us with updating this Guide.*** The updated guide is located here: <https://finance.vermont.gov/policies-and-procedures/internal-controls>.



Please contact Jeff Montgomery at Jeffrey.Montgomery@vermont.gov if you have any questions.

F & M Staff Happenings – Retirement, Promotion, and New Hire

Retirement:

Karen Jaquish, Statewide Grants Administrator, Financial Operations Division, Department of Finance and Management. Karen retired in June 2019.

“We wish Karen the best of enjoyment in her retirement. Karen has been a State of Vermont employee for well over 30+ years of service. Karen started at the Agency of Human Services in the Central Business Office and ultimately worked and retired from the Department of Finance and Management Division. Karen was instrumental in developing both our Grants Management program as well as our Single Audit program in times of both fiscal and structural changes to both programs. We thank Karen for her professional and dedicated service to the State of Vermont.”

- John Becker, Director of Statewide Reporting - Finance and Management

Promotion:

Joe Harris Statewide Financial Reporting Analyst II, Financial Operations Division, Department of Finance and Management. has been promoted the position of Assistant Director of Statewide Reporting, Financial Operations Division, Department of Finance and Management

“I’m pleased to announce the promotion of Joe Harris to Assistant Director of Statewide Reporting. Joe has worked for the State for 17 years, including over 9 years at the Department of Finance & Management. Among other achievements, Joe has played an important role in preparing the State’s award-winning CAFR. I appreciate his hard work and great attitude and wish him the best in his new position. Please help me congratulate Joe on his promotion.”

- Adam Greshin, Commissioner - Finance and Management

New Hire:

Matt Sutter, Budget & Management Analyst, Budget & Management Division, Department of Finance and Management.

“Please welcome Matt Sutter to the Budget and Management team as our newest Budget Analyst. Matt Sutter was most recently a Budget & Management Analyst in North Carolina, where he began working for county government after completing graduate school. Matt likes music, cycling, and the outdoors. Though his (slight) accent might not give it away, Matt grew up in St. Albans, VT and is looking forward to returning to his home state. Matt joined us on August 19th, 2019.”

- Rich Donahey, Director of Budget & Management Operations - 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.*