

Spring 2020 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>

Volume 2 Issue 01

Reminder: 2020 Internal Control Self-Assessment

The Internal Control Unit is currently developing its annual **Self-Assessment of Internal Control (SAIC)** questionnaire to distribute to all divisions and departments in April. Self-assessment aims to raise awareness of internal controls across state Government and is a catalyst for improving the State's internal control system. The questionnaire provides areas with a tool to review and document current internal control practices, while helping management identify potential areas of risk or non-compliance within their organizations. As in past years, divisions & departments will be given approximately 3 weeks to complete, review, certify and submit the questionnaire. Let's make this another successful and smooth process as in prior years. We truly appreciate you and your staff's dedication and valuable time devoted to this important State of Vermont's annual project.



Reminder: Internal Control Standards:

A Guide for Managers (**Updated**) 2.0 is available with other resources below:

IC Standards Guide:

https://finance.vermont.gov/sites/finance/files/documents/Pol_Proc/IC/FIN-Internal_Control_Standards_Managers_Guide_Master.pdf

IC Website:

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

Questions? Contact:

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New GASB Accounting Standards

New Accounting Standard for Leases coming in Fiscal Year 2021

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, a new accounting standard for Leases. This new standard will be effective for the State of Vermont on July 1, 2020, and the State will first report under the standard in the Fiscal Year 2021's Comprehensive Annual Financial Report (CAFR).

IMPORTANT



- **Definition of a Lease**

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment.

To determine whether a contract conveys control of the right to use the underlying asset, a government should assess whether it has both of the following:

1. The right to obtain the present service capacity from use of the underlying asset as specified in the contract
2. The right to determine the nature and manner of use of the underlying asset as specified in the contract.

The State is the Lessee when they are leasing the nonfinancial asset from another entity, and the State is the Lessor when they are leasing the nonfinancial asset to another entity. The new standard applies to leases with external parties. Internal leases, for example a Department leasing from BGS, are not required to be reported under the new standard.

- **Lessee Accounting**

Under the new lease standard all leases are reported similar to a financed purchase, so the treatment of leases will be comparable to the current accounting for capital leases. The new standard eliminates the operating lease category by requiring governments to report lease commitments as a lease liability and an intangible right-to-use the lease asset at commencement of lease. There are limited exceptions for short-term leases, which are defined as a lease with a maximum possible term of 12 months or less at lease inception, this includes options to extend.

- **Lessor Accounting**

Another new reporting requirement under this standard is required when the State is the Lessor. Under lessor accounting the State would be required to record a lease receivable and a deferred inflow of resources on financial statements at the commencement of the lease term.

- **Embedded Leases**

Leases include contracts that, although not explicitly identified as leases, meet the definition of a lease because they convey control of the right to use another entity's nonfinancial asset. There may be leases embedded in existing contracts that were previously not considered leases. Many contracts will not use the terms "lease" or "rent" that allow for easier identification, so critical evaluation is required to determine whether a right to control the use of an asset is created by the contract.

- **Example of an embedded lease:**

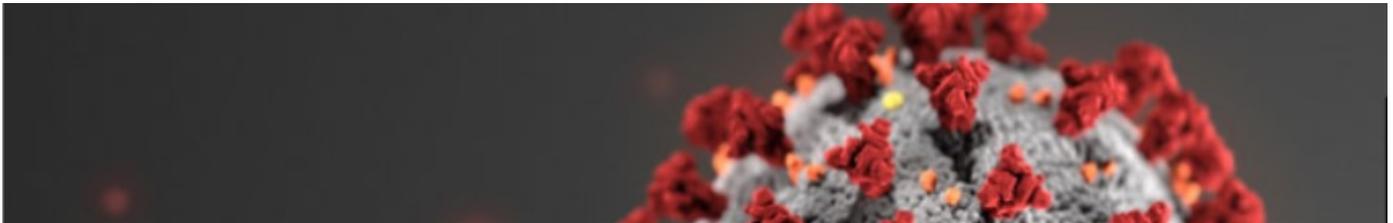
The State has a security services contract with 123 Security. 123 Security provides cameras, monitors, and keypads for a State building. The contract states that the State will have full usage of specific pieces of monitoring equipment. The contract lists each item, along with an identification number, that will be used for this contract. The State will have full control over the monitoring equipment. The equipment portion of this contract meets all of the standards required for an embedded lease: there are identified assets, the State has control of those assets, and the State has the right to obtain the present service capacity and the right to determine the nature and manner of use of the underlying asset as specified in the contract.

- **Next Steps**

Financial Operations has begun to contact departments and agencies to gather information on leases and will continue to work with departments and agencies to prepare to implement the new lease accounting standard. Financial Operations asks that you keep the concepts included in this article in mind every time you enter into a contract to determine if a lease is present and needs to be reported under this new accounting standard.

If you have questions about the new lease accounting standard, please contact John Becker at john.becker@vermont.gov.

Center for Disease Control and Prevention & Vermont Department of Health - Team Together on COVID-19 Virus



The following are various links to help you and your staff understand what the major issues are with the recent COVID-19 Virus. **Remember, Internal Control involves not only the inter-functions of your operations but also what happens externally that effects and impacts your internal control system.**

We hope you find these resource tools handy and save as a future reference guidance.

The CDC regularly updates its guidance at [cdc.gov/coronavirus/2019-nCoV/summary.html](https://www.cdc.gov/coronavirus/2019-nCoV/summary.html)

The Vermont Department of Health regularly updates its guidance at healthvermont.gov/covid19

COVID – 19, Links continued....

<u>How it spreads</u>	<u>Symptoms</u>
<u>Prevention & Treatment</u>	<u>Stigma & Resilience</u>
<u>What to do if you are sick</u>	<u>Frequently asked questions</u>

To Reiterate: Everyday Preventive Measures

Person-to-person spread of the virus is thought to occur mainly via respiratory droplets produced when an infected person coughs or sneezes. Much is still unknown about how the virus spreads. Take these everyday preventive actions to help stop the spread of germs:

- Wash your hands often with soap and water for at least 20 seconds. If soap and water are not available, use an alcohol-based hand sanitizer.
- Avoid touching your eyes, nose, and mouth with unwashed hands.
- Avoid close contact with people who are sick.
- Stay home when you are sick.
- Cover your cough or sneeze with a tissue, then throw the tissue in the trash.
- Clean and disinfect frequently touched objects and surfaces.



To Reiterate: People at Risk for Serious Illness from COVID-19

Some people are at higher risk of getting very sick from this illness, including older adults and people with chronic medical conditions like heart disease, diabetes or lung disease. According to the CDC, these people should take extra precautions including:

- Stocking up on supplies.
- Avoiding crowds.
- Avoiding cruise travel and non-essential air travel.
- Staying away from others who are sick.

❖ **Note: All related links and advice are sourced from the CDC, and the Vermont Department of Health.**

F & M Staff Happenings – Staff Departures

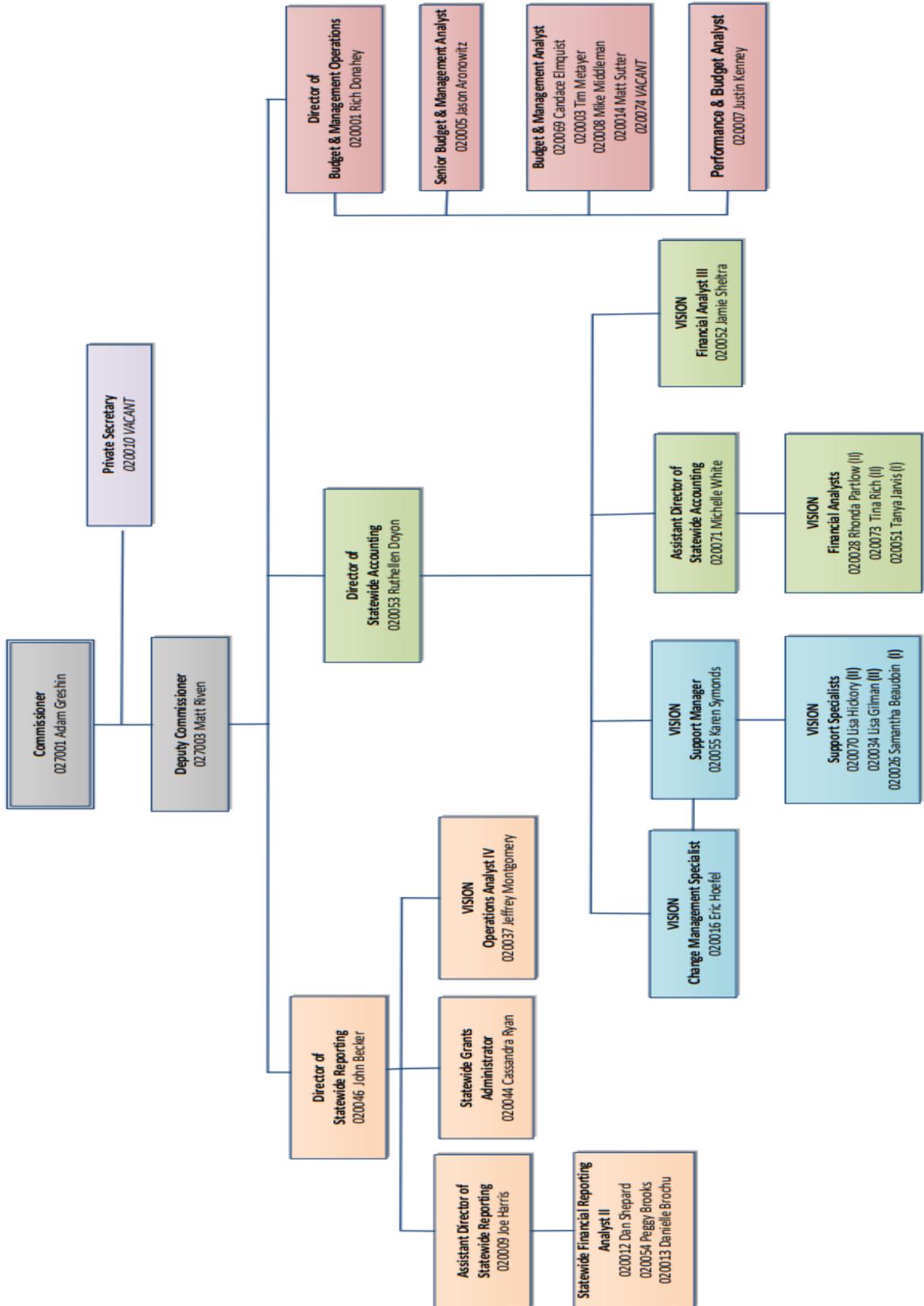
Kelly Murphy, Senior Budget Analyst, Budget & Management, Department of Finance and Management has transitioned to a new Job. *“I am pleased to announce that Kelly Murphy has transitioned to a new external job. We wish her all the best of luck.”* - Richard Donahey, Director of Budgets & Management.

Christine Gilhuly, Private Secretary, Department of Finance and Management has transitioned to a new Job. *“Please join me in wishing Chrissy well in her new job and, for those of you passing through the State House, don’t forget to stop in and see her in Senate Appropriations.”* – Adam Greshin, Commissioner of Finance and Management.

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Please contact Jeffrey.Montgomery@vermont.gov with comments or suggestions.

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Our latest F & M - Organizational Chart
<https://finance.vermont.gov/about-department>